

HIGHLIGHTS OF THE 2015 AHOU ANNUAL CONFERENCE



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Risk Management of Life and Long Term Care Hybrid Products

Tony Laudato, Vice President at Hannover Life Reassurance Company of America, and Pam Kreager, Senior Director of Clinical Quality & Standards, LTCG, reviewed product design, underwriting, reinsurance and claims management of life and long term care (LTC) hybrid products. Mr. Laudato began by noting that over the past 10-15 years, there have been significant market exits from LTC direct writers. Linked benefit products, on the other hand, are increasing due to a need for them, given the age 65+ market will increase to 90 million by 2060, and almost 70% of those people will need some form of LTC—nursing home or in-home care. Only 3% of the current 45 million people age 65+ have LTC coverage.

Increasing LTC costs and the policy stand-alone feature of use-it-or-lose-it have companies trying to find a balance between value and risk—for the insurance company, sales and distribution channels, and policy owners. In 2013, the average face amount of a life insurance policy was \$342,000, with premiums increasing approximately 14%, totaling \$2.5 billion in the industry. The LTC hybrid product has a Chronic Illness Acceleration Rider which is a low-cost rider added to the life insurance policy. The Linked Benefit Rider is a multi-use product as a true mix of life and LTC products. There are two types of products—reimbursement and indemnity. The product rider options include face acceleration, extension and return of premium. Hybrid products are typically MEC contracts with a low net amount at risk, and have lower claims than a stand-alone LTC product because the insureds must use their own money first. There is a lot of push for these products from the distribution side.

Ms. Kreager covered underwriting and claims on the hybrid products. The life insurance piece is underwritten first to determine insurability, usually with a maximum table 4 (D) rate. A person needs to be insurable for both life and LTC in order for the product to be approved. If a risk is not insurable, it must

Executive Summary *The 14th Annual Conference of the Association of Home Office Underwriters (AHOU) took place in Washington, DC, April 26-29, 2015. Highlights from the meeting included a timely talk on genomics and the use of genetic information; a look at how models are being used to predict morbidity and mortality based on a person's health care expenses; a review of key points to look at on pathology reports; an overview of life and long term care hybrid products; a look at how technology advances are changing the insurance industry; and an overview of premium financing from a case design perspective.*

be determined whether the proposed insured will be eligible for both life and LTC coverage in the future, if reconsideration is to be offered. The LTCI piece has a higher decline rate due to the lack of ratings available and is based on morbidity considerations—functional disability and cognitive impairment.

LTCI strives to identify excess morbidity by focusing on key risk factors such as BMI, lifestyle, cognitive screening, ADL function, level of independence and stability of medical conditions. LTCI for this type of product typically does not involve ratings—it is either accepted or declined. LTCI underwriting requirements include a comprehensive application, MIB check, prescription database check, phone interview and a cognitive screen. MVR, APS, exam, labs, EKG and IRs are generally not obtained.

Ms. Kreager explained that a LTCI claim is triggered by cognitive impairment or requiring assistance with two or more ADLs. She stressed the importance of determining benefit eligibility, especially since information sources are not perfect. Claims are adjudicated by a licensed health care practitioner (usually a registered nurse or licensed social worker) whose duties include advising the claimant of recovery statistics and that the level of care and disability will be monitored throughout the claim period. Recovery from an

illness or injury allows for benefits to be preserved for future use and reserves to be released. In order to process LTCI claims effectively, it is important to have an experienced case coordinator and a care manager in the process. Managing recovery is essential since recovery is key to effective claims management—take the time to do it right.