

# **Underwriting at Extreme Ages**

**Long Term Care International Forum**

**Newport Beach, CA**

**April 2004**

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# Underwriting at Extreme Ages

- Age-based underwriting issues
- Typical Underwriting Protocols
  - Group products
  - Individual products
- LTCG Claims experience
  - 45 years and younger
  - 65 years and older
- Special Issues of older applicants
- Conclusions

# LTCI Underwriting Objectives

Select a risk pool that reflects pricing assumptions

- Prevent adverse selection
- Identify High Risk Applicants
  - Currently ADL dependent or cognitively impaired
  - High probability of early dependency
  - High lifetime probability of dependency
  - High likelihood of an early death
- Maximize Acceptance Rate

**Goal: Produce a 5, 7, 15 Year UW Effect (?)**

# Underwriting Issues at Extreme Ages

## Younger Ages

- Diagnosis is important
- Adverse Selection
  - Unique knowledge
  - Family history
  - Genetics
- Current functional abilities critical

# Underwriting Issues at Extreme Ages

Older Ages - what you see is what you get

- Multiple medical conditions are common
- Current function and cognition are critical
- Functional trajectory is also important
- Adverse selection
  - Buying because they “need” it
  - Family and spouse knowledge
- The very old at time of claim
  - Gradual decline and moral hazard
  - Attractive settings of care
  - Underwriting effect versus compression of morbidity

# Typical Underwriting Protocols

45 years and younger

- Group Products
  - Guaranteed Issue
  - Modified Guaranteed Issue (+/- UW review)
- Individual Products
  - Short Form Application
  - *Abbreviated Underwriting* from application
  - PHI (rare)
  - APS (even rarer)

# Typical Underwriting Protocols

## 65 years and older

- Group Products and Individual Products
  - Long Form Application
  - Attending Physician Statement
  - PHI or Face-to-Face Assessment
    - Functional Status
    - Independence
    - Cognitive Abilities
  - Specialty Physician Records (common)
  - Neuropsychological Testing (rare)

# **Underwriting at Extremes of Age**

**Data, Data, Data....**

# LTCG Claims Experience

- Approximately 4,000 Open LTCI Claims
- 80% in Payment and 20% in Deductible
- Approximately \$7,000,000 in Monthly Benefits
  - 49% home health care and personal care
  - 32% assisted living facility
  - 17% nursing home
  - 2% of payments for alternative benefits
- Overall Claims Denial Rate 8.0%

# LTCG Claims Experience

- Tax Qualified Plan, ELP 90 days
- Strong ADL and Cognitive benefit triggers
- Payment of incurred expenses
- Care Coordination
- Full range of services
  - Nursing, ALF and Home Care
  - Independent Provider, Hospice Care, Respite
  - Home modification

# Benefit Eligibility & Care Management

- Onsite Benefit Determination: 74%
- Determine Benefit Eligibility: Av. 2.3 days
- Care Plan Sign-off: Av. 2.0 days
- Excellent Care Plan Agreement Rate

# LTCG Claims Experience

## Those Approved for Benefit

- Successes
  - 25% Cognitive Impairment (CI)
  - 40% 2+ ADL deficits
  - 15% Combined ADL & CI
- Challenges
  - 15% require *Special Handling*

# LTCG Claims Experience

## Actual Claims Experience

- Over 8 million person months of exposure
- Entering 9<sup>th</sup> year of exposure
- 2.39 claims per 1000 person years exposed
- Claims 57% of expected for programs
- Payments - approximately 82% MDB

after 8+ years of experience

# **Underwriting at Extremes of Age**

## **45 Years and Younger**

# 45 Years and Younger

## Underwriting Experience

- Total Applicants: >23,000
- Combination of MGI and Underwritten
  - Total Approved: >22,000 (>95% Acceptance Rate)
  - Total Declines: <1,000 (<5% Decline Rate)

# 45 Years and Younger

## Adverse selection at younger ages

	Applicants	Accept	Decline
MGI	9,371	9,221 (98%)	150 (2%)
Underwritten	10,369	9,543 (92%)	826 (8%)

# 45 Years and Younger

## Overall Claims Experience

- 46 approved claims => 24 paid claims
- 0.41 paid claims per 1000 person years exposed
- Recovered/died during EP: 48%
- Recovered or died in payment: 33%
- Average duration of closed claim: 248 days

# 45 Years and Younger - Claims

## Adverse selection at younger ages

	Claims	Covered Months	Claims Rate*
MGI	33	474,467	0.94
Underwritten	9	222,078	0.49

\* Claims per 1000 Person Years of Exposure

# 45 Years and Younger

## Overall Claims Experience:

- Ratio of premium to benefits paid: \$29 : \$1
- Claimed Diagnoses:
  - **MGI**: AIDS, metastatic cancer, SLE, MS, CFS, paralysis, ataxia and other chronic conditions
  - **Underwritten**: Stroke, cancer, fractures and acute injuries

# **Underwriting at Extreme Ages**

**65 Years and Older**

# 65 Years and Older

## Underwriting Experience

- Total Applicants: 231,718 fully underwritten
- Acceptance: 68%; Decline 32%

Age	Accept	Decline
65-79	71%	29%
80-84	44%	56%
85-89	29%	71%
90-94	19%	81%
95+	10%	90%

