



## Critical Illness And/Or LTC: A Possible Solution?

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As the critical illness insurance market continues to evolve in the United States, carriers are adding new features to the products. We'll look at some here and then explore where this business may be going.

First, a refresher: Standard CI designs consist of a stand-alone health product, a rider on the chassis of a disability or life product, and an acceleration product that combines CI with a death benefit. The products are sold in the individual, worksite and group employee benefits channels, most of them paying a 100% lump-sum benefit should 1 of 3 core conditions occur: life-threatening cancer, heart attack and stroke, which together comprise approximately 75% of CI claims. Some policies pay a 100% lump-sum for other diagnoses, too, such as organ transplant, renal failure and paralysis. Still others pay partial benefits for conditions like cancer in situ, coronary bypass surgery and angioplasty.

The newer designs have added these features:

*CI buckets:* Here, the CI conditions are categorized into buckets or groups, and the product pays out for more than one CI if the subsequent CI falls into a bucket not already used. Example: A \$50,000 CI with 3 conditions, 1 in each of 3 buckets, could have a potential payout of \$150,000.

*Recurrence:* Some carriers now pay upon additional occurrence for the same CI—say, a subsequent heart attack (usually after a specified period).

*Group chassis design:* Worksite products may be designed on a group chassis to provide a carrier with rate flexibility and ease of compliance with state regulations. These products offer issue age rates along with limited portability.

*True Group CI:* Some carriers offer true group CI with guaranteed issue, along with an option to purchase additional amounts, subject to simplified underwriting. Group rates are usually guaranteed for 1-2 years. The product may provide limited as well as total portability.

*Activities of daily living (ADLs):* Some carriers now also offer “loss of independent living” as a CI condition. To trigger this, the insured must be unable to perform at least 2 of 6 ADLs (bathing, dressing, toileting, transferring, incontinence and eating)—a feature that provides a link between CI and long term care insurance.

CI policies still have 2 key areas of concern, however.

One is that CI products do not offer an inflation option. Some worksite products may offer employees an option to increase their benefit annually by deducting a specific amount out of their paychecks to cover the higher cost. But, given that CI does not offer the simple or compound inflation options common to many LTC policies, the value (purchasing power) of the CI lump sum declines over time.

The other concern is that many CIs reduce their benefit by 50% between the ages of 65-70 (the retirement years). Though many CIs are sold with full portability and lifetime coverage, this benefit reduction diminishes the potential value of the lump-sum payment during retirement, when CI events are more likely to occur.

If current CIs are offered with lifetime coverage and portability, lack of inflation protection, along with a benefit reduction at retirement age, lessens the value and impact of the CI's most important feature: its discretionary lump-sum payment.

Both CI and LTC represent asset protection products. The benefit trigger for CI insurance is upon diagnosis of the specified CI conditions, whereas the benefit triggers for LTC insurance are ADLs and cognitive impairment.

From a consumer's perspective, the question becomes, "Which product is better?"

Market surveys from the National Association for Critical Illness Insurance indicate that CI buyers are usually under age 55. However, the majority of LTC buyers are over 55. Yet the LTC industry continues to promote and encourage younger people to purchase LTC because the premiums are lower and the underwriting requirements are more likely to be met. As a result, CI and LTC currently seem to be competing for the same consumer: the pre-retirement population.

The federal and state governments provide incentives for the purchase of LTC insurance, such as tax incentives, the opportunity to pay LTC premiums with HSA monies, and asset protection from Medicaid spend-down requirements. Even so, LTC sales are not growing and are even declining. Meanwhile, CI sales grew modestly in 2004 and 2005, according to NACII research, and CI premium held steady at approximately \$130 million.

Both products provide asset protection for pre- and post-retirement. Pigeonholing CI as a pre-retirement product and LTC as a post-retirement product or encouraging consumers to purchase both products is not an affordable strategy.

A possible solution: Develop something comparable to lifecycle mutual funds that enable pre-retirees to make contributions to help fund their retirement. Since the asset allocation is done automatically, based on the age, this alleviates consumer concerns over deciding the appropriate allocation.

Perhaps the insurance industry could use this as a model for an integrated CI/LTC. Here, proper allocation of CI and LTC benefits would change as a person nears retirement age. This integrated product could also contain an inflation protection factor to maintain adequate benefits for both pre- and post-retirement years.

This is an era of consumer empowerment. Decision making has shifted from employer to employee in selecting the best insurance product(s) for one's healthcare and retirement needs. The industry's challenge will be to design an affordable, integrated CI/LTC product as a possible solution for these needs.

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