



**DENISE
AGONCILLO,**

is a project leader for the media and documentation department and has been with LifeCare Assurance for 13 years. Responsible for customer communications, she authors and manages outgoing policy correspondence projects for all of LifeCare's client companies. She is a graduate of California State University Northridge with a degree in Communication Studies.

Agoncillo can be reached by email at: denise.agoncillo@lifecareassurance.com.



**PETE
DIFFLEY**

is senior vice president, insurance services, for LifeCare Assurance. His role bridges multiple departments including underwriting, claims, policy service, and new business. Diffley has been with LifeCare since 1989 when he developed the company's conservative underwriting protocols, a crucial process that has helped to safeguard LifeCare from poor claims experience. Diffley's background in the insurance industry spans decades, serving in high-profile roles in individual disability income and life insurance underwriting.

Diffley can be reached by email at: pete.diffley@lifecareassurance.com.

How Good Underwriting Benefits LTCI Agents

Few factors have had as much impact on the long term care insurance (LTCI) industry in recent years as premium rate increases. These increases, although mostly a result of incorrect lapse and interest rate assumptions, could have been mitigated to a significant degree if better underwriting protocols had been in place. The consumer need for LTCI has been overshadowed by these rate increases, making it significantly more difficult for agents to sell the product. Now the question must be asked: How can the industry recover from this negative reputation and make it easier for agents to provide this necessary coverage?

With pricing assumptions now in sync with low lapse rates and low interest rates, the answer rests in underwriting improvements. To use an example to illustrate this point, let's reference the negative consequences of poor underwriting practices that contributed to the subprime mortgage crisis of the early 2000s. Just as mortgage underwriters used reduced lending standards, which resulted in a spike in defaults and foreclosures, long term care insurance underwriters used inadequate risk selection standards in the 1980s and 1990s, resulting in a pool of less than desirable risks. While the link between lax mortgage underwriting and foreclosures occurred over a relatively short time, long term care claim problems take at least a decade to recognize. However, actuarial evidence has accumulated proving that companies utilizing rigorous underwriting dramatically outperformed their peers and those policyholders were effectively insulated from most or sometimes all of the otherwise necessary rate increases.

Although sometimes unpopular with agents, more rigorous underwriting has proven to be effective in protecting policyholders (and indirectly the agents) as well. Admittedly the benefits of tough underwriting may not be readily apparent, since agents want every customer to qualify for coverage. Likewise, fast underwriting turnaround improves the customer experience. However, in practice, the agents benefit from adding their clients to a superior risk pool, thus making the chance of future rate increases much less likely. This point is best demonstrated by reviewing why underwriting works.

Proper underwriting results in the underwriter having a clear picture of the applicant's physical and mental health at the point when coverage is approved. This results in the appropriate price being charged for the benefits placed. To illustrate this point, let's return to the mortgage underwriting comparison. A mortgage underwriter tries to understand the applicant's financial strengths and weaknesses. The same concept applies to long term care insurance underwriting. Applicants are charged a premium based on the risk class in which they fall: Excellent, Good, and Fair. Even though individuals in the Good and Fair premium classes have significant health conditions, they can potentially be approved for long term care coverage if they are in control of their conditions and are medically stable.

But how does proper underwriting result in less likelihood of a rate increase?

Proper underwriting safeguards the carrier and ensures their pool of insureds are within the risk tolerance of the company's pricing assumptions. If this goal is

accomplished, the actual claims experience reasonably matches the expected claims. Inadequate underwriting results in earlier claims with longer durations. Poor claims experience puts the insurer and their policyholders at risk, and premiums are predictably raised.

Again using the mortgage crisis analogy, financial institutions that had tighter lending standards were able to endure the financial crisis. Similarly, the companies with tighter underwriting practices have emerged stronger than their counterparts. When strong underwriting is utilized, it is rare for more than a handful of claims to be filed during the early years after policy issue, with less than one percent of the policyholders making a claim during the first 10 years. This provides a solid foundation to ensure that future promises are kept intact. Premiums utilizing rigorous underwriting standards can be expected to remain stable with these premiums covering actual claims.

The Underwriting Process

Unlike life insurance, underwriting for long term care insurance is primarily focused on morbidity rather than mortality. Morbidity measures the risk of relative incidence of debilitating sickness or disease rather than the incidence of death in a given group of people. Long term care underwriting evaluates the risk that an applicant will need substantial assistance with the activities of daily living or develop a significant cognitive impairment that will require substantial supervision.

It is the underwriter's responsibility to evaluate an applicant's risk level by reconciling what is disclosed by both the applicant and agent against the objective information available (prescription medication usage, medical records information, Medical Information Bureau screen [MIB], cognitive exams and lab results). The steps taken to assure this include:

1. The underwriter reviews the application information, any MIB information and the prescription drug check information.
2. The underwriter requests a telephone interview and questions any inconsistencies

between the application information, the MIB information (if any), and the prescription drug check information.

3. The underwriter requests and reviews the applicant's medical records.

4. For applicants exhibiting acute health issues, medical testing may be required.

Additional steps that may be required are face-to-face exams with cognitive screening (required based on age) and, depending on the underwriter's discretion (regardless of age), paramed exams, lab testing and/or cognitive testing.

The process of growing a block of business that will have predictable claims experience begins not at underwriting, but at the point of sale with the agent. Agents who are diligent during field underwriting distinguish good candidates and recognize applicants with uninsurable conditions. In the end, it is the insurer's responsibility to conduct appropriate risk selection so that the risk pool that results is made up of individuals who will have claims experience that is reasonably close to expected.

Common Underwriting Tools

- Medical Records
- Prescription Drug Checks
- MIB Screen – Medical Information Bureau
- Phone Interviews with Cognitive Questions
- Phone Interviews with Cognitive Testing
 - Medical Exam
 - Paramed Exam
 - Blood/Urinalysis
 - Medical Questionnaires
 - Motor Vehicle Records
- Cognitive Face-to-Face Interviews
- Cognitive Testing

Tips on Performing Better Field Underwriting

Better underwriting standards are met by carefully considering each applicant's medical history, physical ability to function independently and, to the extent possible, cognitive ability. Agents can help meet this goal by:

- Checking that the client is within the eligible issue age;
- Selecting potential carriers based on strength of underwriting;
- Using the insurer's height/weight charts to help determine the client's eligibility and risk class;
- Consulting the insurer's prescription drug guides to determine whether your client is using medications that indicate your client has an uninsurable condition;
- Personally observing and asking questions to determine if your client functions independently and whether your client is able to perform activities of daily living (bathing, continence, eating, dressing, toileting and transferring without assistance); and
- Educating clients on the underwriting process so they know what to expect, and most important, that they will receive a phone call to verify information on their application or to request clarity on answers.

Agents are not responsible for the rate increases that have occurred across the industry, but agents bear the burden of dealing with disgruntled clients. Finding long term care insurance companies that apply strict underwriting practices can help support an agent's reputation, as those agents can confidently suggest products and companies with a low probability of future rate increases. In addition, agents may find that clients are reluctant buyers until such time as the LTCI industry shows true rate stability. With today's pricing, the LTCI industry

may already be there. It all starts with a reasonably healthy risk pool, one which cannot be formed without strict underwriting standards.

In summary, as stricter underwriting standards have become the norm rather than the exception, claims experience will improve, price stability will be achieved and the sales environment will be much improved. 🌐