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***DEVELOPING A SUBSTANDARD
LTC UNDERWRITING PROGRAM***

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Developing a Substandard LTC Underwriting Program

- *Company*
- *Product, Philosophy, Systems, Staff*
 - *Reinsurer*
- *Product, Underwriting Philosophy,
Practice and Guidelines*
 - *Outsources*
 - *Claims, Care Coordination*

Substandard Underwriting History



- *Marine*
- *Life Insurance*
- *Health Insurance*
- *Evolution of LTC Underwriting*

Marine Underwriting



- *Season*
- *Geographical Area*
 - *Cargo*

Life Underwriting



- *Vocation*
- *Avocation*
- *Medical Impairments*
 - *Life Style*

Health Insurance Underwriting



- *Major Medical*
 - *Ratings*
 - *Exclusions*

Disability Income



- *Ratings*
- *Exclusions*
- *Elimination Periods*
- *Benefit Periods*

Priorities

- *He didn't know why he was taking Vasotec; couldn't recall his phone number or any medical history*
- *He did remember that he has a shot of gin for lunch and a glass of wine for dinner*

LTC and the Evolution



- *Phase I Initial LTC Underwriting*
- *Phase II Enhanced LTC Underwriting*
- *Phase III Advanced LTC Underwriting*
- *Phase IV Tomorrow's Underwriting*

Phase I Initial Underwriting

- *Early Underwriting was developed using a Life Underwriting Module*
- *For the most part, these policies were underwritten on an ACCEPT/ REJECT basis*
 - *Decisions were based on medical information only*
 - *Data collection was minimal*

Phase II Enhanced Underwriting

- *As underwriting evolved, some of us began to experiment with “Substandard” rate classes*
- *It was still modeled after Life Insurance*
 - *Classes might include a discounted “preferred” class or a substandard rate classification*
 - *Tools began to improve*

Phase III Advanced Underwriting

- *Today many underwriters are skilled in the use of Substandard classes and may also alter or limit maximum liability by shortening benefits periods or reducing pool amounts on highly substandard cases*
- *We are now modeled more along Disability Insurance guidelines*

Phase IV The Future

- *The LTC underwriter of the future will need to use every available tool in order to contain rates, maximize issues and maintain profitability*
- *Underwriters will need to be skilled at identifying and sorting out the pieces of the LTC puzzle*
- *Foresight will replace hindsight in Underwriting evaluations*

Footing the Bill

- *He just had his big toe amputated last week due to diabetes*
- *He wants us to issue the policy so we can foot the bill for his toe*

Developing a Substandard Underwriting Program

- *Through evolution of the LTC Underwriting process we have already developed basic substandard underwriting programs.*
- *We now need to hone the tools we have available*

Underwriting Considerations



- *Medical*
- *Cognitive Activity Level*
 - *Social Support*

Medical

- *Regular health maintenance*
- *Documented control of chronic conditions*
 - *Quick recovery from acute conditions*
 - *Good work-up of progressive conditions*
 - *Compliance with doctor's instructions*
 - *Co-morbid condition consideration*

Cognitive



- *Telephone interviews*
- *Face-to-Face assessments*
- *Attending Physician Statements*
 - *Cognitive screening*

Cognitive Screening Tools

- *Mini-Mental State Examination (MMSE)-
Folstein*
 - *Short Portable Mental Status
Questionnaire (SPMSQ)*
 - *Delayed Word Recall (DWR)*
 - *7 Minute Screen*
- *Minnesota Cognitive Acuity Screen
(MCAS)*

Activity Level

- *Employment status and history*
 - *Volunteer activities*
- *Mental stimulation- hobbies, books, crosswords*
- *Social interactions-staying in contact with friends, family and the community*
 - *Routine exercise program or activity*
- *Travel-a stress test for the mind and body*
 - *Pets*

Social Support/Issues



- *Marital/Partnership Status*
- *Proximity to Family/Other Support*
- *Housing Situation/Relocation*
 - *Driving History*
 - *Power of Attorney*

Evaluating the subtle “flavor” of a case

- *Today few cases are plain vanilla*
- *Most are a mixture of black and white-gray*
- *Today’s underwriters must weigh multiple factors against a variety of policy provisions to determine the most appropriate offer*

Flavor or taste?

- *In May of last year she had wine with her antidepressant and got dizzy. Doctor said quit alcohol*
- *In June last year she was dizzy again and said she was trying not to fall*
- *In August she fell to the floor and thinks she may have passed out*
- *She fell again in September and was taken to the Emergency Room*

Flavor or taste?

