Article from:

Health Watch

May 2009 – No. 61

Navigating New Horizons…

Dawn E. Helwig, FSA, MAAA

by Mary van der Heijde

Long-term care (LTC) insurance was a relatively new and little understood subset of the health care market when Dawn Helwig first began working on it in 1986. Since then she has been involved in virtually every aspect of LTC product development and analysis, a witness to the segment's growth and an active participant in its development.

Dawn Helwig, FSA, MAAA, is a principal and consulting actuary for Milliman in Chicago, Ill. She can be reached at dawn.helwig@milliman.com.

"Everything about LTC has changed in the past 23 years," she says. "From the benefits structure to the underlying pricing assumptions to the underwriting and claims methods." Just about every corner of the business has incorporated major innovations and made substantial changes to stay relevant in the face of new data, advances in health care and changing demographics.

And Helwig has changed too, becoming, in her own words, "a huge proponent of LTC." The experience and knowledge she has gained over the years have instilled in her a strong belief that both individuals and governments need to anticipate and fund adequately their LTC needs.

Early Choices

Helwig's path to LTC actuarial work was relatively straightforward, if not exactly planned. She admits she was "one of those people who didn't know what an actuary was," when she was about to graduate from college with a double major in English and math.

"I had no real plan about what to do," she says. "Initially I thought I might go on to get a master's in English and teach." An employment ad in her college newspaper changed everything. Combined Insurance was looking for math students to work part-time in their actuarial department. The company hired Helwig, then offered her a full-time position doing health product pricing and analysis upon graduation. Still unsure of her future, she took the job as a temporary measure and found, to her own surprise, that she enjoyed the work.

"At first I thought I'd work at Combined a few years and then go back to get that English master's," she says. "But somehow—nearly 33 years later—here I am, now at Milliman, but still doing this work and still excited about it."

She may not have become a teacher, but Helwig says she particularly enjoys the educational aspect of her job.

"LTC has been a new product line for many of the companies I've worked with. Just teaching them about the industry and its products—how it's changed over the years, helping them prepare for where it maybe be going in the future based on current trends—all of that has been very satisfying to me."

Changes Over the Years

LTC was just beginning to take off as a product line when Helwig left Combined and arrived at Milliman, Inc., in 1986. Demographic trends were projecting an aging of the population over time, suggesting a potential growth market for LTC.

"There were a few companies that had been selling LTC insurance," she says, "but a lot more that were just jumping into it."

Pricing was aggressive, as new entrants competed with both each other and the more established companies for market share. But even companies that had been in the business for a few years had few claimants yet and little idea what the LTC claims experience might be like in the future. The historical data necessary to establish appropriate pricing or adequate reserves was scarce to nonexistent, and mistakes were made.

Time and experience have eased some of those initial problems, Helwig points out, and the environment for LTC has changed dramatically for the better during the current decade.

"We've started to get a good number of incurred claims over the past 10 years and built up a lot more experience on the product. We have a much better feel now for what the slope of the claim cost should look like."

One example of an early misstep involved the original lapse rate assumptions for LTC, which turned out to be much too high. Voluntary lapse rates, in particular, were set far higher in the '80s—around seven or eight percent—than subsequent experience indicated they should be. Today, based on historical data accrued so far, they hover at between one and two percent, and could go even lower.

Two other areas that have changed radically since the '80s involve how products are structured and benefits paid out.

"When I started working on LTC, most of the products were nursing-home-only, with perhaps a few stand-alone home health care products available." Today, she notes, almost all LTC sales involve "comprehensive products"—policies that combine nursing home benefits with home health care, assisted living and other benefits.

A dramatic change that occurred early on involved the level and cause of disability triggering a payout. Originally, benefits were paid only when an insured required LTC in response to a debilitating accident, or to a medical emergency such as a stroke, and the care was deemed "medically necessary." But new requirements for payment were established mandating payment for any cognitive impairment or for any condition that limited an insured's ability to perform the activities of daily living.

At about the same time, it became apparent that the industry had some underwriting problems that had to be addressed. "Many of the policies issued back in the '80s and '90s were fairly loosely underwritten," Helwig remembers. "There were no cognitive tests generally available, or none that the industry as a whole could agree upon. Yet many of the early claims on the policies of that time were increasingly cognitive in nature." This developed into a major issue and had a substantial impact on how LTC companies performed underwriting.

Some of those changes were the result of work done by Helwig herself on one of her very first assignments for Milliman. She was asked to take a close look at those companies that had always insisted upon good, tight LTC underwriting standards, track their results against companies that had a reputation for loose underwriting, then report on any experiential differences.

"The difference in loss ratios for the two groups was huge," she says. "So we really started getting the message out that the underwriting for these LTC policies was extremely important and needed to be tightened up significantly."

