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Oops Don't' do it Again ***Learning from the Mistakes of the Past***

Joan Coverson

ertise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Oops Don't Do it Again!

Not a Britney Spears tribute!

Hard lessons learnt from
reinsuring LTC since the start

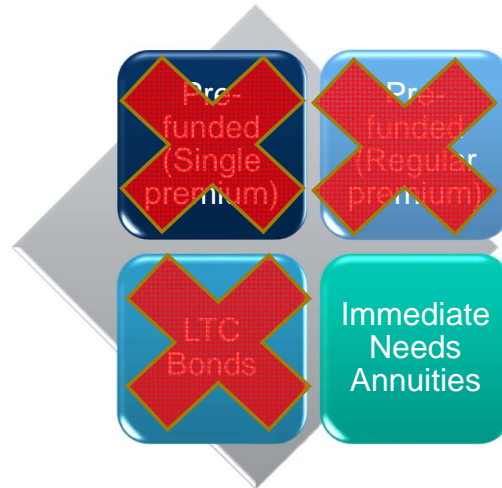
- Pricing
- Reviewability
- Underwriting and Claims



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History – Product Types (1990's)

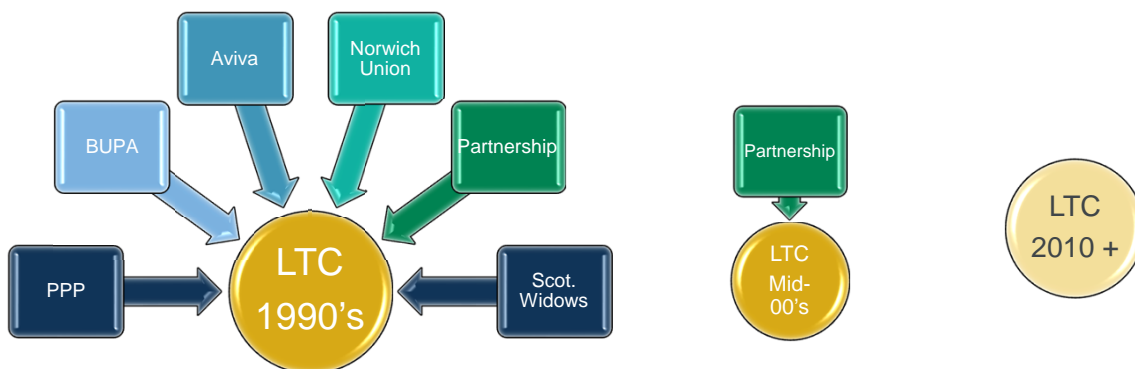


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History of Prefunded Products

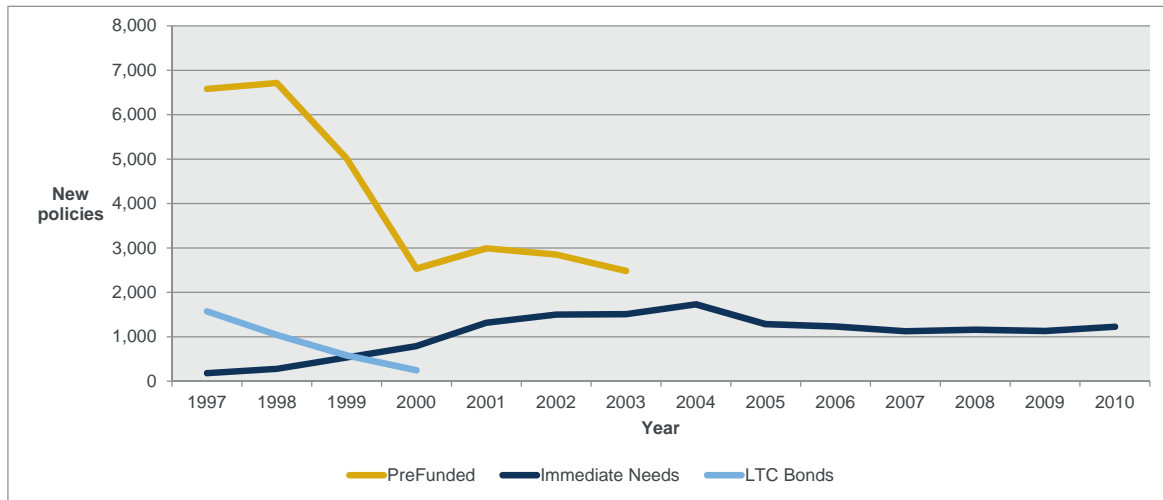


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Long Term Care New Business



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Source: ABI

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Market Coverage Y/E 2013

Type	No. of Policies
Prefunded – Single Premium + LTC Bonds	16,111
Prefunded – Regular Premium	10,729
Immediate & Deferred Needs Annuities	4,980

