

Workplace Products

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Getting to Know You



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Supplemental Products

- Coverage that is NOT designed to be primary (e.g. not major medical insurance).
- Designed to pay in addition to and potentially overlapping primary coverage.

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Products

- Critical Illness
- Cancer only coverage
- Hospital Indemnity
- Accident/AME
- Disability

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What is Driving the Need for Supplemental Coverage?

- Health Care Reform
- Agent Need for Compensation
- Great advertising by AFLAC

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Excepted Benefits

•“Excepted” under the Public Health Service Act (PHSA)

– 300gg-91(c) Excepted Benefits

(1) Benefits not subject to requirements

(A) Coverage only for accident, or disability income insurance, or any combination thereof.

(B) Coverage issued as a supplement to liability insurance.

(C) Liability insurance...

(D) Workers' compensation...

(E) Automobile medical payment insurance.

(F) Credit-only insurance.

(G) Coverage for on-site medical clinics

(H) Other similar insurance coverage...under which benefits for medical care are secondary or incidental to other insurance benefits.

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Excepted Benefits

- Are not subject to ACA minimum loss ratio requirements!

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Hospital Indemnity

- Pays a set daily benefit for each day confined to a hospital.
- May pay additional benefits for other inpatient care.
- Often includes minimal outpatient benefits.

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Hospital Indemnity

•“Excepted” under the Public Health Service Act (PHSA)

– 300gg-91(c) Excepted Benefits

(3) Benefits not subject to requirements if offered as independent, non-coordinated benefits

(B) Hospital indemnity or other fixed indemnity insurance

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Hospital Indemnity

- Commonly considered to be an excepted benefit with no required change until FAQ released in January.

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Hospital Indemnity

• Issued January 24, 2013

• Q7: What are the circumstances under which fixed indemnity coverage constitutes excepted benefits?

- The benefits are provided under a separate policy, certificate, or contract of insurance;
- There is no coordination between the provision of the benefits and an exclusion of benefits under any group health plan maintained by the same plan sponsor; and
- The benefits are paid with respect to an event without regard to whether benefits are provided with respect to the event under any group health plan maintained by the same plan sponsor.

The regulations further provide that to be hospital indemnity or other fixed indemnity insurance, the insurance must pay a fixed dollar amount per day (or per other period) of hospitalization or illness (for example, \$100/day) regardless of the amount of expenses incurred.

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Hospital Indemnity

- Carriers are re-evaluating their current HIP products in order to determine if repricing is required.
- Loss of excepted benefit status would substantially increase the minimum loss ratio standard.

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Hospital Indemnity – Risk Selection

- In worksite, a reasonable spread of risk can be achieved with appropriate participation rates.
- Guarantee issue is common in worksite. Relies heavily on value of “actively at work” requirement and participation.
- Maternity coverage materially impacts costs.
- Some underwriting for individual sale or larger benefit amounts.

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Hospital Indemnity – Distribution

- Opportunities for sales created by ACA.
- Many recent and upcoming market entrants.
- Key motivation for entering market is to provide alternate compensation opportunities for agents. Some risk of “commission war” between carriers as they fight for agents.

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Hospital Indemnity – Pricing/Design

- Benefits to be covered
 - Based on “per diem” trigger
 - Simple
 - Low benefit
- Additional features
 - ICU benefits

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Hospital Indemnity – Assumptions

- Utilization rates vary based on benefit levels
- Underwriting standards
- Gender distribution

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Critical Illness

- Critical Illness Insurance pays a lump sum benefit upon diagnosis of certain critical illnesses or events.
- Common triggers are Cancer, Heart Attack, Stroke, Major Organ Transplant, Renal Failure
- Pays independently of and in addition to any other insurance.

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Excepted Benefit Status

- “Excepted” under the Public Health Service Act (PHSA)

- 42 USC 300gg-91(c) Excepted Benefits

(3) Benefits not subject to requirements if offered as independent, non-coordinated benefits

(A) Coverage only for a specified disease or illness

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Excepted Benefit Status

- Not “Excepted” under the Public Health Service Act (PHSA)

- 42 USC 300gg-91(c) Excepted Benefits

(3) Benefits not subject to requirements if offered as independent, non-coordinated benefits

(D) Hospital indemnity or other fixed indemnity insurance

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Excepted Benefit Status – State Response

- Not always “excepted benefit” for state requirements
- Require support as to ACA excepted status
- More questions about how marketed
- Regulator resources

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Critical Illness – Risk Selection

- Buyers have better knowledge of their risks for some critical illnesses.
- Guarantee issue is common in worksite. Relies heavily on value of “actively at work” requirement.
- Tobacco use associated with risk and is commonly a rating variable.
- Some underwriting for individual sale or larger face amount.

