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Unique Underwriting Factors And Advances Benefit Seniors Using The Secondary Market To Fund Long Term Care

While American seniors face a dark and stormy financial forecast, the companies that serve them have more tools than ever to help them plan and pay for their sunset years. A growing number of products and strategies are being used to help seniors facing the challenge of paying for retirement and post-retirement that can include very costly long term care stays.

Seniors have always presented unique challenges to companies that develop products for them. For long term care, underwriting morbidity factors can be more revealing than mortality factors. Recent advancements in epigenetic testing have added even greater insight and convenience for seniors who are looking for insurance-based financial solutions. In the growing area of settling a life insurance policy through the secondary market to help pay for long term care, these underwriting insights and technological advancements give seniors a major edge in their ability to maximize the value of their policy exchange.

People buy insurance to protect insurable interests from financial hardship if they were to die. Life insurance policies can also be exchanged on the secondary market to pay for extended care and long term care. Going back to 1911 when the United States Supreme Court ruled that life insurance is an asset and legally recognized as the personal property of the owner, the use of life insurance to pay for health and long term care expenses has been an evolving practice for over a century.

One traditional product, long term care insurance, remains a small part of the solution. According to the American Association for Long-Term Care Insurance only eight million Americans have policies, less than one-sixth of all Americans older than 65. By comparison, there are over 150 million life insurance policies currently in force. According to the Life Insurance Settlement Association, almost nine of ten universal life insurance policies will be abandoned before paying out a death benefit. In fact, on an annual basis, seniors own $187 billion of life insurance death benefit that could be exchanged through the secondary market instead of lapse or surrender—but the majority of these seniors are unaware of the settlement market as a better alternative for their policy.

Inordinate numbers of seniors abandon life insurance policies in the final years of their lives. For many the insurable interest for which they took out the policy no longer exists. In addition, as seniors confront the costs of retirement and long term care, they can no longer afford premium payments. And then for those that are confronting long term care, many will abandon their policy because life insurance is a disqualifying asset for Medicaid eligibility, and according to a GAO study 38 percent of seniors who apply abandon their policy as part of their "spend down" to eligibility.

Should seniors abandon one of their most valuable assets like this? The answer is no. After years of premium payments, they should no sooner abandon their policy than they would abandon their home after years of mortgage payments.

Before the owner of a life insurance policy would abandon their asset, they should first look to the secondary market to find out what the actual resale value of their policy is. The secondary market can pay multiple times any cash surrender value, potentially a better option than lapsing a policy after years of premium payment for nothing in return.

Life insurance policies can be exchanged on the secondary market, converting a death benefit into a living benefit, to pay for long term care. A Long Term Care Benefit Account is an irrevocable bank account that holds the money from a settlement to make payments for senior living and long term care. Think of it like an LTC-Health Savings Account (HSA) exclusively funded by a policy settlement which then makes monthly payments to any form of care the owner wants at whatever amount is required for as long as there are funds in the account to spend down on care.

In July 2017, the National Association of Insurance Commissioners (NAIC) endorsed in a white paper the secondary market for life insurance policy owners. In it, the NAIC specifically cites the large difference for policy owners between the secondary market value of their policy and cash surrender value. They also specifically endorse the exchange of a policy for a Long Term Care Benefit Account to help seniors address the expensive costs of assisted living, home care and nursing homes.

However, the person who would settle their policy based on long term care needs has many unique factors to underwrite. In this case underwriting a person based on morbidity factors and the need for long term care support, compared to underwriting mortality factors, is the key to gaining a more accurate assessment of the insured and provide far higher value to the policy owner.

Understanding the Geriatric Cohort

Underwriting geriatric conditions and impaired risk tends to be more prevalent with the 65+ cohort. This is one of the faster growing segments for the insurance industry with life, annuity and long term care products. Over the last decade, advancements in underwriting and morbidity actuarial models, as well as medical science, have made it possible to price all insurance products at competitive rates in ways that once were unavailable to this age group. Underwriting seniors is a different process than underwriting "unimpaired" or relatively young and healthy applicants.

Fast Fact

Top health conditions that become causes of death for those 65+, according to United Health Foundation's report, America's Health Rankings

- Vascular
- Cancer
- Stroke
- Dementia
- Influenza

Once people reach age 65, 80 percent of seniors report having at least one chronic condition, 50 percent report at least two, and 30 percent report having three or more chronic conditions. Additionally, 30 percent of people aged 65 to 70 years have reported vascular issues and that number jumps to 70 percent once you get past the age of 70.

As people age, certain health conditions start to become the norm. For example, seniors will typically experience a slowing of reflexes and loss of muscle mass. Renal and liver functions, as well as pulmonary and vascular capacity, can all be expected to decrease. Cognitive abilities will begin to slow and a certain level of "memory challenge" (not to be confused with Alzheimer's Disease) will creep into the picture. Also, conditions such as cancer or heart disease that are long in remission, under control, and/or being managed by medication become less of a factor in determining overall mortality and morbidity.

