SOCIETY OF ACTUARIES

Article from:

Long-Term Care News

December 2014 – Issue 37

Short-Term Care as an Alternative to Long-Term Care

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As insurance carriers and agents continue to explore the supplemental health product market, many have started to notice the potential that lies within short-term care insurance. It is a product that can help insureds finance the costs associated with certain short-term disabilities at a much lower annual premium than what traditional long-term care would cost them. And as the baby boomers continue to age and experience these types of disabilities, we expect to see increases in consumer demand. This article provides an overview of the short-term care market as it stands today and contrasts the product to traditional long-term care insurance plans.

Short-term care insurance is similar to long-term care insurance in that it helps cover the costs associated with confinement in a nursing home or an assisted living facility, and typically offers the option to include coverage for the costs of receiving home health care services. The policies are typically structured to pay daily benefit amounts directly to the insured once a covered event has occurred. The benefit triggers are also similar to those included in long-term care policies. The insured must have a medical professional certify that they need assistance with two of six activities of daily living (dressing, bathing, eating, toileting, transferring, and continence). However, with a short-term care policy, the disability does not need to be expected to last more than 90 days. Since the products include similar benefit triggers, some companies have found that it is possible to leverage the same people and processes that are used in the claim adjudication process to support both product lines.

As indicated by their names, the primary difference between short-term care insurance and long-term care insurance is the maximum length of time that the product will provide benefits. Long-term care policies available today will commonly offer protection for 10 years or longer, whereas short-term care policies can only offer coverage for a maximum of 360 days. This limited benefit period is the primary factor that subjects short-term care insurance to supplemental health plan rules as opposed to the more onerous long-term care insurance rules and regulations.

Because of the shorter benefit period, another key difference between short-term care and long-term care insurance is that short-term care can be offered on a simplified issue basis. Applicants can qualify for coverage by answering a set of health history questions and granting permission to the insurer to review their prescription drug usage history. In addition to these two basic risk selection tools, some carriers also perform a phone interview to verify the applicant's written answers. This more relaxed underwriting approach is appropriate due to the limited risk that the insurers are taking on with each issued policy and the smaller premium payment that is required from the insured. Unlike traditional long-term care insurance plans, the annual premiums are not large enough to support full medical underwriting expenses such as blood tests, the requisition of Attending Physician Statements and cognitive ability tests.

Today most short-term care plans offer a combination of benefit and elimination periods. The most common combination of benefit periods includes 90-day, 180/200-day and 360-day options. Consistent with the short-term coverage needs that the product is designed to cover, the elimination periods that are typically offered with these products are much shorter than on traditional long-term care plans, with 0-day and 20-day options being the most common. The following tables show the distribution of participating short-term care carriers that offer each option.

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Benefit Period	% of Carriers
30 Day	8.3%
60 Day	8.3%
90 Day	50.0%
150-200 Day	83.3%
210-270 Day	33.3%
360 Day	91.7%

Elimination Periods	% of Carriers
0 Day	66.7%
15 Day	16.7%
20 Day	75.0%
30 Day	33.3%
60 Day	8.3%
90 Day	8.3%
100 Day	8.3%

One area where short-term care and long-term care plans have similarities is in the level of innovation that is occurring within the products being offered. Just as carriers are coming up with new ways to differentiate their long-term care plans, short-term care carriers are also looking for ways to differentiate their products. Some carriers have considered the addition of product features such as "Pool of Dollar" concepts, more liberal benefit increase options and the use of alternative care plans.

As shown above, there are many differences between short-term care insurance and long-term care insurance. Short-term care insurance is designed to provide protection against the risk of a temporary debilitating medical condition at a lower premium rate than traditional long-term care insurance. Because of the limited risk exposure, the underwriting process can be streamlined to make efficient risk selection decisions. And as the target market continues to grow, it seems reasonable to expect that this will be a growing product line for many carriers. ■