

Combination Products

Underwriting Combo Products **ILTCi Conference; March 2015**

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15th Annual Intercompany Long Term Care Insurance Conference

Underwriting Combo Products

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- For individual policies, it is fairly thorough
- “Tight” underwriting uses some or all of:
 - Long-form application
 - Medical records
 - Phone history interview
 - Face-to-face assessment
 - Medical Information Bureau
 - Prescription history tool
 - Blood screening
 - Thorough cognitive exam

Ranges from using underwriting as thorough as stand-alone LTC...

to

...Using no additional underwriting on the LTC rider and (for some annuities) minimal underwriting on the base plan

Why the Difference in Stand-alone and Combo?



- Long term care benefit might be immaterial, compared to the base policy benefits (e.g., chronic illness benefit with discounted death benefit or annuity policy with acceleration only)
- There might be sufficient underwriting being used on the base policy to cover the majority of LTC risks
- The product might be priced to allow for “looser” underwriting on the LTC rider

Challenges of Using More Simplified Approach



- Life underwriting \neq LTC underwriting
- Life underwriting looks for conditions that cause early death, while LTC underwriting looks for conditions that cause prolonged life in an unhealthy state
- Annuity underwriting \rightarrow generally non-existent
- Using less underwriting on LTC rider to combo product compared to stand-alone LTC could lead to “cherry picking” by agents



Thorough Approach:

- Add full LTC underwriting on top of full life underwriting
- Use of a supplemental application for LTC-related conditions (ADL dependence, history of LTC use, cognitive testing)
- Perhaps have underwriting done by two different staff groups



Simplified Approach:

- Ask a set of knock-out questions
- If person passes, some companies accept; others do a phone interview or get additional information to do more thorough underwriting
- Key is whether or not the person is guaranteed acceptance if they can pass the simplified application

Common Approaches:

- If LTC benefit is not the selling point of the annuity, and if benefit is acceleration only, can get by with little or no underwriting (with anti-selection added in pricing)
- If there are extension benefits or a coinsurance approach is being used, **MUST** either have some simplified underwriting **OR** have a fairly lengthy waiting period (or both)
- Should also verify that questions on the simplified application were answered correctly, by using an Rx check (to prevent “clean-sheeting”)

Effect of Different Approaches on Pricing



- Pricing actuary will use different underwriting selection factors (adjustment factors to apply to claims by duration) to reflect the expected impact of different underwriting
- Looser underwriting will result in higher prices
- Combination products often don't use underwriting risk classes (due to less info available because of simplified underwriting or do to different criteria than what's used on base policy)
- Must beware of situations where person can only get coverage through your policy (e.g., you're the only company that accepts someone with Parkinson's), since that could lead to anti-selection which can't be priced

Underwriting Life Insurance with an Accelerated Care Benefit (ACB) Rider

Kace Kaiser

Northwestern Mutual

Full Underwriting Approach

- A Sample Product (briefly)
- Underwriting – one company's approach
- Positive aspects to sample underwriting approach
- Negative aspects to sample underwriting approach

Sample Product

- Accelerated Care Benefit (ACB)
- A rider on a whole life chassis
- Issue age 18-65
- Minimum life face amount of \$125K
- Premium waived when need met for LTC services

Underwriting Approach

- More aggressive underwriting
 - Supplement to the life application
 - A trained core group of experienced life underwriters
 - Focus on morbidity
 - No increase in cycle time anticipated
 - ACB underwriting tool

Underwriting Advantages

- Morbidity risks captured and assessed
 - Potential early LTC claims
 - High risk LTC impairments identified
- Decreased risk of anti-selection
 - Buying life primarily for the ACB benefit
- Preservation of stand alone LTC risk pool

Underwriting Disadvantages

- More declines
 - Is that really so bad
- More expensive
 - Depending if requirements are added
- More communication for adverse actions
 - Best class life but decline for ACB?

Underwriting Life Insurance with an Accelerated Care Benefit (ACB) Rider and Extension of Benefits (EOB) Riders

Arlene Hendricks
Lincoln Financial Group

Growing trends



Why combo products?



