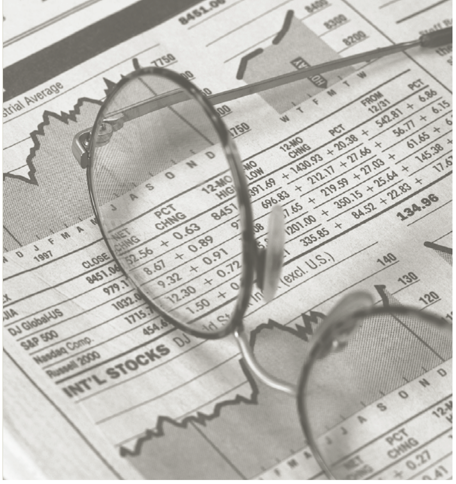



The Forecaster

# Courting Older Age Customers

December 2007

***As Baby Boomers approach retirement, the older-age segment of the population is receiving greater interest from life insurers as a growth market. Jim McArdle, Transamerica Reinsurance's Senior Vice President of Sales and Marketing, discussed older-age markets with Anna Hart and Rick Bergstrom, two members of a subgroup of the Society of Actuaries' Life Insurance Mortality and Underwriting Surveys Committee that dealt with older-age issues. While these opportunities are strong, they caution that underwriting and pricing this business is not "business as usual" for life insurers, and incorrect assumptions could have long-lasting profitability implications.***

***Rick is Principal of Bergstrom Consulting LLC. He received his bachelor's degree in mathematics and physics from Iowa State University and is a Fellow of the Society of Actuaries and Member of the American Academy of Actuaries. He also contributed to the 7/05 issue of*** The Forecaster ***("Managing Underwriting Programs for Success")***.

***Anna is Principal of ARHart Consulting, an underwriting consulting firm. She received her bachelor's degrees in psychology and sociology and her master's in gerontology with an emphasis in counseling from Baylor University.***

**By Jim McArdle**
*Senior Vice President, Sales & Marketing*

**By Anna Hart**
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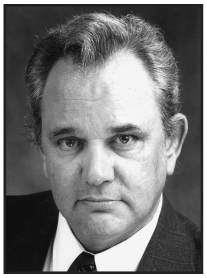

**By Rick Bergstrom, FSA, MAAA**
*Principal*
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## Jim McArdle: What motivates older age applicants to seek coverage?

***Rick Bergstrom:*** There are many traditional and some not-so-traditional incentives to seek coverage. Life insurance continues to play a role in estate planning, and demand could increase if the estate tax returns to pre-2001 levels. Also, there's still a need to cover burial and probate expenses, so we will continue to see many policy sales with lower face amounts.

Life settlements, though, have changed the playing field. Some individuals may find the lure of receiving a lump-sum payment from reselling a policy to a third party as a lucrative way to finance post-retirement income. This should be especially worrisome with non-recourse premium financing programs, also referred to as stranger-originated life insurance (STOLI), due to the effect on lapse assumptions.

***Anna Hart:*** Replacement is also a common motivation for older-age applicants, especially when existing inforce coverage has higher premiums than current product offerings. Or coverage may outlive its original intent, so older customers may buy products that better meet their current needs.

Actuaries have an opportunity to be creative in product design for the senior market. For the increasingly more affluent senior population, developing riders that address older-age life concerns such as long-term care or critical illness will drive sales.

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### JM: Why would a company sell high face amount policies to older individuals with no perceived need for such coverage?

***AH:*** I think many companies believe they understand this market segment well, and price and underwrite the business correctly. But selling large face amounts to people who cannot justify such coverage is dangerous. Especially when we consider STOLI, insurers may be trading short-term gain for bigger long-term losses. But with this age segment 'long term' isn't very long.

***RB:*** Some companies may just be following their customers and tailoring their offerings to this group's changing needs. In their view it's a practical move and possibly critical for growth.