Source : ABI

Population 65+ : 11.1m

Source : ONS 2013 Population Estimate

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Prefunded Plans – Typical Structure

- Benefit payable on 2 or 3 ADLs, or cognitive impairment

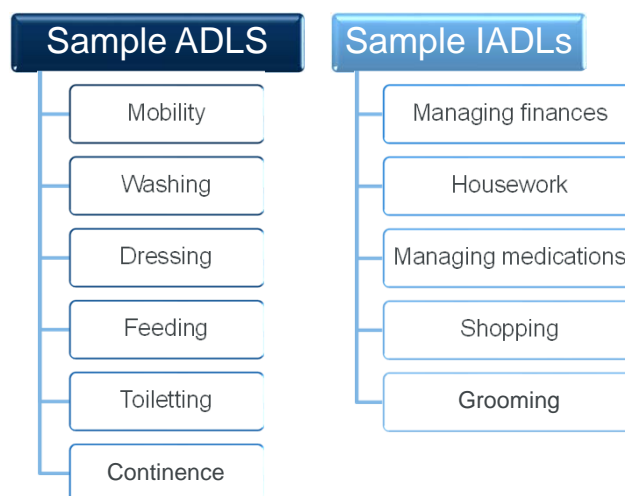


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ADLs and IADLs



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Prefunded Plans – Typical Structure

- Benefit payable on 2 or 3 ADLs, or Cognitive impairment
- Deferred period (typically 13 weeks)
- Cash (fixed benefit) or care
- Exclusions
- Lifetime benefits or pool of money
- Single or regular premiums
- Reviewable premiums / reviewable benefit

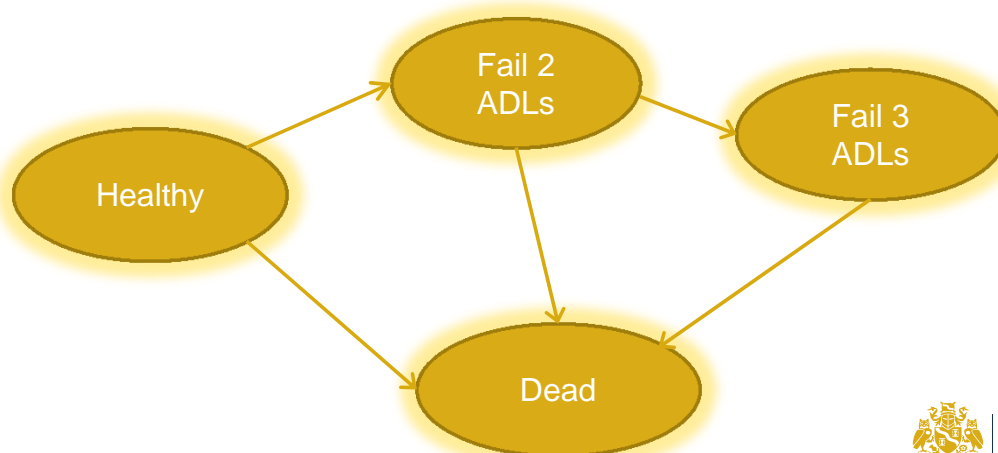


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Pricing / Multi-State Model - Theory