LTC Challenges Today

Many of the LTC challenges of today are still a result of early missteps. Blocks of LTC business still in effect at some companies were originally priced back in the '70s, '80s and even the '90s. Some of those books are in trouble today due to the poor underwriting and overly optimistic lapse assumptions of an earlier time. Others have been revamped and brought back to health. Helwig has spent much of her time at Milliman helping companies recover from earlier mistakes.

"Working with those companies to make sure they have taken the right rate increases and are using the right lapse assumptions going forward has been a major challenge during this decade," Helwig says. "But it's been an interesting one to address, and very satisfying when the final result is a good one."

Another major LTC issue still being worked out today—similar to the underwriting issue of the past—has to do with claims management. According to Helwig, companies today are beginning to understand how important it is to strengthen their claims management procedures. They are no longer agreeing automatically with a claim simply because a doctor recommends LTC. They are, instead, examining those claims more closely on their own to ensure they are in agreement with the diagnosis and the plan of care.

But many of the ongoing issues are still based on insufficient data due to LTC's relative youth in relation to the product's long tail.

"We still don't know everything there is to know about what the tail of the LTC morbidity curve is going to look like," Helwig says. "When we look

CONTINUED ON **PAGE 16**

Many of the LTC challenges of today are still a result of early missteps.

at the companies that were in this business early, in the 1970s and 1980s, we see that most of their claimants are now in their 80s. We're still waiting to see what things will look like when there are a substantial number of claimants or policyholders in their late 90s. That's a real concern."

Another concern is the voluntary lapse rate, which continues to drop. "How far can it fall?" Helwig asks. "There are companies today with a projected lapse rate under one percent. How close will they get to 0 before it stops falling?"

With all of the recent emphasis on providing health benefits for children or for adults who have lost jobs or otherwise cannot afford coverage, LTC is likely to take a back seat when it comes to government funding.

Mortality, too, is an important rate about which little is known or documented. It is a given that mortality rates will be higher for claimants because, as a population, they are elderly and/or impaired. But no one has done a mortality table for either active or impaired LTC policyholders—certainly not one that is generally accepted by the LTC industry.

"We also don't know," Helwig says, "what new cures, drugs or other advances in health care would do to LTC costs—driving them either up or down."

A new drug arresting or even reversing the effects of Alzheimer's—one of the most significant causes of claims—could cut up to 20 percent out of the cost of LTC across the board, she says. On the other hand, obesity and related morbidity trends could cause LTC claims to increase in both number and cost. "What will happen if we have a group of aging, obese policyholders with diabetes and everything that comes with that?"

A more immediate and pressing concern for Helwig is political in nature: With all of the recent emphasis on providing health benefits for children or for adults who have lost jobs or otherwise cannot afford coverage, LTC is likely to take a back seat when it comes to government funding.

"LTC is already grossly underfunded in the United States," she says. "We are not putting aside the kind of dollars that we will need to fund the future LTC needs of the country."

"State Medicaid programs have been going bankrupt, or states have been having trouble funding them. Ultimately, the dollars just aren't going to be there through Medicaid, which is on a pay-as-you-go basis. As a result, the quality of care provided through Medicaid is generally inferior to what a person can get with private pay. I've seen the projections of what tax rates would have to increase to in order to fund Medicaid LTC 20 years down the road, assuming we're still on a pay-as-you-go basis. And those rates are just astronomical. They are not the kinds of tax increases people will be willing to pay."

It all comes back, Helwig says, to personal responsibility.

"If consumers want to ensure they will have good choices and good dollars for funding their future LTC expenses, they are probably going to have to take care of that for themselves."

The biggest challenge of all may be raising that awareness of the need for more LTC coverage among the public, convincing people of the wisdom of purchasing a policy years before they will need the benefits. "LTC is in the place life insurance was in 100 years ago," Helwig says, "when people were reluctant to buy a policy because they didn't want to think about dying."

No one wants to think about the time when they may not be able to take care of themselves or have to go into a nursing home. "But the product has changed so much over the past few decades," she says. "It pays now for care in the home, which is where most people want to be, and for assisted living facilities, which are generally far better than most nursing homes. There are simply much more comprehensive policies available, designed to meet the full LTC needs a person might have. We need to get that message out."

Gratifying Work

Despite all of the challenges and pressing issues facing LTC, Helwig says she finds the work even more exciting and enjoyable today than she did when she first started.

"Those of us who specialize in this kind of insurance call ourselves 'LTC Geeks,'" she says, laughing.

"We're a small, tightly knit group of professionals, and when we get together at conferences and meetings you see the same people time and again for years. The people who get involved with this sector tend to stay with it, because we believe in it, and feel as though we're making a difference in people's lives.

"It's gratifying when you hear all of the testimonials from people who have been recipients of LTC benefits. Even though they don't touch on me personally, I find them personally satisfying because I feel like I've played a part in making that happen." ■