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Strategies To Manage A Closed Block Of Long-Term Care Business

By Ginger Darrough

Is it difficult to manage a closed block of long-term care (LTC) policies? Absolutely. Is it impossible? Definitely not. Many companies in the industry have a closed block of LTC policies. In my experience, there are many opportunities available to manage the performance of the block. The most common approach for managing the performance has been to implement rate increases, and this will likely continue to be a valuable proposition. However, those managing aging blocks will need to be aware that a common consequence of rate increases is adverse claim experience. Another option to consider is to focus on the enhancement of claims practices. Additionally, some companies are beginning to explore ways to improve the likelihood of policyholders remaining independent and thriving at home.

RATE INCREASE STRATEGIES

Companies have been filing for rate increases in the LTC industry for years, and the trend appears to be continuing. As a result of lower than anticipated lapse rates, the changing landscape in care settings (e.g., increased use of assisted living facilities), and an incredibly challenging interest rate environment, most companies are experiencing less than optimal block performance. Rate increase approvals continue to be a challenge, but there are some options that can be offered to encourage regulators to approve a rate increase. Regulators are concerned about protecting the policyholder—as they should be—which requires a delicate balance between being

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concerned about company solvency and about the impact a rate increase may have on the policyholder. Rate increases can at times be difficult for them to accept.

To ease regulators' concerns, some companies have offered non-forfeiture options to policyholders who did not buy into this option at issue. Non-forfeiture option selection is often assumed to create anti-selection. However, if it increases the percentage of a rate increase that a state is willing to approve, it could be beneficial in the short term and in the long term. In the short term, companies may be able to reduce active life reserves held for policies electing a non-forfeiture option. In the long term, companies will experience additional premium for the remaining premium paying policies on the block offset by anti-selection. Companies need to find the acceptable rate increase percentage for the non-forfeiture option to create economic value.

Shock lapses and anti-selection have been known to exist and are planned for when assessing the economic value of a rate increase. But what is the economic value if a company experiences higher than normal incidence rates for a period of time after mailing rate increase notices? A recent internal study has shown that the age of the policyholder and the rate increase percentage can have an impact on the incidence rate of claims. Rate increases implemented on policyholders who are younger and would not qualify for a claim would not react the same way as policyholders who are older and might already qualify for a claim but have not filed (perhaps the policyholder was receiving informal caregiving from a family member). The rate increase notice can trigger those policyholders who qualify to file their claim. Does the rate increase percentage make a difference? Yes it does. Just as a rate increase of 40 percent will have a higher shock lapse rate than a 5 percent rate increase, claim incidence rates increase with the percentage of the rate increase.

Another option companies can pursue to encourage regulatory approval of rate increases is the option of benefit downgrades. Some companies offer benefit downgrades that fit within the originally filed rates, giving the policyholder options at the time of rate increase notices. Others have started exploring different downgrade opportunities that require additional filings with the state but more attractive options for the company and the policyholder. For example, maybe the inflation percentage could be reduced from 5 percent to 2 percent or 3 percent. If a policyholder with indemnity benefits has reached a reasonable daily benefit amount already, would there be economic value in preventing it from inflating to an unreasonably high amount? This option does appear to have more favorable results for rate increase approvals than the standard downgrade options that have been offered historically.

CLAIMS PRACTICES

So how can claims practices have an impact on the performance for a closed block LTC company?

Three claims practices that can impact the performance of the block are related to claim eligibility, care management and fraud identification.

Claim eligibility decisions for home health care policies are largely tied to an assessment of the policyholder's need for benefits. Companies utilize networks of clinicians to perform these assessments and rely upon the assessment with accompanying documents for making a benefit decision. Should the assessment step be conducted by a clinical nurse, utilization review nurse, or a social worker? Companies have utilized a variety of these options, but which are most accurate? Early results from an ongoing internal study have indicated that eligibility decisions vary by the individual giving the assessment. More research is necessary, but finding the right skill set for doing eligibility assessments can have a material impact on the claim decision and the performance of the block.

Care management is an area that has potential to impact the performance of the block through the use of hands-on intervention. Some companies have explored the potential to return policyholders to independence but have stopped short of playing an intricate role in the personalized care of the policyholder. Historically, hospitals found it easier and safer to discharge a patient into a nursing home, but is it the best plan of care for a policyholder who wants to return home and remain independent? Maybe not. Hospitals are starting to discharge more patients to a home setting. More time and effort may be involved in sending a discharged patient to a home care setting, but if the LTC carrier can participate with the care setting environment and the rehabilitation programs necessary to the policyholder, the policyholder and the company could find benefits.

Fraud identification is an area that is in its infancy with LTC companies but has huge potential. Creating fraud identifiers through the use of historical experience and supplemental data could have a significant impact on the industry. Fraud identifiers and fraud sharing databases are rampant in other lines of business but are scarce in LTC. Supplemental data has huge potential. Prescription drug data could identify policyholders submitting a claim for a common condition that has routine medication management that the policyholder has not properly utilized.

POLICYHOLDER INDEPENDENCE

What more rewarding way can a LTC company manage claim performance than by keeping the policyholder independent? It is a win-win situation. So why doesn't every company do it? There is an upfront cost associated with these programs that requires an investment of resources and time to prove the program is working. It has been proven through many research studies[1] that aging policyholders that have a physically active lifestyle, are social and maintain a good diet will remain independent longer than those who do not maintain a similar lifestyle. So what can an insurance company do to help? Companies are exploring this option now. Some have partnered with external providers and some are trying to tackle the challenge on their own.

A key to success with any program is to connect the policyholder with services that are needed. Research has shown[2] one of the most basic needs in demand as the policyholder ages is transportation. This could be transportation to the doctor, the grocery, the senior community center, etc. How do you connect the policyholder to transportation services in their area? This is a service currently being explored by aging centers and by LTC carriers. If an LTC company can connect the policyholder to needed services, the policyholder may remain independent much longer than if they were left to navigate the environment on their own.

CONCLUSION

There are proven approaches a company can take to manage their closed block of LTC policies in addition to some innovative approaches that are being explored. Companies need to continue to develop creative ways to address the challenges in the industry and ways to make the LTC closed blocks perform to their optimum level. ■

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END NOTES

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Be On the Lookout!

Warren Buffett offered the investment advice, "Be fearful when others are greedy and greedy when others are fearful." Given how fearful many companies are of LTCI right now, is it a good time for astute companies to enter (or reenter) the LTCI market?

The LTC Section Council and ILTCI Conference Association are co-sponsoring a project to analyze the likelihood that current product offerings are more profitable and have more stable premiums than the products of prior generations. The hypothesis is that current product offerings are both more stable and more profitable because their assumptions are now supported by more data, they have higher margins for adverse deviations, and for many assumptions, no longer have very much down-side risk.

To test this hypothesis, six companies that have continuously sold LTC over the last 15 years have provided the researchers with their pricing assumptions at various historical time points. The researchers are using predictive modeling to evaluate the likelihood of rate increases being necessary on products with the new assumptions, and comparing that to what predictive modeling would have said about the likelihood of rate increases in the past.

The results will be published in an SOA research report in the summer of 2015, and will be summarized in the next issue of *Long-Term Care News.*