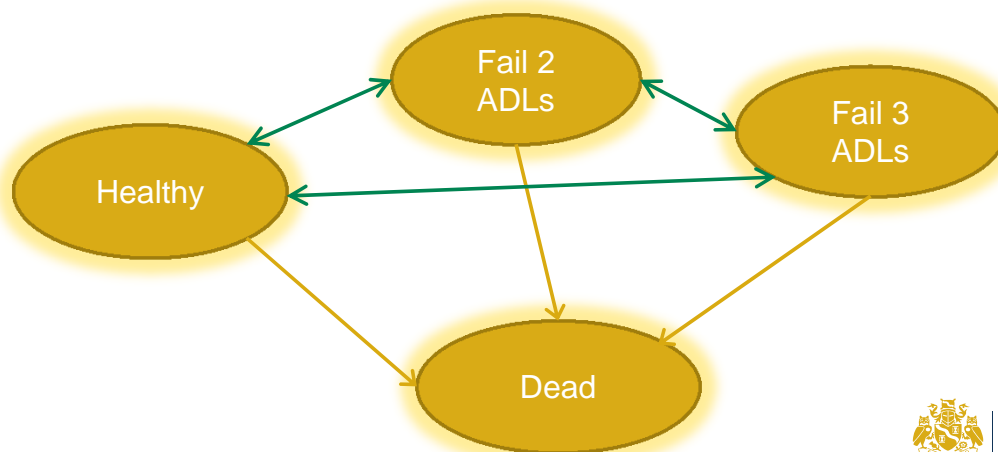


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Pricing - Multi-State Model - Theory



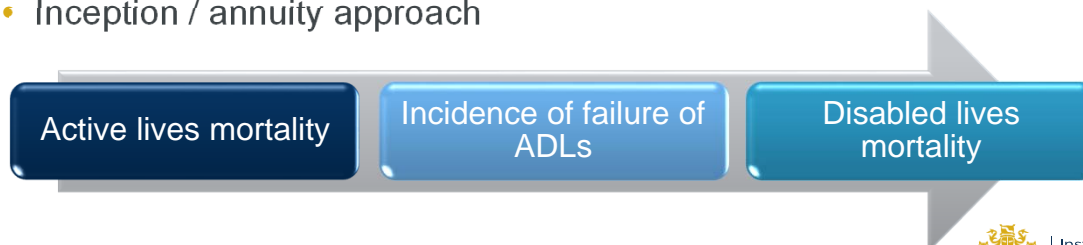
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Pricing - Practice

- Determining true transition rates challenging!
- Movement from 2 ADLs to 3 ADLs rapid
- Very few people recover
- Inception / annuity approach

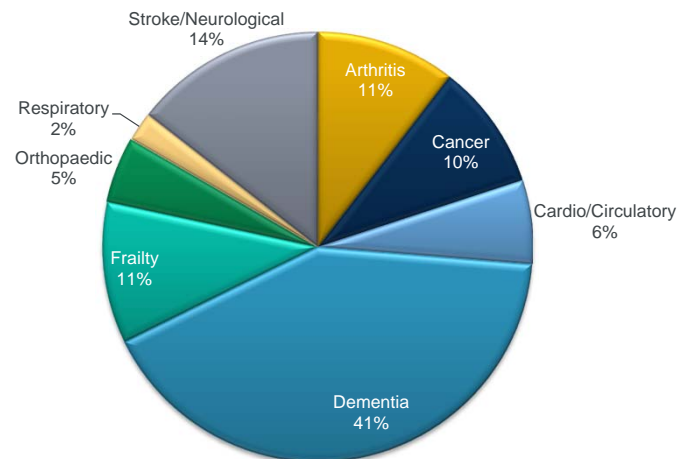


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LTC Claims by Condition



Source : Gen Re data



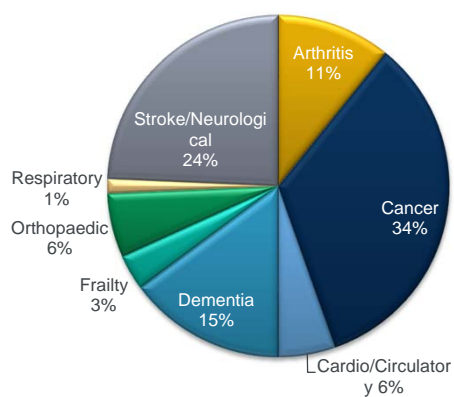
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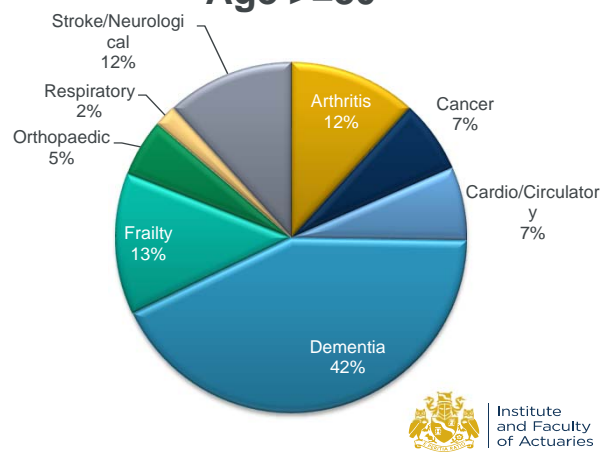
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LTC Claims by Condition by Age