## Pricing and Underwriting Considerations

### JM: What factors are particularly important for pricing actuaries to consider when developing products for older ages?

***RB:*** Persistency is a key factor in product development for older-age customers. This arises from two key areas: life settlements and anti-selection lapsation, each of which will tend to drive persistency higher. Even with growth in this market segment, people still have limited access to coverage, especially at the oldest ages. The lack of replacement opportunities, combined with possibly some minor health issues that have emerged since purchasing the original policy, influence the policyholder to keep the policy. As a result, better risks remain with the pool, improving the overall pool mortality.

However, product developers also should focus on policyholder behavior to identify instances of adverse selection. The industry has had a hard time modeling customer behavior, but it will become imperative in light of STOLI. What motivates a 75 year old to seek coverage?

***AH:*** It's equally important to understand producer behavior, especially if your company relies on independent brokers. If the people selling your product are the same people referring risks on to the settlement companies, they may be less forthcoming on the risk assessment of an applicant. If you have a career agency force, you insulate yourself a bit from this but not entirely.

Producer motivation becomes an agency issue in the life settlement arena. Independent producers should be working for the best interests of the client. Ethical issues are raised when a broker gains a commission on the policy sale, recommends settlement two years later and receives another big commission, and possibly even sells the client another policy. This situation could suggest a conflict of interest.

### JM: What risks have been introduced by offering products to older ages?

***AH:*** A company's underwriters and actuaries may not fully understand the factors associated with older age mortality and underwriting that risk. If a company were to underwrite a 70-year-old risk identically to the way it underwrites a 35 year old, they're liable to develop inaccurate or simply wrong conclusions – and we see this sometimes, especially with preferred.

***RB:*** Preferred criteria at older ages really do change. Our major criteria – body mass, LDL, smoking status and blood pressure – just don't behave like they do at younger ages.

### JM: How do these underwriting criteria change for older ages?

***AH:*** Traditional underwriting techniques don't always capture the issues most important in evaluating older-age applicants. Frailty and cognitive concerns need addressing through different tools. Questions regarding depression, social activities and exercise are needed to accurately assess the risk. Activities of daily living are also important to note along with any history of falls.

As for preferred underwriting, for the elderly you need to balance some of the factors – a little extra weight is better than underweight, which could represent a serious underlying undiagnosed health condition. Blood pressure is important, but pulse pressure, which is rarely considered, is more important. As for cholesterol, there is considerable evidence to support the importance of low LDL as a more predictive and concerting factor than overall cholesterol.

Smoking status is more complicated. Tobacco use should never be minimized, and an individual with a 50-year pack-a-day history who stopped smoking should never be considered a nonsmoker. But if such a person has not exhibited any smoking-related morbidity, it's less likely that these complications will emerge and shorten life expectancy.

But these are not as important as some of the factors less frequently considered which address frailty and cognitive issues. Some newer lab tests are strongly correlated to mortality and should be considered as part of a lab panel – CBC (complete blood count) to check for anemia, which has strong correlation to early mortality, pro-BNP (brain natriuretic peptide) to assess congestive heart failure, and hs-CRP (C-reactive protein), to detect infection, inflammation and autoimmune issues. These tests are now being used more frequently.

### JM: How would you define 'frailty'? Is there an industry standard?

***AH:*** Frailty is a decline in functionality, the degree of which is usually determined by the medical director. Multiple factors, including certain lab values, or individual's ability to 'get up out of a chair' can help assess frailty. Fall frequency is a good determinant as well.

Weight training can help treat and prevent frailty issues, and questions regarding exercise can help assess this. Clinical literature is the best source for information to help quantify the excess mortality risk involved. Some companies use LTC data as a proxy to help measure frailty. Many lab chemistry values are also associated with increased frailty. The underwriter should look to the medical director for specific insight on these tests.

