Underwriting Long-term Care Insurance
By John Timmerberg, ASA, MAAA

Today 75 percent of long-term care insurance policies are issued to individuals aged 64 and younger, yet approximately 20 percent of all applicants are denied coverage at the time of underwriting. An adviser’s relationship with his client could be impacted by an unexpected decline of coverage and it is helpful to both the client and the adviser to understand the process.

Underwriting generally has become tighter in recent years and the possibility of having an application declined increases rapidly with age. Conditions that may lead to a declined application include the following: any emerging cognitive problems, stroke or TIA (mini stroke), build, joint problems, congestive heart failure, or diabetes. The underwriting decisions on conditions such as diabetes or high blood pressure may depend on how well these conditions are controlled. Health history and medical questions are part of each long-term care insurance application, but it is possible that your client may not have a complete understanding of or fully communicate their health issues. Some suggest that the least threatening and most effective method for obtaining health information is to ask clients for lists of their medications. Other information that may be considered by an underwriter is whether or not the applicant uses tobacco or participates in activities outside the home, and whether or not the applicant is married. When both spouses apply, the marital premium discount can be 30 percent or higher.

Underwriting varies significantly by company, especially in terms of the amount of information sought. For example, Company A automatically requests detailed physician records on all applicants as compared with Company B, which automatically requests these records only on applicants 70 and older. This type of difference will tend to lead to more declines and a better risk pool (healthier policyholders) for Company A than for Company B. In this case, Company B will tend to process applications much quicker (in 15 days or less) compared with Company A, which could take 45 days or longer to process an application. But, over the long term, it may be best to get your client placed in the best risk pool available to them.

Some studies suggest that the midpoint for the length of a long-term care insurance claim is about two years. But there are significant practical limitations to the existing data. Also, current long-term care insurance policies now provide coverage for less intensive services such as assisted living facilities and some policies provide for cash payments to the policyholder instead of reimbursement for formal care, encouraging less severely disabled individuals to access benefits earlier. Depending on the client’s needs, he may be best served by a policy that provides for four years of coverage or more.

John Timmerberg, ASA, MAAA, is president of Timmerberg & Associates, Inc. of Indianapolis, IN, a firm that provides actuarial consulting specializing in LTCI and life insurance. He earned a B.S. in mathematics at Benedictine University, an M.S. in statistics at the University of Iowa, and an M.S. in applied mathematics (actuarial science) at the University of Illinois. Contact him at john@timmerberg-consulting.com.