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Incentivizing Desired Behavior in Long-Term Care Policies

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In a European country, the local government pooled all the fines from speeding motorists and offered it as a prize to the motorist with no speeding violations (usually selected through lottery as there will be many who didn't violate any speeding laws). This innovative way to control speeding led to a large decrease in speeding violations over time in that county by effectively changing motorist's behavior. The example above shows that incentivizing desired behavior may be more effective in controlling bad behavior than just punishing bad behavior.

The Auto Insurance companies have used this approach in setting premiums for some time. Auto insurance companies have been offering discounts for things like not having traffic violations and for being accident free for the last few years. More recently they are encouraging desired behavior from people by offering accident forgiveness programs. Ideas like the "Snapshot®" discount and the "vanishing deductible" initiative are some of the other ways auto insurance companies tried to encourage insured's desired driving habits.

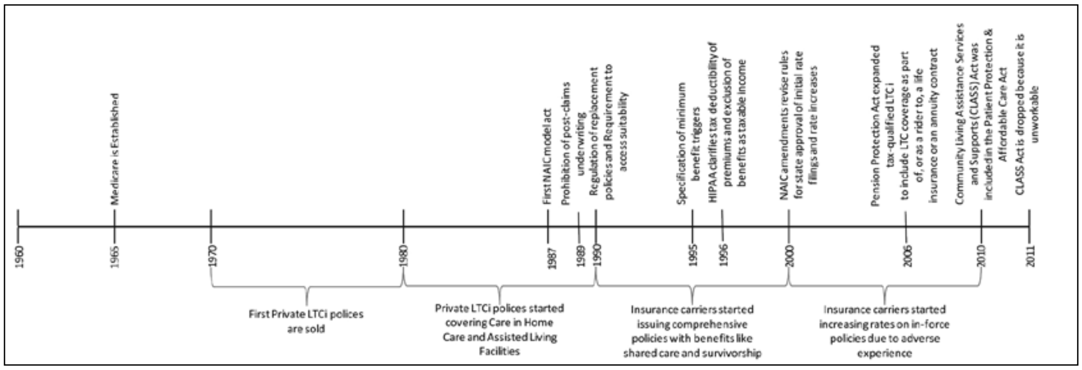
Long-term care (LTC) insurance covers services in a facility or in one's home for insured that cannot perform routine activities of daily living (ADL) such as bathing, dressing, toileting, maintaining continence, transferring and eating. The main focus of this product had been to make the coverage more marketable and to educate the public about the need for this insurance. Because of this, there hasn't been a lot of focus on changing the product design such that it offers incentives for desired insured behavior. By incentivizing insured for desired behavior, LTC insurers may be able to better align the interests of both insured and that of the insurance companies thereby carefully pricing and reducing some of the risks in the product. Table 1 compares insured behavioral incentives between LTC insurance, health insurance and auto insurance. All three insurance coverage in Table 1 have some degree to which the insured shares in the cost of the benefit plan. Medical plans usually control utilization, costs and risk to the insurers by using wellness discounts, deductibles, co-pays and co-insurance. Most LTC plans have elimination periods (which are similar to a deductible), but don't have wellness discounts, co-pays and co-insurance.

Usually there is a perception that the level of control that the insured has with auto insurance and many major medical claims, may not be the same with an LTC claim. While this may be true for some cognitive claims there are significant amount of LTC claims, where insured have some level of control if not the same level as with auto and many major medical claims.

Table 1

Behavioral Incentives	Long Term Care Insurance	Health Insurance	Auto Insurance
Incentives to prevent early claims due to Anti-Selection	×	×	✓
Incentives to Use Preferred Providers	×	✓	✓
Incentives to Stay Healthy or for Good Behavior	×	✓	✓
Co-Insurance on Benefits	×	✓	×
Negotiated Rates with providers	×	✓	✓

Figure 1



LONG-TERM CARE INSURANCE PRODUCT

The first LTC policies ever issued covered care in a nursing home only after staying in a hospital as per Medicare requirements. As the product matured and awareness of the product grew, LTC insurance policies started to cover care in the insured's home or in an assisted living facility (ALF). The product in its current form offers multiple options for how long the services are covered and how long an insured needs to wait in order to receive the services. Other benefits such as return of premium and non-forfeiture benefit are added to the policies to make this product more appealing to insureds that had concerns about not utilizing the benefits before they lapsed or died. Figure 1 shows the evolution of private LTC insurance.

The main driving point behind the changes to the LTC insurance product design over time is to make the product more marketable by giving the insured "more bang for their buck." These changes may have added more risk to the product and created opportunity for irrational utilization of benefits. However, one of the things that was overlooked while making the product more marketable is reducing the risk in the product by incentivizing desired behavior of the insured, which might have improved the claims experience of some of the insurers. By incentivizing desired insured behavior, the LTC insurance carriers can mitigate the inherent risks in the product. The following LTC insurance product design changes may help insurers in incentivizing the desired behavior of insured thereby reducing the risk and improving affordability of the product.

USING CO-INSURANCE TO INCENTIVIZE DESIRED INSURED BEHAVIOR

Most LTC plans currently don't have co-insurance. However, this feature could be added to the LTC policies as a way to incentivize desired behavior. Co-insurance feature can be designed such that the LTC coverage not only help insured in their time of need but also mitigate some of the risks in private LTC insurance. The redesigned benefit may reduce the anti-selection risk in LTC insurance policies thereby reducing the chance for adverse claims experience.