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Critical Illness – Distribution

- New wave of agents will be selling product. Potential for confusion. This is typically not the primary product in an agent's portfolio.
- Many recent and upcoming market entrants. Risk that carriers will introduce unnecessary risk in attempt to "one up" competition.
- Key motivation for entering market is to provide alternate compensation opportunities for agents. Some risk of "commission war" between carriers as they fight for agents.
- Growth in direct marketing as well.
- Product design influenced by distribution channel.

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Critical Illness – Pricing/Design

- What constitutes a "Critical Illness" or Specified "Disease"?
- Selection of triggers
 - Simple
 - Objective
 - Competitive

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Critical Illness – Pricing/Design

- Additional features
 - Recurrence
 - Wellness(??)
 - Combining with other excepted benefits

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Critical Illness

- First Occurrence (once and done) vs. Multiple Occurrence vs. Recurrence
 - Multiple Occurrence vs. Bucket/Category Approach
- First Ever (in lifetime) vs. First After (policy effective date)
 - Price differential depends on type of underwriting
 - With guarantee issue: First Ever < First After
- Risk Mitigation
 - Underwriting: Guarantee Issue < Simplified Issue < Full Underwriting
 - Policy Features: Pre-Existing Condition Exclusion, Initial Waiting Period, Separation Period, Age Reductions
- Benefit Trigger Definitions
 - Focus on core benefits with objective, quantifiable claim triggers

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Critical Illness – Assumptions

- Incidence rates for insured population
- Claims strategy
- Lapse rates – product is highly lapse supported
- Underwriting standards

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Critical Illness

- Annual Rate Certifications (not specific to CI)
 - FL and NC
- Special Format for Actuarial Memorandum (not specific to CI)
 - CO, FL, MN, and NY (others likely)

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Critical Illness

- State Specific Issues:
 - Waiting period issues (cancer and other benefits)
 - No benefit reductions allowed
 - Limitations on look back periods for underwriting questions

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Cancer – Standalone

- Cancer Insurance pays a benefit related to the diagnosis and treatment of cancer.
- May be single lump sum or provide various benefits.
- Common benefits are hospitalization, screening, first occurrence, surgery as well as radiation and chemotherapy.
- Pays independently of and in addition to any other insurance.

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Excepted Benefit Status

- “Excepted” under the Public Health Service Act (PHSA)
 - 42 USC 300gg-91(c) Excepted Benefits
- (3) Benefits not subject to requirements if offered as independent, non-coordinated benefits

(A) Coverage only for a specified disease or illness

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Cancer – Risk Selection

- Buyers have somewhat better knowledge of their risks for cancer thus can select against you.
- Single underwriting question is typical:
 - “Have you been diagnosed/screened/recommended for screening with cancer (or anything that could possibly be considered cancer) in the past ten years?”
- Tobacco use associated with risk and is commonly a rating variable.

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Cancer– Distribution

- Product line has a strong following among supplemental product distributors.
- Not seeing a strong wave of interest by new carriers unless marketed with more comprehensive voluntary benefit package.
- Generally considered as a necessary part of a supplemental portfolio but not typically the driver behind recruiting.

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Cancer – Pricing/Design

- Basic Components
 - Hospitalization
 - First Occurrence
 - Surgical Schedule
- Structure of Radiation and Chemotherapy Benefit
 - Largest risk exposure on product and many companies attempt to structure the benefit to mitigate risk.

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Cancer – Assumptions

- Incidence rates for insured population
- Claims strategy
- Lapse rates – product is highly lapse supported
- Underwriting standards

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Cancer and CI Insurance - HSA Compatibility

- Coverage for a specified diseases or illnesses are compatible with HSA.
- Coverage of procedures is not considered compatible.
- Disease definitions are key.

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