- *Our underwriter thought he knew what happened*
 - *She drank white wine with her antidepressant*
- *Everybody knows that antidepressant is best served with a chilled red wine*

Developing a Substandard LTC Underwriting Program



- *We have already started on this as an industry*
- *Product compatible with substandard or counter offers*
 - *Substandard Underwriters*

Compatible Product

- *Assume*
- *Nursing home coverage, assisted living, home health care, adult day care, and homemaker benefit coverages each represent a different degree of LTC risk*
- *Insured individuals will be less resistant to utilizing benefits which help them to maintain independence*

Why is ALF, HHC and Homemaker a Greater Risk?

- *Utilization of services is far more acceptable and attractive to the insured than confined care benefits*
- *Benefits can be more easily defrauded or “gamed”*

“Cost” Of Home Health Care

- *Medicare reports an estimated \$2.2 billion in fraudulent claim payments annually*
 - *Utilization rates have driven up cost tremendously*
- **The GAO reports that 25% of all home health care in Florida is unnecessary**

Components of Successful Substandard Underwriting

- *Product that can be unbundled*
- *Multiple elimination period availability*
- *Multiple benefit period availability*
- *Ability to use variable rating schemes*
- *Alternative offers*

Unbundled Product



- *Fully integrated confined care and home care policies limit the underwriter's ability to provide much needed coverage to the substandard risk without compromising the profit objectives of the company or the stability of rates*

Unbundled Product

- *Products that will work best are available as:*
 - *Integrated Confined & Home Health Care*
 - *Confined Care only*

Multiple EP Availability

- *“Cadillac” policies that offer only one (usually 0 or 20 day) elimination period limit the underwriter’s ability to program around anticipated short duration claims*

Multiple EP Availability

- *Products that will be of the most value in substandard underwriting allow for a wide variety of elimination periods such as:*
 - *0, 20, 60, 100 or even 365 days*

Multiple EP Availability



- *The product should be flexible enough to allow for different elimination periods for the Confined Care and Home Care risks on the same contract*

Multiple BP Availability

- *By offering lifetime only benefits, or an unlimited pool, the underwriter is often forced into an ACCEPT/REJECT mode of decision making*
- *This causes both high-risk issues and unnecessary declines*

Multiple BP Availability



- *Tailoring substandard underwriting requires a similar variety of benefit periods such as:*
- *1, 2, 3, 4, 5 years and Lifetime benefits*

Multiple BP Availability

- *The product should be flexible enough to allow for different benefit periods for each Confined Care and Home Care portions of the same contract*
 - *Offering Lifetime benefits with an increased rating alone may not compensate sufficiently for anticipated long duration risks*

Variable Rating Schemes

- *The ideal underwriting tool would be a product which:*
- *Has been filed at a “base” or standard rate*
- *Has variable rating options available at underwriting discretion, i.e., Preferred, AAA, AA, A and Special*
- *Can have ratings easily reduced or removed after policy issue*

Variable Rating Schemes

- *Disadvantages:*
 - *Requires a deeper level of underwriting skill and product understanding*
 - *May complicate experience tracking*

Alternative Offers



- *Enable the field force to maintain an element of control*
- *Provide the insured with a say in the final decision*

Alternative Offers



- *Increase the underwriter's depth of knowledge and negotiation skills*
- *Should represent equal risk/return tradeoff*

System Compatibility

- *Get your IT people involved from the start*
- *Can your system handle:*
 - *Ratings*
 - *Multiple EP and BP*
- *Separate EP and BP for NHC and HHC*
 - *Changes in EP, BP, Ratings*

Substandard Underwriters

- *Excellent Underwriting Basics*
- *Good Medical Impairment Background*
 - *Thorough Product Knowledge*
 - *Excellent Communication Skills*
 - *Negotiation Skills*
- *A good old fashioned sales person at heart*

Delivering a Substandard LTC Underwriting Program

- *Center of Excellence*
 - *Professionalism*
- *Medical and Underwriting Expertise*
- *Claims and Care Coordination Expertise*
 - *Rapport with Field Force*
 - *Rapport with Clients*
 - *Centralize Functions*
 - *Cost Effective*

Developing a Substandard LTC Underwriting Program



- ***NEEDS***
 - ***Product, Product, Product***
 - ***System***
 - ***Staff***
 - ***Delivery***

Developing a Substandard LTC Underwriting Program



- ***QUESTIONS?***