Age <80



Age >=80

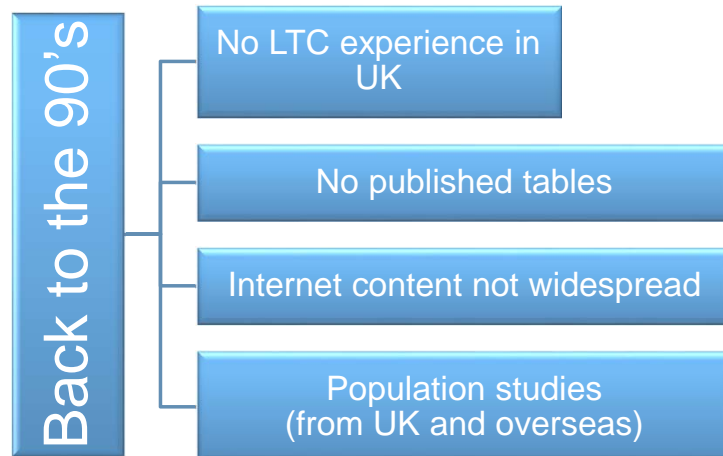


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Pricing in the 90s



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Population Data for Incidence Rates

- Finding relevant incidence rates
 - Prevalence rates more common
 - Self-reporting
 - Older age data
- ADLs
 - Mapping to population data
- Cognitive impairment
 - Data specific to insured definition
- Overseas data – less relevant to UK

OPCS
Prevalence
of Disability
among
Adults 1985



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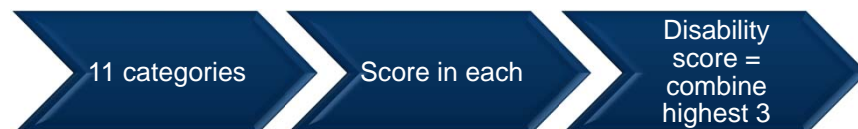
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OPCS Disability Scores

Categories
Locomotion
Reaching/Stretching
Dexterity
Personal care
Continence
Seeing
Hearing
Communication
Behaviour
Intellectual functioning
Consciousness

OPCS
Prevalence
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among
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Deriving Incidence Rates from Prevalence

Population known

No of disabled lives known (prevalence)

Derive - no of healthy lives

Derive – mortality rate for disabled lives

Derive – incidence rates

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Deriving Incidence Rates from Prevalence

Population known

No of disabled lives known (prevalence)

Derive - no of healthy lives

Derive – mortality rate for disabled lives
assuming mortality of healthy lives

Derive – incidence rates

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Incidence Issues

Socio economic mix of insured lives

Ratio of lives in LTC vs total insured lives

Determination of healthy lives mortality



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Incidence

Socio-Economic Bias

- Typical customer = higher socio-economic class
 - Financially aware
 - Can afford LTC
- Indirect anti-selection
 - Delay purchase as long as possible
 - Eg memory or personal care problems
 - Admit themselves sooner
- Early underwriting weak

**Unexpected
early claims**



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Terminations (*Disabled mortality*)

- Mortality of disabled lives in population vs. LTC terminations
 - Originally assumed type of disability biggest factor, not social class
 - Higher class can afford better care homes
 - Higher longevity
 - People improved with regular medication and care
 - Dementia patients lived longer than we thought

