Do IDI and LTC History imply anything for Critical Illness?

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Sick!

Serene Ignorance Commonly Kills

-Ross Bagshaw, Wakely Actuarial

Individual Disability Income

- Profitable in the 1980's
- Everybody got into the game - diversification
- What could go wrong?
  - Heavily concentrated on doctors
  - Own Occupation, Specialty Letters
  - Noncancelable
  - Lifetime benefits
  - Incidence and Severity risks.
  - High replacement on non-verified income, with COLA.
  - No CSV, level premium means lapse supported, interest sensitive.

IDI protections

- The risk ends at age 65 (now 67) so it’s like term insurance
- Lots of experience
- We’re more expensive than Paul Revere
- Doctors refuse to get disabled
- Dumb, da, da dumb…

IDI & Managed Care

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- If I observe that my occasional pinky tremors make me unfit to perform surgery, and if do so before age 65, then I will receive $20,000 a month for the rest of my life.
- Or, I spend all my time filling out this paperwork and justifying every expense to an insurance company clerk.
- Pricing assumes disabled life mortality will be much worse than total life mortality.

IDI Recap

- So, managed care frustrations drove increased incidence.
- And, no one is healthier than a disabled doctor on the beach in California.
- And, falling interest rates, low lapses…
- Reserve charges, a couple of bankruptcies, price increases for new business, movement from own occupation and lifetime.
- Market contraction, all but a handful of companies exit the business.

Canadian Term to 100

- No cash value makes prices cheaper
- Term insurance has high lapses and we are conservatively priced at 5% lapses.
- We are more expensive than Sun Life – ey.
- 0.5 percent actual lapsation
- Falling interest rates
- Ouch
- At least you had to die to collect. That’s a disincentive.

Cancer Expense Policies

- No cash value with level premiums
- Lapse supported and interest sensitive
- Very poor performance with Unlimited Radiation and Chemotherapy
- Limited benefit plans have done well because of declining incidence rates
- Billed rate versus paid rate issues
- Severity was really the whole problem here
- States have allowed for large premium increases

First Occurrence Cancer

- Pay a lump sum benefit upon incidence.
- Performance has generally been good.
- But there are not many companies that considered this a top tier product line.

Let’s try this:

- Disability where exposure doesn’t end 67
- No cash value to keep prices reasonable
- Lapse and death assumptions turn out to be high
- Incidence and claim termination assumptions are driven by dated Nursing Home statistics.
- Lapse, death, incidence, severity, and heavy interest risks all rolled up into one product.
- Should we make it noncan?

Long Term Care

- Let’s sell that to a demographic that regulators won’t allow large rate increases on.
- Some companies felt so good about the risk that they sold mostly 10-pay – effectively noncancelable.
- But we are more expensive than John Hancock, and Genworth has never [recognized that they] needed a rate increase.
- Over 100 companies into the market, over 100 companies out of the market.
- More than a handful remain active, but not very active.

LTCi, et. al.

- Products don’t work when the insured can be financially better off on claim than if they don’t need to claim at all.
- People hated the idea of going into a Nursing Home, delaying incidence and increasing disabled life mortality.
- Some assisted facilities are really desirable places to be and with no maintenance costs, and no property taxes, and the lobby bar is an elevator ride away.

Bliss

- Collecting on a Lifetime Disability and a Lifetime Long Term Care policy with Inflation, joking with your love at the lobby bar of the facility and deciding whether or not to play golf tomorrow.
- What a pension plan!
- And that cute nurse always brings me my medicine every day. I'm going to live to 120.
- Clearly most claimants are not blissful, but…

Critical Illness

- Four major versions but generally:
  - All pay a lump sum, like First Occurrence Cancer. Variations exist.
  - Major risks are Cancer (70%), Heart Attack, Stroke.
  - Usually, the product has several other triggers.
  - Incidence has been improving, and improvement can be expected (although we don't)

True Group

- Attained Age rating
- Optionally renewable (typically)
- Very limited, if any underwriting
- Pre-existing clauses
- Might allow family coverage
- Typical sale is $15,000
- Pretty boring from an actuarial risk standpoint
- Customers don't know what they have bought

Level Premium Worksite

- May be group or individual products.
- May be portable if group. Will be portable if individual.
- Benefit likely to decrease around age 70.
- Family coverage availability is likely.
- Simplified underwriting, Guaranteed Issue with participation.
- Has similar risks to other A&H without a CSV.