## Determining Preferred Durations

### JM: What are your views on offering preferred or super-preferred rates at old age?

***RB:*** In reality the good mortality wears off quickly, and I firmly believe that a company should offer no more than one preferred class at age 85. Still, having a preferred class is attractive to the producer and the market. Ultimately, though, I'm not sure how much savings in premium there is.

### JM: How quickly does the selection period wear off?

***RB:*** Above age 80 the selection effect wears off very quickly, perhaps within three to four years, and the select table is not effective for long either. The real select period is probably no more than seven years over 80, and no more than four years over 85. For select at age 90, it's probably two years, at most, for standard plans.

***AH:*** Most underwriters do not sufficiently understand the select period. It can be viewed as the 'effect of underwriting,' which is point-in-time. The more complete your risk assessment, the better you can feel about the initial level of expected mortality. As the individual ages, the beneficial effect of underwriting is shorter because a health change has more impact and progresses more quickly. An individual who falls at age 40 would probably have no resulting long-term mortality impact. However, a fall at age 80 can ultimately result in death.

## Underwriting Alternatives

### JM: What alternatives or complements to traditional underwriting are being explored?

***AH:*** In addition to age-specific questionnaires and assessments, depression and self-perceived health also should be addressed. Statistically, individuals with either a positive perception of their health or lack of depression are likely to be healthier in spite of pre-existing health conditions. Specific questionnaires for this area are available and adaptable to this market.

Often overlooked for this age group is an applicant's exercise habits: what exercises the applicant does, how often, whether the applicant has a personal trainer or gym membership. In addition to providing information on the applicant's physical abilities, exercise usually involves social interaction and better frame of mind.

### JM: Cognitive function testing is seen as a promising area to complement traditional underwriting. Which tests specifically receive the most attention?

***AH:*** Many cognitive tests are available; however, for life insurance the most frequently

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used are word recall and clock draw. The MMSE (Mini Mental Status Examination) is a longer and more involved test and is often used with more clinical tests. Policy size should determine which tests should be used from a cost-benefit perspective.

### JM: What are the strengths and weaknesses of these tests?

***AH:*** If properly administered, tests can augment information gathered through traditional underwriting means. They help the underwriter understand the applicant's psychological wellness as well as mental acuity.

But the tests have some drawbacks. Some companies are looking for cognitive testing to not just enhance but replace traditional underwriting techniques. While we're getting better at interpreting test results and translating results into mortality impacts, I don't think we're completely there yet. As a result, both medical directors and underwriters need enhanced training when evaluating older age applicants with some degree of cognitive deficit.

The to with delivering accurate results lies in consistency – in administration, grading and ultimately applying test scores as a risk factor. By introducing the human factor into the process, we risk adding error or bias in administration and grading. A chair with a specific height must be used in every test administered in the sit down/stand up test to get meaningful results. Using the same delay in the word recall test is equally important.

Likewise, the applicant's disposition at the time of the testing may produce inaccurate results. Mood, distractions or other outside factors can weigh on the applicant's results. The worst case for the tester – and the issuing insurer – would involve testing someone on a day when they were 'having a very good day.'

### JM: What role does/can prescription drug history play in life risk assessment?

***AH:*** With the changes in the Medicare prescription drug database, information about individual prescription drug use is accessible through a pharmacy benefit manager (PBM) inquiry. Often elderly do not disclose all doctors or medications when completing a life application. A PBM inquiry provides drug history, use, prescribing physician, last refill and 'traditional use of medication.'

***RB:*** Prescription data today is much more prevalent than even ten years ago. In addition to the large chain pharmacies, the corner drug stores' prescription data now are more likely to be available through a PBM. So there's a better chance of getting more complete information than ever before. And while PBM inquiries for all applicants can be helpful, it's especially true for the senior market.

***As Rick and Anna point out, the standard approaches to pricing and underwriting are not as useful at older ages as they are for the traditional 35-50 age group. Transamerica Reinsurance is helping our clients navigate these uncertainties in a number of ways. For more information, and for the complete discussion with Rick and Anna, please visit our website.***

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