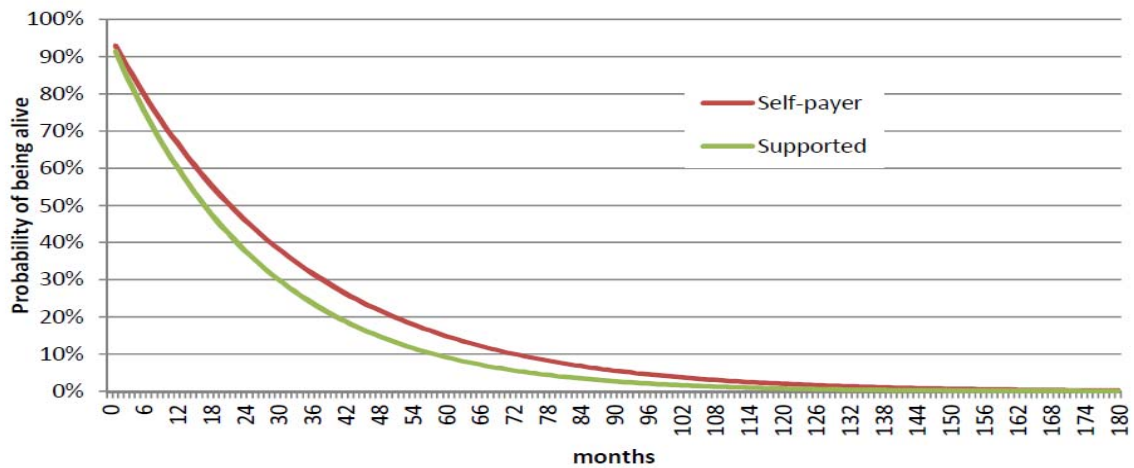


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Life Expectancy of Care Home Residents



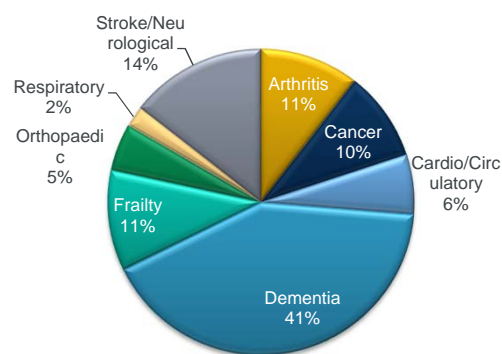
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Source : Forder, J and Fernandez, J-L (2011) *Length of stay in care homes*, Report commissioned by Bupa Care Services, PSSRU Discussion Paper 2769, Canterbury: PSSRU

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Termination Issues

- Assumed some would recover
 - But mostly they didn't
- Didn't allow for improvements in disabled lives mortality



Source : Gen Re data



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Active Life Mortality

- Important where there is reserve build up
 - Level premiums
 - Single premium
- Mortality improvements
 - Higher social class = better improvements
- LTC mortality improvements even greater
 - Continual pool of “Select”ish lives
 - More lives left to claim = more incidences

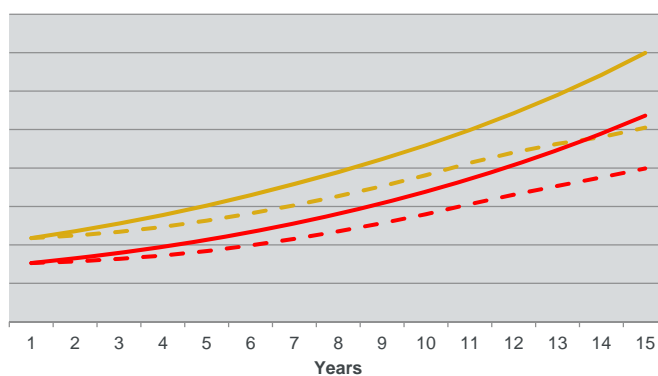


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Effect of LTC on healthy mortality Age 65, Commencement 1995



Average 2.2% p.a

Average 1.6% p.a

Healthy life improvements:
+50% males
+100% female

— Males qx all lives - - Males qx healthy lives
— Females qx all lives - - Females qx healthy lives



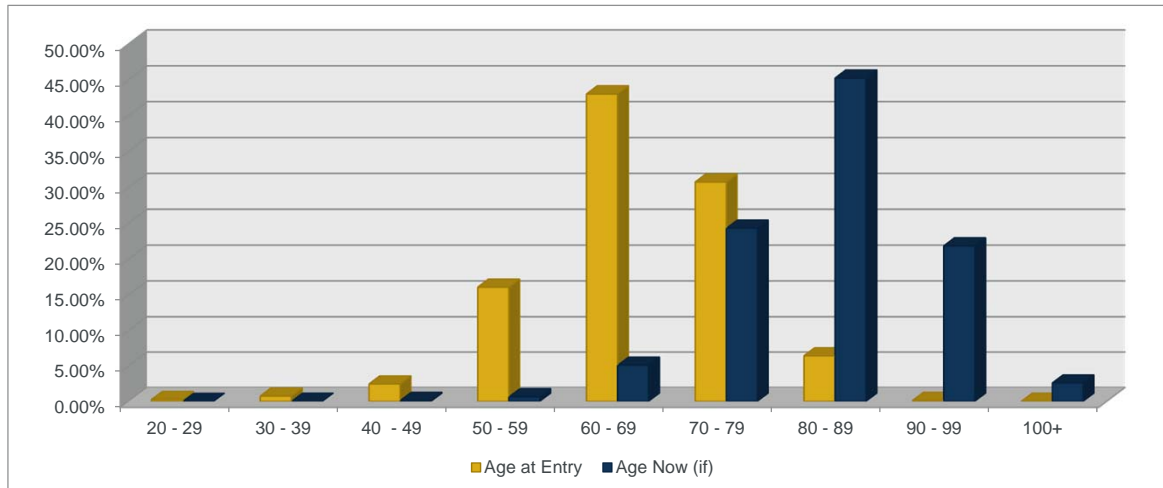
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Pricing – A General Issue