Worksite cont'd

- Same $15,000 average face amount.
- When tied to payroll deduction lapses are higher.
- Policy definitions are important.
- Incidence is the dominant risk.
- For Worksite business (including Attained Age) claim denial rates are very high around 40%.
- Insureds don't really understand what they've bought. – broken arms, trips to the ER, etc.

Stand Alone Individual

- Some companies offer an individual CI policy.
- These are for higher face amounts.
- Underwriting is more important.
- Policy definitions are much more important.
- Reinsurance is available.
- Most sales in the US are through the worksite. This however is the dominant sale elsewhere.

Combination Products

- A variety of combination products are emerging.

- Usually they are of the acceleration of death benefit variety.

Considerations

- Will CI go the way of IDI and LTC?
- I don’t believe it will be for liability reasons.
  - The product pays a lump sum benefit.
  - Rate increases should be available because of younger issue ages and a less steep curve.
  - There is no need for noncancelability
  - Incidence is improving
  - I am worried about market cycle dynamics – there are 60+ companies presently, and growing.

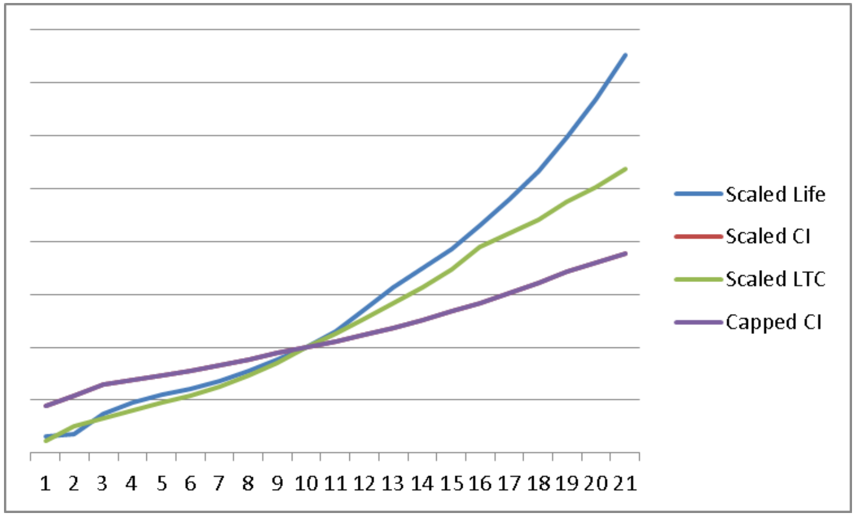
What about Lapse and Int

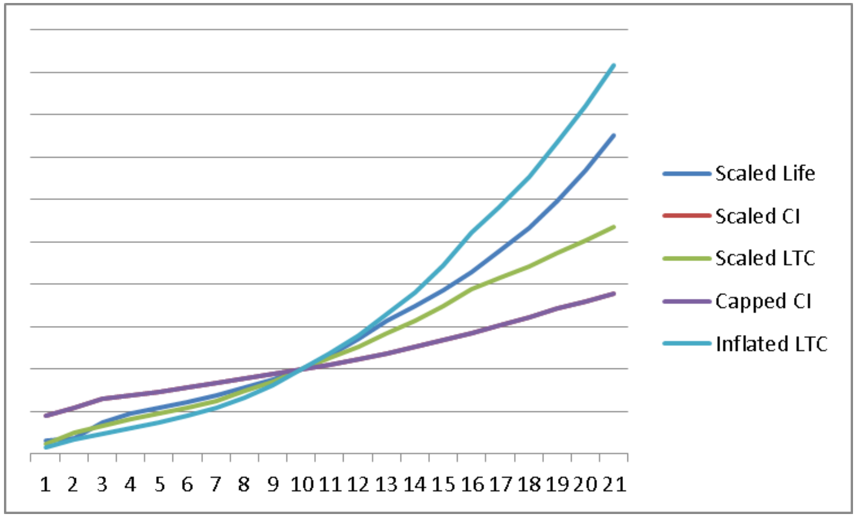
- A product without a CSV and an increasing claim cost curve can be underpriced if either policy terminations or interest yield are too low.