Lastly, an important underwriting concept to understand is "Life Expectancy Compression." Nursing home need is determined more by physical (as defined by mobility, activities of daily living, and instrumental activities of daily living) and cognitive impairments than medical impairments (heart disease, diabetes, cancer, etc). Research has shown that these impairments put patients at risk of accelerated physical decline. Nursing homes, while necessary for some people, are not healthy places. The patient, once removed from the familiar comforts of home, can often become socially isolated, and this social disruption and isolation can adversely affect health.

Furthermore, this group setting presents increased risks of contracting contagious diseases–diseases which medically frail bodies are not well equipped to handle.

Current life expectancy trends indicate that more people than ever are living at a relatively healthy state up to average target ages based on their demographics. But if a person experiences any significant health impairment, then their remaining life expectancy usually becomes compressed. For example, a healthy individual in the 75 to 80 age range that lives at home, is able to care for and transport themselves, and pursues leisure vocations and social interaction, could have a life expectancy of ten or twenty years. But if that individual experiences a TIA/stroke or breaks a hip, and then must either access home care or move into an assisted living or skilled nursing facility, it is more likely that the life expectancy range would compress to less than five years. The average life expectancy in a nursing home is 13 months, and in assisted living about two to three years, according to *the Journal of the American Geriatrics Society* (JAGS).

Key "Life Expectancy Compression" Factors

1) Long Term Care Setting

According to a study in JAGS, life expectancy becomes significantly compressed with the loss of independence and need for long term care in a long term care facility. National average life expectancy in a nursing home is 13 months with 50 percent mortality in the first year. National average life expectancy in Alzheimer's care is 17 months with 60 percent mortality in the first year. National average residency in assisted living is two to three years with a percentage expiring while in residence or moving to a nursing home for end of life care.

2) ADL, IADL, and AADL

Activities of Daily Living (ADL), Instrumental Activities of Daily Living (IADL), and Advanced Activities of Daily Living (AADL) are indicators of morbidity and onset of Life Expectancy Compression. An increase of ADL/IADL indicators shows decreasing lifestyle quality, independence and the need for higher levels of long term care. Quantity, form and severity of ADL/IADL are directly indicative of decreasing life expectancy.

- **ADLs**—Essential self-care activities.

Bathing, dressing, transferring, toileting, eating and continence. May also include hygiene and mobility/ambulation.

- **IADLs**—Higher level activities that help integrate an individual into the community.

Considered "home management" activities includes telephone use, driving, taking medications correctly, handling finances, housework, and meal planning and preparation.

- **AADLs**—Advanced Activities of Daily Living.

Activities that add to an individual's quality of life including the ability to do heavy housework/projects around the house, walk a half mile, go out to social activities, travel and participate in more strenuous physical exercise.

3) Living and Family Environment

Disruption and dislocation in a living environment will have a negative impact on mortality. Although it is somewhat a subjective factor, the loss of a spouse or need to move out of a home and into a senior care facility or with a family member is a recognized life expectancy compression factor.

4) Physical Medical Condition

Individual or co-morbid medical conditions have varying degrees of impact on mortality. Three levels of conditions include:

Minor Health Problems—Overweight, elevated cholesterol, asthma, arthritis, cancer that has been in remission for five years or longer, osteoporosis, diabetes (type II), hypertension, ulcers, atrial fibrillation.

Health Changed Considerably since Policy Issue—Hepatitis C, pacemaker, multiple sclerosis, TIA, sleep apnea, poorly controlled hypertension or diabetes, Parkinson's Disease, short-term memory loss.

Serious Health Problems—Multiple TIA's, heart failure, coronary artery disease, COPD, stroke, heart attack, lupus, emphysema, cancer (recent or recurring), cirrhosis, coronary bypass, Alzheimer's Disease, aneurysm, peripheral vascular disease, valve replacement or repair.

5) Cognition and Mental Health

Cognition and mental health is a contributing factor to the ability to remain independent and can become a degenerative state contributing to mortality. Alzheimer's and depression caused by loss of independence and need for long term care can take away the "will to live" and is a major contributor to compression of life expectancy.

6) Medications

Types of medications, dosage, frequency, and combination of medications (polypharmacy) in particular are all strong indicators of mortality issues. This is one of the first factors considered for longevity when moving into a long term care facility.

Epigenetics

One very exciting development that holds the possibility to change all of this is epigenetic tests that can determine how rapidly a person is aging as well as levels of more precise information about their health. YouSurance was just launched as the first Managing General Agent (MGA) to begin accepting saliva samples as part of its underwriting process.

The science behind YouSurance is based on epigenetics which, unlike genetics, modify gene expression due to extrinsic factors such as age, behavior and environment. By analyzing an epigenetic profile, YouSurance can assess an individual's health and wellness, which includes the rate of biological aging. YouSurance is the first company to apply this technology to life insurance—stay tuned to that development.