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You Could be Underinvesting in Your LTC Block: Claims Modernization is the Next "Rate Increase"

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The state of the long-term care insurance industry in 2019, in which double- or triple-digit rate increases and billion-dollar reserve strengthenings has become the norm, presents a massive opportunity for innovative carriers and care providers. Many carriers—and especially those whose LTC blocks are in run out—are not actively investing in the operations of their LTC blocks. Rather than settling for status quo operations and (in many cases) relying on additional premium revenue from policyholders to stave off the next recognition of a loss, LTC carriers should seek to expand their toolkit to combat deteriorating experience.

There is a significant opportunity for carriers to invest in modernizing their LTC claims practices to improve financial outcomes. Modernization seeks to delay claim onset, reduce the unit cost of care and improve the value delivered to policyholders. For an LTC carrier, effective roll out of an LTC claims modernization program can directly impact reserve adequacy and profitability. For care providers taking part in the program, LTC claims modernization can in turn drive volume, increase the daily average revenue received, and provide a more secure source of revenue compared to other private payers.

THE CASE FOR CHANGE

The LTC insurance industry is facing various challenges. Significant recent reserve-strengthening events have plagued many companies facing poor experience and inadequate pricing. In 2018, there were multiple, significant reserve-strengthening events that made large waves in the industry. Partially driving the reserve strengthening is the continued industry challenge to identify and observe morbidity improvement in an insured LTC population and craft reasonable expectations for future morbidity improvement. Further, the impact of Accounting Standards Update 2018-12[1] (long-duration targeted improvements) could result in the loss of carriers' ability to offset older book of business deficiencies with more recent issued policy margins, thereby potentially causing the need for additional strengthening of reserves.

The attempts at solutions to these problems have not adequately addressed carriers' challenges. Primarily, many LTC carriers have focused on filing round-after-round of rate increases to try to return the business to breakeven and/or avoid a reserve strengthening. However, these rate increases may reach a limit with regulators and the insured. Rightly, LTC think tanks have focused on how insurance can address a societal need for LTC through new products, funding approaches and other various means. But such efforts have generally not sought to address carrier solvency for already sold LTC policies, or through innovation/modernization of operations.

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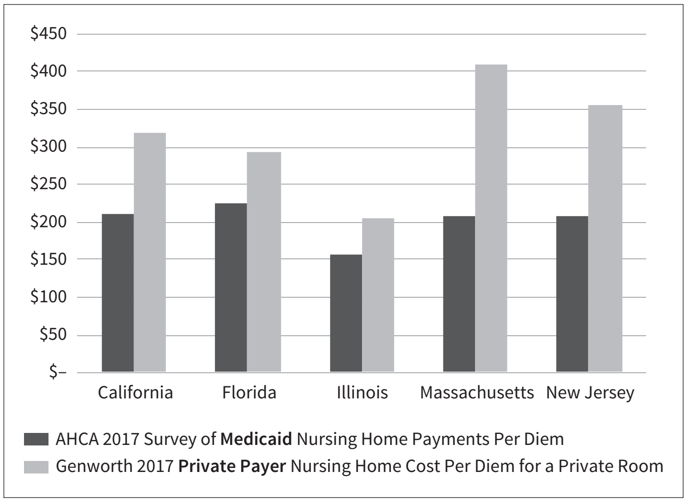
MODERNIZING LTC CLAIMS MANAGEMENT

The first step to modernization is the establishment of a network of nursing home and home care providers for whom the carrier has assessed the quality of care delivery, and with whom the carrier has negotiated discounted reimbursement rates in exchange for a commitment to drive claimants to those providers. Such an arrangement can simultaneously work in the mutual interests of each of the insured (by reducing insured cost and by helping the claimant and family members navigate a difficult life decision), the carrier (by reducing daily amounts paid and increasing policyholder satisfaction) and the provider (by driving volume to the provider at better rates than publicly financed alternatives). Lower Medicaid reimbursement rates relative to private pay rates, coupled with the significant volume of claims paid by Medicaid, creates the provider network opportunity (see Figure 1).

To the extent carriers can increase the volume of their policyholders utilizing an in-network provider (also addressed by modernization), more providers may likely be incentivized to

Figure 1
2017 Nursing Home per Diem Rates by Payer
(Five Largest Medicaid LTC States)



Sources: Hansen Hunter & Company, PC. 2018. A Report on Shortfalls in Medicaid Funding for Nursing Center Care. American Health Care Association. November. *https://www.ahcancal.org/facility_operations/medicaid/Documents/2017%20Shortfall%20Methodology%20Summary.pdf.*; CareScout. June 2017. Genworth 2017 Cost of Care Survey conducted by CareScout. *https://www.genworth.com/dam/Americas/US/PDFs/Consumer/corporate/cost-of-care/179702_2017CofC_Monthly_091317.pdf.*

join a carrier's network. Overall revenue for the provider will likely increase as the mix of payers shifts from Medicaid to LTC carriers and underutilized resources (e.g., beds, nurses) decrease. Investment in care-management approaches are needed to drive volume to in-network providers since in-force contracts do not presently allow carriers to require insureds to utilize specific providers.[2]

A second step to modernization is care management, which should better equip and inform care managers. Carriers can focus on improving the experience of policyholders by connecting each with a dedicated and informed care manager that provides support throughout the entire life cycle of a policy: preclaim, claim review, plan-of-care development and transitioning through the various sites of care.

