Session 123 PD, Chronic Illness Acceleration Riders—Part 1: Overview

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CHRONIC ILLNESS ACCELERATION RIDERS (PART 1 OF 2): OVERVIEW
SESSION 123PD

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SOA Annual Meeting
October 28, 2014
Agenda

- Overview/Definitions
- Risk Management – Rider design
- Risk Management – Underwriting
- Risk Management – Claims
- Lessons learned
- Audience participation
- Conclusion
Overview/Definitions

- What is a chronic illness acceleration rider?
- Typically involves acceleration of part of the base life death benefit upon:
  - Loss of 2 or more Activities of Daily Living (ADL’s)
  - Severe cognitive impairment
Overview/Definitions

- Chronic illness acceleration rider vs. LTC rider
  - Chronic illness falls under the NAIC Accelerated Benefits Model Regulation (Regulation 620)
  - If doesn’t meet that criteria, then it defaults into the health regulations (and treated as LTC)
    - For example, if the rider is designed as a “reimbursement type” then it doesn’t meet the criteria for a life acceleration.
Overview/Definitions

- Typically the policyholder is charged one of the following ways:
  1) Lien against death benefit
     - Often used for whole life contracts
     - Policy loan interest rate
  2) Separate rider premium
     - Potential additional source of revenue
     - Potential upside profitability
     - Lower exposure on portfolio
  3) Pay discounted amount of death benefit accelerated
Overview/Definitions

- In the discounted method, rider payment reduces future payment upon death
  - Impaired life expectancy
  - Loss of interest
  - Loss of future premiums/COI’s on portion accelerated
  - Expense/admin charges

Question: Would the policy otherwise have lapsed?
Risk Management – Rider design

- Common benefit limitations:
  - Annual $ cap
    - Chronic illness riders typically refer to the LTC per diem cap
  - Monthly % cap
  - Maximum lifetime $
- Other design considerations
  - Maximum issue age
Risk Management - Underwriting

- Decline applicants current ADL or IADL dependent
- Determine likelihood of ADL-deficiency/cognitive impairment
- Ensure capture of relevant information
- Starting point = approved life application

Consider using a supplemental application for the rider
Risk Management - Underwriting

Memory Problems

TIA's

Strokes

Huntington's

Parkinson's

Multiple Sclerosis
Lung Disease + Oxygen

Diabetes + PVD

Degenerative Disc

Durable Medical Equipment Use
Risk Management - Underwriting

- Head Injury
- Shunt
- Thrombocytopenia
- Mobility limitations
- Systemic Lupus
- Spinal cord injury/spinal muscle atrophy
When should cognitive testing be performed?
Risk Management - Claims

- Periodic payments
- Confirm benefit eligibility
- Expertise in living benefit claims
Lessons learned

- Are loss of ADL’s permanent?
  - Ex: Fractured heel claim on an otherwise healthy 40 year old male
- Physician certification isn’t necessarily more accurate
  - “Hypertension” may be considered a chronic condition by a physician
- Life underwriters typically think in terms of mortality not morbidity
Are these riders more costly on males or females (in terms of the loading expressed as a percentage of the base life mortality?)

1. Males
2. Females
3. The same
4. Not sure (just tell me the answer)
Audience Participation Time –
Second Question

Are these riders more costly on smaller or larger face policies (in terms of the loading expressed as a percentage of the base life mortality?)

1. Smaller face policies
2. Larger face policies
3. The same
4. Not sure
   (just tell me the answer)
Conclusion

- Key items to focus on:
  - Risk Management – Rider design
  - Risk Management - Underwriting
  - Risk Management - Claims
THANK YOU!

