Gen Re | Business School

Edition 2/2017

UNDERWRITING FOCUS

Oh, Grandmother, What Big Worries You Have: Prospects for Those in Need of Care

by Sabrina Link and Annika Tiedemann, Gen Re, Cologne, Germany

Private long term care (LTC) insurance protects against costs that arise from care needs. It pays when the insured is too frail to care for him or herself without the physical assistance of another person, even when using assistive devices. In more and more countries, it is perceived as a much-needed product to supplement the protection provided by the government's safety net which, if existent at all, usually only covers part of the expenses. However, the commercial success of private insurance products falls short of expectations in most markets.

Long term care insurance – Overview and product features

Demographic demands

Demographic and societal changes increase the challenges of elderly care that nations face around the world. Longer life expectancy and lower fertility rates mean that more people reach a care-relevant age with fewer people to support them. A smaller share of the population is of working age, which exerts pressure on the social system. A measure that puts a number on this phenomenon is the old-age dependency ratio. It sets the number of people aged 65 and over (the age when they are generally economically inactive) in relation to the number of people aged 15 to 64 (working age). In the EU countries, this ratio is projected to rise from 0.288 in 2015 to 0.503 in 2050, which indicates that two working persons will have to sustain one pensioner.[1] Combined with an increased mobility of the younger generations, a higher labour participation by women and the fact that families are getting smaller and less stable, close relatives who have been the traditional choice are less likely to take on the role of caregivers.

Despite suppression mechanisms in a lot of people, the majority will need support during a certain period before death. The experience from a German public health insurer reveals that more than half of all men and almost three out of four women need care at the end of their lives.[2] All of the above make a strong case for protecting oneself financially through private LTC insurance.

Product features

A typical product pays fixed annuity benefits once the claim definition is met. These are usually paid for the remainder of the insured's life, although in the U.S. limited benefit periods of, for example, three years are common. Lump sum benefits might be provided where LTC is a rider to another insurance product. LTC policies may

Content

contain a waiting period (time between policy issue date and beginning of insurance cover). In France, for example, the waiting period is usually three years for dementia, one year for other diseases and nil for accidents. Another product feature may be a deferment period (time between onset of care need and beginning of benefit payments) that helps to reduce administrative costs for short claims and to lower the premium.

Six ADLs trigger LTC benefits

Benefit triggers

An internationally recognised and widely-used benefit trigger is based on the Activities of Daily Living (ADLs): transferring, mobility, washing, dressing, eating and continence. Here transferring means the ability to get into an upright position from a bed or a chair while mobility means the ability to move from room to room on a level surface. Gen Re's claims experience shows that washing and dressing are usually the first ADLs an insured fails and transferring and eating are the last. The ADLs are broken down into sub-activities. For example, eating is divided into absorbing food and drinking.

Most markets use a definition based on these six ADLs, but variants exist where only four or five ADLs form the baseline. In order to fulfil the benefit trigger, the insured person must be incapable of performing a specified number of these activities alone, even using special equipment, and without the continuous physical assistance of another person. Furthermore, the inability to perform the ADLs must be of a permanent nature. For a claim to be valid, the physical assistance of a third person is always required. Supervision alone does not suffice. Taking into account assistive devices shall ensure that the assessment is based on objective criteria and independent of personal circumstances. Some products have a very strict benefit trigger where the insured needs to fail all of the six ADLs to receive benefits. Others pay when the insured fails three or four ADLs. Since the need for financial support typically increases with the level of dependency, tiered benefits are very popular. Here the benefit amount depends on the number of ADLs that a person is unable to perform. For example, the full benefit is paid out when all six ADLs are failed and a partial benefit (e.g. 50%) is paid out when only four ADLs are failed. The strictness of the benefit trigger influences some of the underwriting questions that have to be asked or can be omitted.

The ADL definition is heavily focused on the claimant's physical ability. However, due to mental impairments, a lot of elderly people require supervision and help from someone else; for example, when the individual suffers from dementia. He or she might still be able to perform many ADLs but needs to be reminded to do so. Moderate to severe dementia normally leads to being unable to perform ADLs eventually. To take into account these cases as well, many products consider dementia as an alternative claims trigger. Different tests are used to measure the severity of dementia in this context; for example, the Clinical Dementia Rating (CDR) and the Mini Mental State Examination (MMSE). The diagnosis should always be made by an expert in the field of cognitive impairment.

In countries where a public scheme exists, private insurance products often copy the local definition, sometimes in addition to the ADL and dementia trigger.