Experience monitoring takes years



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Source : Gen Re data

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Reviewability

- Sounds like a good idea
- Practicalities
 - Expectations at outset
 - Older people
 - Did they understand
 - Are they capable of making a decision?
 - Affordability
 - Big reviews may result in anti-selective lapses
 - Will brokers ever sell LTC again?

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The Reality of Reviews

Our care plan nightmare
By JEFF PRESTRIDGE FOR THE MAIL ON SUNDAY
UPDATED: 05:00, 30 October 2005

Share

A DREADFUL shock is looming for thousands of elderly customers who bought insurance from Axa Sun Life to guard against the costs of long-term care. The giant insurer is writing to 11,500 clients with care plans offering them a grim choice.

Have your benefits slashed or pay a dramatic rise in premiums. The average rise is 60%, says Axa, and the trigger for either option will be the policies' annual anniversary.

Some customers, most of whom are retired and living on fixed incomes, are being asked to double their payments. Axa blames higher-than-expected claims and the longer lifespan of customers.

The theory behind the insurance was simple - policyholders paid a one-off fee or a fixed monthly premium for a promise that the insurer would meet future care costs, including bills for nursing homes and specialist care in the home, up to a monthly limit.


Axa has already reviewed 3,000 policies and says that more than half of customers have chosen to reduce their benefits rather than pay extra.

Those who are paying for cover with regular premiums rather than through a lump-sum have simply abandoned their policies, allowing them to lapse.

Benefits slashed

Premiums increase

60% average rise



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Underwriting

Life Assurance	LTC
<ul style="list-style-type: none"> • Medical History • Smoking, avocation, occupation etc • GPR, paramed, MER etc 	<ul style="list-style-type: none"> • Medical history • Cognitive ability • Functional ability • Course of decline as well as severity • GP may not know current state • Multiple conditions



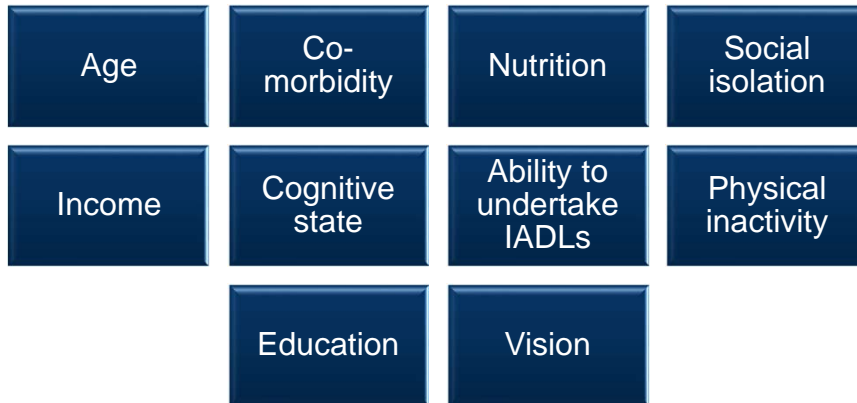
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Underwriting - Frailty

Risk Factors



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Underwriting Issues in the 90's

- Naivety
 - Life underwriting with a few tweaks
- Inadequate tests for cognitive ability
- Additional loadings insufficient
 - Co-morbidity
 - Effects of ageing
- “Good for their age”



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Claims Management Issues

- Claims assessors often open and helpful
 - Policyholders elderly / vulnerable
 - Empathy
- Lack of objective criteria for testing ADL ability
- Lack of suitable tests for cognitive impairment
- Policy exclusions hard to apply

**Claims >
Pricing**



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Learning from the Past

Pricing

Use insured experience
Be realistic about improvements and potential for recovery

Underwriting

Tailored to LTC triggers

Claims

Philosophy tied to what was priced for



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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