- However, that risk is most significant when benefits are very back end loaded. Think of it as a combination of the steepness of the claim cost curve more than the level of the claim cost curve.

Considerations

Relative Steepness of Liabilities
CI is not as steep as Life or LTC through the first 20 years.

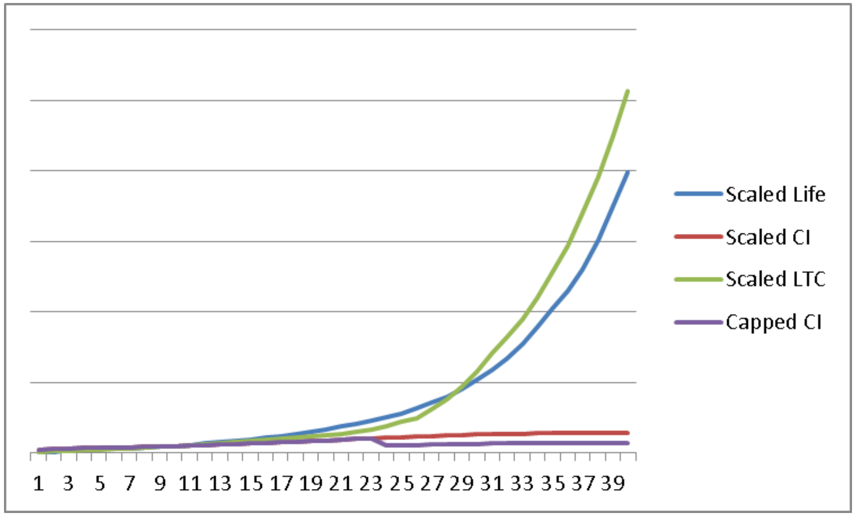


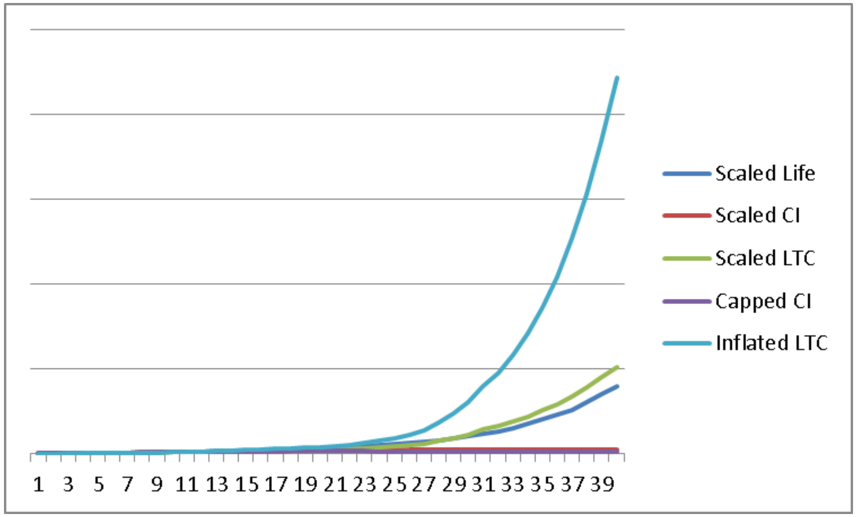


- Comparisons for a nonsmoking married female aged 47, normalized at duration 10.
- At age 67 (duration 20), this product may well terminate with retirement.

Considerations

Relative Steepness of Liabilities
Look at the difference through 40 years, especially with Inflation.





- Comparisons for a nonsmoking married female aged 47, normalized at duration 10.
- The LTC industry finally understands the risk associated with compound inflation.

Other Considerations

- What if the conditions are recognized years earlier at smaller levels than before?
- What if they can cure most cancers?
- What if people start living to 1000, and get curable cancer every two years?

- Then, you should still be able to re-rate for it unless the curve steepens dramatically and for no apparent reason.
- And, in 1000 years, $15,000 won't be very much money anyway.

Conclusion

- I am upbeat about this industry, but new entrant will need a rationale’s to attract distribution.

- If that happens enough, it could pull the industry into a period of irrationality.

- Questions?