A selection of LTC markets

France

The leading market for private LTC insurance in Europe is France. In 2014 over seven million people were covered and of those 3.4 million by insurance companies. The average entry age was 60 years and the average age when a person became dependent was 81. Several generations of LTC products – and thus of benefit triggers – have coexisted since 1985. The earliest products used a definition based on four ADLs (mobility, washing, eating and dressing) with an additional benefit trigger for cognitive impairment. Since 2000, the focus has changed to the social security definition that was sometimes reinforced by an ADL qualification. In 2012 insurance companies introduced a standardised definition with a specified framework that includes a common vocabulary, a minimum benefit of €500 per month and no medical underwriting for entry ages below 50. The definition is based on ADLs and cognitive components.

The public claims trigger AGGIR (Autonomie Gérontologie Groupes Iso-Ressources) classifies people into six levels of dependence by evaluating 10 variables that consist of ADLs and cognitive faculties, such as coherence and orientation. Instrumental activities, such as housekeeping and financial affairs, are assessed in order to elaborate a support plan. For each variable, the assessor notes whether it can be managed alone, totally (or partially), correctly and habitually.

France is the leading market for private LTC insurance

Great Britain

Since 2004, no pre-funded products have been on the British LTC market. Only recently, whole-of-life insurance products with a care benefit that accelerates the death benefit were launched. Apart from this, the only LTC products currently available are immediate needs annuities (INAs) – plans that pay a guaranteed, tax-free income to the insured's registered care provider. They are financed by a single premium based on age and state of health. Payments start immediately and continue until death. Some products return a percentage of the capital invested if death occurs within the first six months. Applicants are individuals who are already in need of care, and every applicant has to be underwritten individually and very thoroughly, which makes it a complex

and unusual process. The underwriter has to estimate the remaining life expectancy instead of the likelihood of a future care need.

Singapore

Singapore demonstrates how a public-private-partnership in the insurance sector can work. The government provides the framework for the LTCI scheme and the private insurance industry assumes the role of risk taker and administrator. When they turn 40, all Singaporeans are randomly allocated to the three current insurers, without underwriting. They have a right to opt out, but when opting in again people have to undergo underwriting. If an insured fails three out of six ADLs, the policies pay out a rather low benefit for a limited period. But through their compulsory medical savings account people can purchase top-up policies to supplement their base plans. Even though the scheme only provides a basic level of protection, it is remarkable that over 60% of residents aged 40 or above are covered and 20% purchased supplementary cover.

Germany

In Germany private LTC products have used a combination of the social security definition, an ADL-based trigger and a dementia trigger until the end of 2016. The German social security system is undergoing major reforms that entail a completely new care definition and assessment process. In evaluating the need for care, the former focus on an estimate of the length of time required for care was replaced by the determination of the degree of independence. Cognitive impairments will be acknowledged more adequately than in the past, where the focus was on physical abilities. Furthermore, for people living in a care home the contribution to be paid will no longer be dependent on the care grade. Going forward, some carriers have opted to use only the new social security definition, while others still combine it with an ADL definition sometimes complemented by a cognitive element to imitate the legal definition.

The challenges of LTC underwriting

Underwriting LTC insurance is a complex task and comes with a number of challenges due to the complexity of the product and the many variations that exist, but also due to the claims trigger itself.

Causes for care

One of these challenges is simply the large number of possible causes for care need and their heterogeneity. In contrast to mortality insurance where death is the only cause of claim, an LTC claim can be caused by hundreds of single types of injuries or disorders or any combination of an even bigger number of injuries or disorders. Among the most common diseases that cause or contribute to LTC claims are the following:

- Vascular diseases – e.g., stroke, aneurysm or heart failure
- Disorders of the locomotor system – e.g., osteoporosis or arthrosis
- Malignant tumours, most commonly of the respiratory system, breast, colon or prostate
- Mental disorders – e.g., depression and anxiety
- Nervous disorders – e.g., Alzheimer's, Parkinson's and multiple sclerosis
- Chronic disorders – e.g., diabetes or hypertension
- Injuries – e.g., resulting from falls

All of these disorders come with their own challenges. Cognitive disorders, such as dementia, may go unnoticed for a while as disturbances of memory are blamed on growing older. Until a formal diagnosis is made, such cases are easily missed in underwriting.

Mental disorders, such as depression, are not usually sufficient on their own to cause a need for care; however, they can worsen the outcome of other diseases if present at the same time due to the patient's failing ability to manage disease and treatment. Additionally, depression can be an early sign of the occurrence of dementia. In severe cases, suicide attempts are not uncommon and carry the risk of long term health issues.

The challenge of chronic diseases is often that their outcome varies significantly from rather mild cases to the more severe ones. In diabetes, for example, dramatic complications – such as amputations or blindness – are not uncommon in cases with poor medical control. To identify cases with such potential is the task with which underwriters are faced. Chronic diseases require the constant intake of medication, which can become difficult with loss of bodily functions; therefore, depending on the insured's overall health status through the years, the illness can become more or less of a problem. Cancer is not only very common but may also require care as treatment is often strenuous and more and more long-term. At the same time, there is continuous change and exceptional progress in treatment, so the underwriter needs to keep up with these developments to be able to predict future care need.