- 157,568 policies in force
- 6,719,558 covered months

after 8+ years of experience

# 65 Years and Older

## Claims Experience

- 2,850 approved claims => 1,383 paid claims
- 2.47 claims per 1000 life years exposed
- Recovered/died during EP: 24%
- Majority claims closed due to death
- Average duration of closed claim: 384.6 days

after 8+ years of experience

# 65 Years and Older

## Overall Claims Experience:

- Benefits payments as a % of premium: 29.5%
- Claimed Diagnoses (age dependent):
  - Stroke
  - Dementia
  - Cancer
  - Fractures with lasting disability
  - Frailty, arthritis, organ failure, neurologic diseases, deconditioning, failure to recuperate, etc.

# Compression of Morbidity

**Definition:** As life expectancy increases there is a relative decrease in the number of years of disability at the end of life.

That is, as life expectancy increases there is a corresponding decrease in overall lifetime disability.

# Compression of Morbidity: Drivers

- Improvement in lifestyles – smoking, diet, exercise
- Aggressive treatment of cardiovascular disease
  - Lipids, hypertension, diabetes
  - PTCA, CABG, valve replacement
  - Rate control, stroke prophylaxis, ↑ LV function (pacemakers)
- Medications designed to lessen effects of osteoporosis
- Arthritis – joint replacement and remitting medication
- Dementia – anticholinesterase medication
- Advances in treatment of infectious hepatitis, multiple sclerosis and spinal cord injuries; immunizations

# **Will this Compression of Disability Benefit LTCI Claims?**

...or will the impact of medical advances, the influence of LTCI underwriting and the effects of insurance mitigate the positive effects of this compression of disability?

# Older Applicants - Opposing LTCI Forces

## Positive Forces (+)

- Compression of morbidity (a.k.a. disability)
- Underwriting effect
  - Healthier and more functional at enrollment
  - Protection against adverse selection
- Benefit eligibility definitions
  - Objective and more protective than medical necessity
  - Acknowledge potential for “recovery”

# Older Applicants - Opposing LTCI Forces

## Negative Forces (-)

- Underwriting effect
  - Eliminates comorbidity that may contribute to *Compression of Disability*
  - “Life effects” that exposes risk pool to “very old age”
- Insurance effects
  - Claims drivers:
    - IADL assistance
    - Convenience and safety
    - Setting of care
  - Not factored into compression of morbidity studies

# Example: Advances in Rheumatology

- **Osteoarthritis and rheumatoid arthritis**
  - Common at time of underwriting (48.5% of applicants >65 yrs)
  - Common at time of claim request
  - Significant advances in medication and surgery
    - NSAID, Cox-2 inhibitors, remitting agents, TNF inhibitors
- **Potential impact on future LTCI claims?**
  - The risks of future joint dysfunction and replacements (-)
  - A marker for future frailty and disability (?)
  - Promotes exposure to very old (-)

# Example: Advances in Cancer Therapy

- **Cancer survivors**
  - Common at time of underwriting (21% of applicants >65 yrs)
  - Common reason for LTCI claims
  - Significant advances in chemotherapy and surgery
- **Potential impact on future LTCI claims?**
  - Recurrent cancer embodies compression of morbidity (+)
  - Long term effects of treatment unknown (?)
  - “Cures” promote risk pool’s exposure to very old (-)

# Example: Advances in Dementia Therapy

## Potential impact on future LTCI claims?

- “Life effect” increases exposure to the very old (-)
- Heightened awareness promotes adverse selection (-)
- Alternate levels of care may induce claims (-)
- Alternate levels of care may lower claim costs (+)
- New drugs may impact LTCI claim rates
  - Labeling may induce early claims (-)
  - Drugs may postpone or eliminate cognitive claims (+)
  - Drugs may obscure the benefit eligibility determination (-)
- Therapies may eventually “cure” or forestall the onset of Alzheimer’s type dementia (++++)

# Advances in Settings of Care

## Assisted Living and Independent Provider

- Rapid expansion of housing and care alternatives
- Recent forays by corporate entities
- Many unlicensed and unregulated
- Attractive alternative to nursing home
- Popular at time of claim request

# Example: Advances in Settings of Care

## Potential impact on future LTCI claims?

- “Didn’t I purchase Assisted Living Insurance?” (-)
- Important claim drivers unique to older claimants
  - IADL assistance (-)
  - Safety (a.k.a. family and claimant anxiety) (-)
  - Convenience (-)
- ALF’s adverse impact on recovery (-)
- Independent Provider’s impact on claims mgmt. (+)
- Lower claim costs (+)

# Conclusions

- There is adverse selection at the extremes of age
- There is heightened LTCI risk at older ages
  - Higher premiums at older ages induce adverse selection
  - The margin between independence and dependence is very thin
  - Claims rates are high, they occur earlier and they are long (counter-intuitive)
  - Perhaps we have failed to consider the impact of comorbidity on claim duration

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**- Discussion -**