Session 37PD, Critical Illness: How Do You Price This Stuff?

**Presenters:**
Jennifer O. Howard, FSA, MAAA
Kayla Rooney, ASA
Alexander J. Schuh, FSA, MAAA

[SOA Antitrust Disclaimer](#)
[SOA Presentation Disclaimer](#)
2018 SOA Health Meeting

CRITICAL ILLNESS: HOW DO YOU PRICE THIS STUFF?

Alexander J. Schuh, FSA, MAAA
Kayla Rooney, ASA
Jennifer Howard, FSA, MAAA
Monday, June 25, 2018
Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone’s responsibility; however, please seek legal counsel if you have any questions or concerns.
Presentation Disclaimer

Presentations are intended for educational purposes only and do not replace independent professional judgment. Statements of fact and opinions expressed are those of the participants individually and, unless expressly stated to the contrary, are not the opinion or position of the Society of Actuaries, its cosponsors or its committees. The Society of Actuaries does not endorse or approve, and assumes no responsibility for, the content, accuracy or completeness of the information presented. Attendees should note that the sessions are audio-recorded and may be published in various media, including print, audio and video formats without further notice.
Agenda

• What is Critical Illness?
• State of the Market
• Pricing Methodology, Assumptions, and Trends
• Case Study
What is Critical Illness?
Audience Survey
What is Critical Illness?

• Origin of CI
• Supplemental health benefit
  • “Survival” benefit
• Lump sum payment can be used to fill insured’s needs
• Chassis
State of the Market
CI New Business Premium (millions)

1999 - 2016

Source: 2017 Gen Re Critical Illness Market Survey
Current Market

• Mostly IA premium today (new business - worksite)
• AA group business growing
• “Core Triggers” – cancer, heart attack, stroke – often ESRD and MOF
• Avg Face Size: $15 - $22 K
• Avg Premium: $15-$27 per $1,000
• Avg Age (at time of sale): 42
• Can have dependent coverage (Spouse, Child, Child-specific)

Source: 2017 Gen Re Critical Illness Market Survey
Pricing Methodology, Assumptions, and Trends
So You Want to Price a New CI Product?

- We will need morbidity assumptions
  - Are there standardized tables?
  - Are there standardized benefit definitions?
  - Do we have credible experience?
Pricing Options

• Population Data
• Are you a major medical carrier?
• Do you have credible experience?
• “Me too” Pricing
• Hire Someone
What Impacts the Rating Structure?

• State objections
• Shifts in product over time (makes experience even harder to gather!)
• Balance of keeping price down while adding competitive benefits
• Target Market
New Product Development

- How often? Why?
- Major Pricing Considerations
  - Loss Ratio Requirements
  - Renewability
  - HSA Compliance
  - Benefit Reduction
  - Recurrence
- Changes in Healthcare (e.g. HDHP)
- Competition
- Diversification
Rating Variations

When is it worth creating variations in rates?
• State requirements
• Limitations (e.g. systems)
• Changing laws and healthcare environment
Important Considerations

- Underwriting considerations
  - Participation
  - GI vs. SI
  - Portability
  - Takeover
- Product awareness (enrollment)
- Positioning
- Employer/Broker/Enrollee Education
Trends in Market Pressure

• Pressure to lower participation requirements
• GI pressure
• Dwindling pre-ex and wait period times
• Addition of new triggers and riders
• “Fads”
Commissions

• Variations by state
• Heaped vs. Level
• Other compensation, fees, allowances
Wellness

• Utilization – varies by reimbursement amount
• Be aware of which tests are included
• Annual physicals and cost drivers
• Mass reporting (employer)
• Expensive rider but often marketed as a “premium rebate”
Lessons Learned

• Market performance to date (A/E)
• Challenges
  • Claims concerns and confusion
  • Medical advances (pros and cons)
  • Alzheimer’s
• Stay relevant!
Case Study
Case Study

You are a pricing actuary developing a CI product for an employer group of 100 employees. The employer group currently has a HDHP and is based in a state with a 55% loss ratio requirement. There is only one trigger – ESRD.

- What are some major product considerations?
- How will you develop incidence rates?
- Will you need to adjust your claim costs from population?