Some of the most obvious causes of care when looking at the ADL definitions (e.g., mobility, transferring) are disorders of the locomotor system. Osteoporosis, for example, is a risk in different ways; it causes pain and bone fractures as well as complicating the healing process, e.g., after falls that are very common in old age.

Additionally, it needs to be mentioned that minor conditions, which would not be much of a concern in themselves, can contribute to care need if present with others. To put it bluntly, there is probably no medical condition that can be disregarded when looking at LTC risk.

Duration of care

A speciality of LTC insurance is that not only incidence of disease needs to be taken into account to determine the adequate underwriting loading, but also the probable duration of care until – typically – death. This duration varies significantly between claims triggers; it can make minor diseases that do not have a significant effect on life-expectancy more of a concern to the underwriter than severe diseases with shorter survival. For example, dementia goes along with long durations of survival, while for heart disease – once it reaches a severity that initiates care – it is typically much lower.

Range of entry ages

Another challenge of LTC underwriting is the growing range of entry ages. As care is typically a concern of older age, it was common in the past to sell LTC cover to applicants between the ages of around 50 to 75. Nowadays, companies in some markets are more commonly trying to extend their group of potential customers. Thus it has become increasingly common to sell LTC cover to younger or even much younger people. This aspect needs to be acknowledged in underwriting for two reasons: Claims causes differ significantly across ages, and the motivation to buy cover – with a potential for anti-selection – may be a different one in different age groups.

For example, one has to take into account that what is a healthy person – or a standard risk in underwriting terms – needs to be defined in relation to age. In underwriting the elderly, some smaller conditions may be deemed "normal", such as mild hypertension or minor types of heart valve disorders; other diseases, such as diabetes or obesity, are never "normal" but less of a risk if first appearing in later years. In a young person, all of these should be major concerns due to their long-term risk of severe complications. Underwriting a 60-year-old the same way as a 20-year-old would thus not be reasonable for such conditions – either unnecessarily many applicants would be declined or too many would be accepted at insufficient terms.

As a general rule, claims tend to be more "mono-causal" in younger people; we find single diseases or injuries instead of a mixture of conditions, as seen in older people. This determines what the underwriting decision will be based on: While younger people may disclose single, isolated diseases, older people will typically present a combination of minor health issues or major disorders that need to be taken into account, making it harder to find the correct underwriting decision.

Motivation in younger people to buy insurance

It is worth adding that the motivation to buy LTC cover can differ significantly across the ages. This is a fact that underwriters should bear in mind while looking at individual cases to reliably identify anti-selective insurance purchase. As people get older, they are inevitably faced with declining health and the risk of requiring care – especially as they see examples of it in their family or friends. They may detect in themselves early signs or symptoms of disease that they understand can bring along the risk of future need for care. Dementia is a very typical example of a slowly progressing disease that a person may fear to be suffering from (or – even more common – family and friends fear to have detected first symptoms) long before a formal medical diagnosis is made. This results in a strong motivation to buy private insurance to mitigate at least the financial burden of the disease and care need that comes along with it.

Younger people, however, are typically less concerned – and increasingly so – with life beyond working life age, and prefer spending their usually limited financial means on more hands-on demands than an LTC policy that is not supposed to pay out for decades. So, what may nonetheless drive a young person to buy LTC insurance?

Younger people may, for example, be aware that they are putting their health at risk in their everyday life; e.g., in dangerous activities, such as risky types of hobbies or occupations. For obvious reasons, LTC claims in young people are more often caused by accidents. They may also have experienced severe disease in their early years and thus may be less careless than is typical for their age. Alternatively, they could be aware of a familial disposition to severe disease. To make things worse, any of these may make them uninsurable for disability-type insurance products. This may initiate their thinking about acquiring LTC insurance. So, while young people can on average be expected to be more healthy than older people, their applications have to be underwritten with just as much care. This is especially true if applying for high sums insured with significant premiums to be paid.

Questions in application forms

Bearing all of the potential claims causes in mind, it becomes obvious that application forms for LTC insurance need to cover a number of aspects, from the more obvious health questions to the less obvious but increasingly important non-medical questions.