Care managers should proactively establish a relationship with the insured at the preclaim stage to outline preventive steps that could be used to potentially delay or avoid the onset of claims and to explain the range of benefits, available providers and the care-management process. On an ongoing basis, analysis should be conducted to identify those insureds 1) with conditions or at-risk lifestyle factors that indicate an increased likelihood of a near-term LTC claim and 2) that would be likely to benefit from early intervention to reduce the claim risk. Once a claim is submitted but before a site of care is chosen by the insured, the cause of disability and circumstances of the insured should be assessed to help the insured determine an appropriate site of care from a list of providers, highlighting those that meet the carrier's standards for quality of care and pointing out those providers with whom the carrier has negotiated discounts for its insureds.

Throughout the life of the claim, the close interaction of the care manager and the policyholder can improve outcomes for the carrier and the policyholder. The care manager should help determine the applicable frequency of care, taking action to extend claimant independence by recommending and providing needed services at lower intensity sites of care, collecting feedback on quality of care at preferred providers to manage the network, and providing input on the need of any proposed transition to a more intense site of care. At each point of transition, a short list of credentialed, networked providers and cost scenarios for each should be provided to the insured. Quality, amenities and cost-saving insights on recommended providers are key to driving volume.

STAKEHOLDERS WIN

To reiterate, LTC claims modernization can result in benefits to all key stakeholders: providers, policyholders, carriers and, potentially, even government programs. See Table 1.

Table 1
LTC Claims Modernization: Potential Benefits by Key Stakeholder

Providers	**Policyholders**
Increased occupancy/utilization Increased average per diem revenue More manageable receivables (as carriers become a higher portion of the private payer revenue base)	Improved care-management process Higher level of confidence in their site of care choice Reduced out-of-pocket expenses Extended pool of benefits
Carriers	**Government**
Reduced incurred claim costs via: • Reduced per diem cost • Benefit consumption deferral • Delayed onset of claim • Delayed transition to more expensive sites of care Improved reserve adequacy Increased customer satisfaction Improved support by regulators, who are likely to appreciate efforts to improve LTC financial outcomes on a basis other than constant rate increases	Increased viability of the private LTC market, resultant de-risking of Medicare/Medicaid Lower carrier dependence on rate increases as the go-to solution to improve financial outcomes Improved care and service to constituents

EXPANDING THE CONCEPT

The potential benefits of this claims modernization approach can be fruitful beyond the immediate gains to key stakeholders. In a future state when LTC claims modernization concepts have reached maturity, there are additional opportunities to lower costs and earn additional revenue from this investment. Product development could include offering PPO- or HMO-like products that further incentivize networked provider utilization. New Medicare Advantage supplemental benefits flexibility rules from the Centers for Medicare & Medicaid Services could be supported by LTC carriers with experience managing LTC claims and owning LTC provider networks. LTC carriers can vertically integrate with providers to further drive quality and savings. Provider networks could be leased to other carriers to create fee-based income from network leasing fees, thus providing a minimally capital invasive revenue stream. Last, such investments could create opportunities to drive scale and profit growth through acquisition of blocks of LTC business that could see reduced cost upon acquisition by utilizing the buyer's modernized LTC claims tools.

LTC carriers have essentially pulled all levers at their disposal to improve LTC income but one. The time is now for carriers to find a viable and long-term solution to deteriorating experience facing the LTC industry. Investment in claims modernization can be a win-win for all stakeholders involved. ■

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ENDNOTES

1 Financial Accounting Standards Board. 2018. Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contacts. No. 2018-12. *https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176171066930&acceptedDisclaimer=true*.

2 Hansen Hunter & Company, PC. 2018. A Report on Shortfalls in Medicaid Funding for Nursing Center Care. American Health Care Association. November. *https://www.ahcancal.org/facility_operations/medicaid/Documents/2017%20Shortfall%20Methodology%20Summary.pdf*.; CareScout. June 2017. Genworth 2017 Cost of Care Survey conducted by CareScout. *https://www.genworth.com/dam/Americas/US/PDFs/Consumer/corporate/cost-of-care/179702_2017CofC_Monthly_091317.pdf*.