Traditional LTC products

- One policy – 1 risk
- Use or lose
- Cost/rate increases

Combo / Hybrid products

- One policy – 2 risks
- Use for either long term care benefit, death benefit or quit
- Exiting carriers

Underwriting process



Fully Underwritten

- More benefits for premium
- Exams
- PHIs
- Medical records
- Lengthy process time
- MIB
- Various classes

Streamlined Underwriting

- Formal application – long and short forms
- PHI
- Cognitive screen
- No exams or medical records
- MIB
- Prescription drug checks
- Shorter process time

Sample Product

Overview of Features

- UL chassis
- Issue ages 40-79
- Minimum death benefit \$50K
- 2-7 year benefit periods
- Acceleration of death benefit rider
- Extension of benefits rider
- Various premium modes
- Return of premium
- Inflation options
- No deductible
- International benefits

- Experienced underwriters in both life and LTC underwriting
- Formal application
- PHI with MCAS cognitive screen for older ages
- Prescription drug check
- Assess both mortality and morbidity risk in shorter process time

Streamlined Underwriting a Combo product



- Limited details
- Self-reported information
- Client preparation
- Supplemental info
- Field underwriting training
- Underwriting talent

What is your decision?



- 65 yo male
- \$75K premium - \$95K DB, \$288K LTC; 6 years
- Rx check – Hydrocodone – last filled 12/13
- Cognitive – not impaired
- 5' 11" 265#
- Last CPE – 9/13 - normal
- 1997- DM Type 2 – oral meds, A1C in 9/13 6.5
- 2011- Depression and anxiety – treated with Alprazolam
- 12/13 – PT with cortisone injection; MRI back due to pain
- Arthritis – moderate daily pain – treated with ibuprofen

What is your decision?



- 63 yo female
- 50K premium - \$61K DB, \$180K LTC; 6 years
- Rx check – no significant findings
- Cognitive – not impaired
- 5' 2" 129#
- No tobacco
- STD 10/00-12/00
- 2011- HTN – treated with meds and normal
- 2000 – Right posterior communicating brain aneurysm
- 2002 – Surgical correction for right eyelid and double vision
- 2006 – Osteoporosis – T score -2.9; Actonel

What is your decision?



- 73 yo male
- 50K premium - \$60K DB, \$100K LTC; 5 years
- Rx check – 2 meds not reported taking
- Cognitive – not impaired
- 6' 221#
- Last tobacco 1997
- Last CPE 10/13- normal
- 1997- Type 2 DM – 30 units insulin daily; last A1C 7.3; no complications
- 1999- HTN – normal
- 2006 –Vertigo – resolved
- 2008 – Benign colon polyps
- 2010 – Plantar fasciitis – injection - resolved

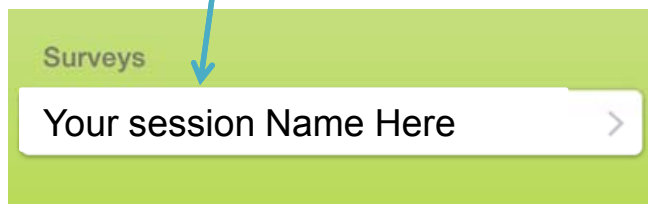
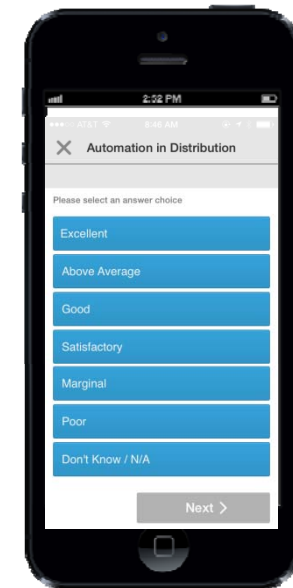
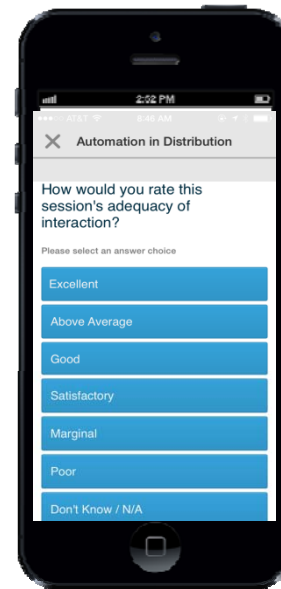
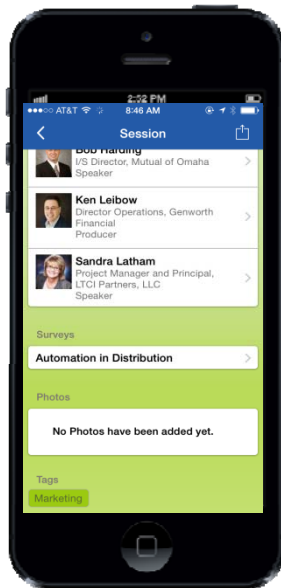
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