> *Avoid exclusions in LTC insurance*

First and foremost, questions need to be asked concerning pre-existing medical conditions, from functional to cognitive impairments to all health conditions with the potential to develop into a need for long term care. This includes more minor conditions that cannot yet be labelled diseases but may well develop into more severe stages, such as difficulties in walking, hearing, or events of vertigo. If legally possible, family history should be examined to identify high risk, e.g. of cancer or dementia. An already existing need for care, or help with activities of daily living, needs to be ruled out to prevent short-term or even imminent claims. Where possible, cognitive testing should be part of the underwriting requirements from a pre-defined age to identify early-stage cognitive impairments; e.g. for dementia.

For the reasons mentioned above, questions on dangerous pursuits and occupations are of increasing relevance, especially if addressing younger people. They can also be of importance in older applicants as people stay active in sports and occupation longer and longer, and even in higher ages tend to pursue more risky types of sports. Long-term health conditions can be associated with some occupations.

Financial underwriting should form an integral part of LTC underwriting. While it is true that care requires huge amounts of money, the obligatory underwriting question, “Does it make sense?” still needs to be asked. Does it make sense that a young person spends a significant percentage of his or her wages on LTC insurance? Does it make sense that someone is better off financially in sick days than in healthy days? Limiting the sums offered in individual cases can certainly make a lot of sense.

Influence of social isolation

Another factor significantly influences the likelihood of a person requiring (external) care in old age, one that is nevertheless often not covered by the application questions. That is social isolation, which increases the risk of care for different reasons. First, maybe no family members or friends are available who can support a person in daily life activities and thus external care is the only option. Second, social isolation often goes along with mental stress, which again reduces people’s determination to care for themselves. Still, this needs to be disregarded at underwriting stage not only as it may be too intimate to ask if a social net (e.g., spouse, children, close friends) exists but also as the status may not be sustainable over the years; marriages fail, people die or grow apart.

Product design

Finally, given the variations of LTC products available, the underwriter needs to be aware of the design of the product in question when assessing applications for LTC insurance. Most importantly, it is essential how many ADLs need to be lost to qualify for a claim. In some markets, it is common to exclude various risks in the terms and conditions, e.g., certain diseases, and risky behaviours in sports and occupations, so that these risks are less relevant. Lastly, waiting periods can limit the risk substantially as the risk of anti-selection is reduced.

Final underwriting decision

The final underwriting decision will typically be an extra premium, which should be limited to a level that is reasonable both from a risk and a premium perspective. Gen Re’s underwriting manual CLUE, for example, recommends an upper limit of +70%. Exclusions should be avoided: on the one hand, they would compromise the existential character of the product; on the other hand, they may be impossible to enforce at claims stage due to the complexity of the benefit definition. An alternative, a product with tighter benefit definitions, e.g., a higher number of ADLs to be failed, may be offered.

LTC insurance is a complex product with many challenges both on the product as well as the underwriting side. Nevertheless, it is an essential product offering financial support when it is needed the most. Demographic and societal changes will further increase the need to protect against the risk of care costs surpassing a person's financial means. For insurance companies, this offers the possibility to expand their product range and to embrace new business opportunities.

Endnotes

1 Eurostat (2013). Projected old-age dependency ratio. http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1 &plugin=1&language=en &pcode=tsdde511 (accessed 20 Sept 2017).

2 Rothgang, H., Kalwitzki, T., Müller, R., Runte, R. & Unger, R. (2015). BARMER GEK Pflegereport 2015. Schriftenreihe zur Gesundheitsanalyse, Band 36. Siegburg: Asgard-Verlagsservice.

About the authors

Sabrina Link *is a Product Specialist for International Long Term Care insurance in Research & Development with responsibility for product design and actuarial aspects. Furthermore, she is involved in projects of annual mortality investigations and predictive modelling. She is a member of the German Actuarial Society (DAV). She can be reached at Tel. +49 221 9738 286 or sabrina.link@genre.com.*

Annika Tiedemann *is Head of Underwriting Research, Research & Development, based in Cologne. As such, she is responsible for the maintenance and further development of Gen Re's underwriting manuals. She is the contact for colleagues and clients worldwide for questions of research, manuals and best practice solutions in underwriting. She can be contacted at Tel. +49 221 9738 345 or annika.tiedemann@genre.com.*

Gen Re | Business School

The people behind the promise®

genre.com | genre.com/perspective | Twitter: @Gen_Re

Publisher

General Reinsurance AG
Theodor-Heuss-Ring 11
50668 Cologne
Germany
Tel. +49 221 9738 0
Fax +49 221 9738 494

Edited by

Dr Marianne Kutzner (Managing Editor),
Anke Siebers, Ross Campbell,
Annika Tiedemann, Holger Schmarowski
Tel. +49 221 9738 678
Fax +49 221 9738 824
marianne.kutzner@genre.com
www.genre.com/business-school

Production

gläser projekte GmbH, Cologne

The Cologne Re.

Photos: © getty images – yacobchuk, M-KOIZUMI, Ljupco, Nerthuz