



Article from

**Long-Term Care News**

December 2015

Issue 40

# LTC Combo Products: The challenges ahead

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Undisputably, long-term care (LTC) insurance is a valuable product to consumers. People are living longer and often need coverage to fund their care needs and age with dignity. From the policy holders' standpoint, LTC can also be an expensive option because it could require premium payments for decades before collecting any claim benefits. And having already invested so heavily into the policy, people often feel a sense of entitlement and expect a guaranteed payback at some point in time.

Today, however, most adults do not have any LTC insurance coverage. Thus, the LTC market provides real opportunity for companies looking to grow their premiums in the senior health insurance space. However, the challenges facing insurers trying to sustain profitable standalone LTC products have been well documented: mispricing due to erroneous assumption of lapse and morbidity rates, rising health care costs, and persistently low interest rates to name a few. As seen with earlier generations of LTC, the claim service delivery methods will continue to evolve and change. Insurers need to be able to predict what care services will need to be provided, and price for them today. To solve the uncertainties of traditional LTC insurance, life insurance products that offer LTC protection may be the natural transition.

## CAN COMBO PRODUCTS BE THE ANSWER FOR BOTH THE CONSUMERS AND INSURERS?

From the optics of the value for their long tail premiums, combination ("combo") products look and feel right. From consumers' standpoint, combo products successfully mimic their changing life scenarios. The life coverage during the working years provides insurance for income replacement in the event of an unexpected death while the LTC rider covers care assistance in the event of loss of independence while aging. Consumers are guaranteed to get value out of their products thus eliminating the entitlement aspect of the traditional stand-alone LTC.

However, these combo products do not come without challenges. By nature, there are significant differences in life and LTC insurance that create challenges in managing combo products from both an actuarial and administrative perspective:

- Current and guarantee rates versus rate increases

- Mortality and morbidity charges
- One time versus ongoing claims
- Beneficiaries versus Claimants
- Cash Values

Let's examine some of the challenges of combo products in more detail.

### Challenge 1: What is the core product?

Oftentimes, it is not completely clear what the core product within a combo policy is. As a result, how regulators and the market treat such products needs to be further defined. To date, combo products lean toward the core product being more of a life insurance policy. Current combo products have cash values, net amount of risk calculations and other life insurance characteristics and tax rules. Life insurance operates using current and guaranteed mortality/insurance rates. That is not an LTC concept which follows the "rate increase" method based on class and issue state of the policy. Will they now be looked at from a guaranteed and current view rather than rate increase filings? This is not that easy to do as we are still learning about the real costs of LTC. Ultimately some hybrid approach will need to emerge and develop.

### Challenge 2: Mortality/Morbidity.

Due to the uncertainty of what the core product is, there are challenges around how mortality and morbidity charges should be handled. One option is to charge mortality rates and a cost for a rider. Another option would be to use a blended rate. Assumptions would need to be set to get to an adequate blended rate. Pricing can get quite complicated.

Underwriting combo products also presents a challenge because life and LTC underwriting have competing aspects. Assumptions and criteria will need to be set to determine which factors are most critical to balance these competing underwriting requirements. If rated, is it for both charges or can it be rated for only one category?

Also, insurers will need to determine how waiver of premium will apply—what triggers each coverage going on and off waiver of premium.

### Challenge 3: Administration of Combo Products

Combo products need to be able to support both indemnity and reimbursement claim payouts. This is a problem for many insurance companies because they do not have a system to administer two product lines together. In today's world, an insurer that writes both life and LTC coverages likely administer them

on two separate systems, not being able to comingle the administrative base plans and riders onto one system.

There are some life and annuity products in the market that are considered “combo” products with an LTC rider, but really operate more as “Accelerated Benefit” products. Based on certain triggers and a physician’s assessment or statement, a lump sum payment is made. In most cases, this is being handled administratively via manual workarounds.

#### Challenge 4: Claim Administration

Because this is a combo product, there are two different types of claims, both of which can occur. In most combo products there is some type of relationship between the life insurance benefit and the benefit amounts available for LTC. Usually the trigger for an LTC claim impacts the available amount of the life insurance benefit. This relationship is not built into many administration systems or claims paying systems. And again, in order to support a combo product, manual processes and manual calculations become the workarounds. This approach is inefficient and non-scalable and most importantly bears a significant amount of “human error” risk. The industry will need to consider investments in technology to support the next generation of combo products.

Combo products seem to have a place in the market for both consumers and insurers. However, the insurance industry needs to work through the challenges it faces in combining these two distinct products into one policy. This article just scratches the surface of combo product considerations. Investments in actuarial and administrative tools are required to position the insurance industry for a long term success in this product category. The good news is that we are at the forefront to get it done right. ■



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