For example, current LTC insurance product design could be modified so that there is a co-insurance on benefits and this should depend on how long an insured is inforce without claiming. The benefit can start off with co-insurance for insured that go on claim prior to being in-force for at least five years. After the policy stays inforce for five years, there would be no co-insurance on benefits for an additional three months on claim for each additional year inforce. For example if an insured went on claim for the first time after nine years inforce then there would be no co-insurance on benefits for the first year the policy is on claim. If the insured recovers after three months on claim then the co-insurance waiver benefit for remaining nine months would accumulate for additional three months on claim for each additional year inforce. The increasing benefit ensures that there won't be an increase in incidence once the waiting period is over. The above mentioned co-insurance design can reduce the anti-selection in an LTC insurance product by incentivizing the insured not to claim in the first few years in-force.

In addition to the above, the co-insurance design could be coupled with the care coordination benefit, which provides payments for the services of a professional care coordinator. The care coordinator assesses the insured's condition and the support available from family members, formulates a plan of care and then assists in the implementation of that plan. If the claimant recovers before the expected time of recovery in the plan of care and stays

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inforce without claiming for an additional year then the waived co-insurance benefit can be restored to the level it was before the insured went on claim. By giving an incentive to the claimant to recover quickly, this change in benefit design can reduce the chance that the insured is staying on claim longer than what was expected in the plan of care thereby reducing the severity of the claims.

CHANGING PRODUCT DESIGN TO MAKE BENEFIT INFLATION AN INCENTIVE

The benefit inflation option in LTC policies allows insured to keep up with inflation in services provided overtime. At present the option automatically inflates the benefits every year regardless of whether they are on claim or whether their health status deteriorated. The automatic inflation of benefits every year could incentivize the insured to stay on claim longer because the insured could avoid paying premiums if they have waiver of premium benefit and may have accumulated enough benefits to stay on claim longer than if the insured haven't accepted the inflation benefit option.

This benefit inflation option could be designed such that it properly aligns the incentives of both insured and insurers. For example, the benefit design could be modified such that the inflation of benefits should occur automatically every three years instead of every year and the inflation should occur only if the insured had stayed claim free in the last three years and the benefits should not inflate while the insured is on claim. This inflation benefit should only apply if the insured is less than 65 years old. After the insured age is 65, the inflation option should work with the wellness discount mentioned below. The inflation option should only be offered to insured that stayed healthy as evidenced from the latest physical examination from their doctors. This incentivizes the insured by increasing their benefits for remaining claim free. This change in benefit inflation option may reduce the incidence of claims by incentivizing them to claim later and to maintain a healthy life style.

WELLNESS DISCOUNTS INSTEAD OF PREFERRED DISCOUNT FOR LIFE AT POLICY ISSUE

Some of the LTC insurance policies currently marketed offer discounts for insured with preferred health. The preferred discount reduces the premium for the life of the policy but the preferred underwriting used for the discount will wear off within a few years after issue. With the current preferred discount there is no incentive in the policy for the insured to maintain his or her preferred health status over time after the policy is issued.

The interests of both insurers and insured may be better aligned by having wellness discounts instead of preferred discounts for life. For example, this could be achieved by having the insured prove their desired health every two years to continue getting this discount. In order to reduce the costs associated with underwriting the policy every two

years, the insured could use the most recent physical examination from their doctor to prove that they have maintained a healthy lifestyle. Using this information the insurer can determine whether the insured is eligible for wellness discount or not. The maintenance cost associated with getting the medical information of every insured every two years may limit the amount of wellness discount offered to insureds. However, with improvements in technology, the cost associated with getting medical information may decrease significantly resulting in a wellness discount that is very close to if not exactly equal to the preferred discount currently offered to insured. The wellness discount can also be used with the care coordination benefit mentioned above to reduce the risk of claimants staying on claim longer than expected. If the claimant recovers before the expected time of recovery in the plan of care specified by the care coordinator, the insured can continue to get the wellness discount as before he or she went on claim.

A wellness discount can help change insured behavior by encouraging insureds to maintain a healthy lifestyle throughout the time the policy is inforce rather than just at the time of policy issue. It may also entice the insured on claim to recover more quickly than expected by allowing the insured to get the discount if he or she recovers quickly.

USING PREFERRED PROVIDER NETWORKS TO REDUCE COSTS

There is currently a big difference between current LTC and medical plans in the degree to which the provider of care shares the cost of the benefit plan. Almost all medical plans use some kind of preferred provider network to reduce costs. There is no LTC plan that has such a provision built into it. Since there is no preferred provider network for LTC services, there is big difference between the quality and cost of LTC services in these service providers and this could create some inefficiency in the system. A preferred provider network that is similar to the one in most medical plans may be used by LTC insurance providers to reduce cost of claims. Insurers may use the network to better assess the conditions of claimants and better control the costs associated with those claims. This may also help insurers to set some uniform standards for providers thereby increasing efficiency and reducing the cost of LTC services. The network can also help insureds with questions about coverage and what kind of care is best suited for their situations, which can reduce the complexity of the product. The network can also help direct insured to the facility that is right for them by giving details to them about those facilities. This may incentivize providers to provide quality services at a reasonable price, in other words the preferred provider network may make the providers of care more efficient.

CONCLUSION

For a long time the primary focus of private LTC insurance companies has been to educate the public about the need for private LTC insurance and to make the product more acceptable to a wider population. To this end there have been numerous changes to the product design to make this product more acceptable to general population. However, one of the things that may have been overlooked in those product design changes is the need for alignment of insured and insurance company's interests, which is to make coverage more affordable and to reduce adverse selection. Incentivizing desired behavior from insureds can not only make LTC insurance policies less expensive but also help insureds make better health choices, which can help them stay healthy for a longer time. These incentives may also reduce some of the inherent risks in a LTC policy and may help in increasing the sales of private LTC insurance. ■