Jim Filmore, FSA, MAAA
VP & Actuary, Individual Life Pricing

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Marketing and Selling Chronic Illness Riders

Presented by: Jeff Koll
My Perspective on this Product

- **Employee Benefits** – Worksite/Voluntary Sales
  - Small, simple policies
- **Rider on Life Plans** – Whole Life, ISWL, and UL
- **Variations** of Chronic Illness Riders
  - Base Accelerated Death Benefit Rider
  - Restoration of Benefits (Life Policy Death Benefits) Rider
  - Continuation (or Extension) of Benefits Rider
  - Restoration and Continuation of Benefits Rider
- **Recent Risk Reviews** of this Business
Employee Benefits Distribution Model

**Enrollment Methods**
- 1 on 1 – face to face
- Group meeting
- Call center
- Self enroll
Polling Question #1

What is your exposure level to Chronic Illness Riders?

1. I have Long Term Care experience and have priced or managed Chronic Illness Riders
2. I have Long Term Care experience and will be pricing or managing Chronic Illness Riders
3. I have Life Insurance experience and have priced or managed Chronic Illness Riders
4. I have Life Insurance experience and will be pricing or managing Chronic Illness Riders
5. Just curious about this product
Rider Examples

- Base Rider
- Base and Restoration Rider
- Base and Continuation Rider
- Combination – Base, Restoration and Continuation Rider

Base Rider
- $100,000
- Decrease the death benefit
- $82,000

ROB Rider
- $100,000
- Restore the death benefit

Base Rider?
- $100,000
- Decrease the death benefit
- $82,000

ROB Rider
- $100,000
- Decrease the death benefit
- $82,000
Need for Chronic Illness Coverage

- People purchase Chronic Illness Rider coverage because.....

You need this Chronic Illness Rider because......
According to the 2014 Medicare & You; National Medicare Handbook “At least 70% of people over age 65 will need long-term care services at some point in their lifetime”
What do you think?

63% Most people need long-term care insurance

48% I need long-term care insurance

13% I own long-term care insurance

LIMRA 2013 Barometer Study
Who should be purchasing Chronic Illness Riders?

1) Everyone who can qualify for coverage
2) Older Americans (age 65+)
3) People who can’t afford stand alone LTC
4) Everyone who buys the base life plan
5) Nobody, the product costs too much
Chronic Illness vs. LTC

- Chronic Illness Rider
- Stand Alone LTC
Comparing Chronic Illness & LTC

Categories

- Cost
- Target Market
- Sale Process
- Underwriting

Chronic Illness Rider

- Affordable?
- Life purchasers
- Compliment life sale
- Compliment life sale

Stand Alone LTC

- Expensive?
- Affluent?
- Focused on LTC Risk
- More Involved

Comparing Chronic Illness & LTC
Polling Question #3

Does the Marketing/Sales approach impact Chronic Illness Rider Experience factors (persistency, morbidity, etc.)?

1. No, not much – Experience similar to stand alone LTC plans
2. Yes, it is different – Experience different than stand alone LTC, but not in line with base life plan
3. Absolutely! – Experience tends to follow base life plan experience
4. I don’t know the impact
Experience – Issue Distributions

Which does the Chronic Illness rider resemble more?

Stand Alone LTC  Chronic Illness Rider  Base Life Plan
Experience – Issue Distributions

**Issue Distribution** experience for Chronic Illness Riders tends to follow the Base Life plan experience.
Experience - Persistency

Which does the Chronic Illness rider resemble more?

Stand Alone LTC  Chronic Illness Rider  Base Life Plan
Persistency experience for Chronic Illness Riders tends to follow the Base Life plan experience.
Experience - Morbidity

How do they compare?

Similar
- Chronic Illness Rider
- Stand Alone LTC

Different
- Chronic Illness Rider
- Stand Alone LTC
Experience - Morbidity

The Morbidity Experience tends to be different
Which does the Chronic Illness rider resemble more?

Stand Alone LTC  Chronic Illness Rider  Base Life Plan
Interest Rate Sensitivity experience for Chronic Illness Riders tends to follow the Base Life plan experience.
Closing Comments

• **Chronic Illness Riders**
  • Enhance the value of the Base Life Policy
  • Add significant marketing appeal
  • Add new risk to the Base Life Policy

• **Interesting Insights**
  • Chronic Illness Rider costs can vary significantly by Base Plan Type Design!