

DNA And Long-Term-Care Insurance

APRIL 2, 2018 • BEN MATTLIN



Do you know your genome?

With the easy availability of personal genetic information through companies such as 23andMe, more and more people are discovering not just their ancestral histories but their own exact DNA makeup, including their likelihood of contracting certain illnesses.

While that may be good news for consumers, the implications for insurance carriers are not so clear. Foreknowledge of future health issues can be a double-edged sword, particularly in the long-term-care (LTC) insurance business.

“It seems likely that, in the future, genetic screening will be used to facilitate early interventions that could result in reducing or eliminating more dire health consequences,” says Kimberly Foss, a certified financial planner and founder of Emyrion Wealth Management in Roseville, Calif.

That’s the good news.

On the other hand, she adds, “If genetic screening becomes a routine part of insurance underwriting practices, it will likely lead to more denials of coverage or, at the very least, increased premiums for those deemed to be most at risk.”

The term is “genetic discrimination.” It was outlawed for health-insurance carriers in 2008’s Genetic Information Nondiscrimination Act, but that restriction does not apply to LTC insurance or, for that matter, life insurance. “There are cases on record of applicants for life insurance being declined for coverage because of the presence of the BRCA mutation,” says Foss, referring to the genetic marker associated with breast cancer.

So far, there are no known cases of genetic discrimination in LTC insurance. But that could change soon. “A few of the DNA data providers are already reaching out to LTC insurance carriers,

suggesting they offer discounts for clients to get tested,” says Samantha Chow, a senior analyst at Aite Group, a Boston-based research and consulting firm for the financial-services industry. “So the engagement side of this is happening already.”

Chow acknowledges that many consumers are uneasy about what insurers may do with the information. But the carriers’ reasons might not be as nefarious as feared.

“Most carriers are thinking of using DNA results as ways to help improve policyholders’ health—to make their lives better and longer,” says Chow. If they offer DNA testing after signing a client, not as a prerequisite for qualifying, the providers can follow up with health advice, she says. “Here are a couple of tricks, things you can do to help prevent medical problems,” she explains. “That’s a win for both sides! The policyholder gets the health improvements, and the carrier ends up paying less benefits and receiving premiums for longer.”

Yet there are potential problems with this happy scenario, Chow readily admits. First, healthy people tend not to buy insurance. “If you know that you don’t have any of these genetic markers that might lead you to need long-term care when you get older, that might deter you from buying LTC insurance,” she says. “It’s a sort of catch-22.”

Second, genetic testing is far from a perfect predictor. “Even the genetics companies warn that you can get false positives,” says Chow. “For example, I might carry the breast cancer gene mutation, but that doesn’t mean I’ll ever end up with breast cancer. It may never surface in me. So refusing to underwrite someone based on the assumption that, because of the presence of a genetic marker, she’s going to develop breast cancer would be unfair, since the data could be flawed.”

A third problem is that not all conditions can be treated. “Genetic testing can identify those more likely to develop Alzheimer’s disease,” says Foss, but “there is no effective medical intervention presently known.”

That may be true, but if genetic knowledge leads to better health overall, even if not for each individual, couldn’t it still save insurers money? “In the past, advancements in medicine have made it possible for insurers to offer coverage to more people,” notes Jack Dolan, a vice president at the American Council of Life Insurers in Washington, D.C., who has studied the effect of genetic information on the insurance industry. “For example, 50 years ago consumers who had a heart attack may have had a difficult time finding life insurance. Today, medical research and advances have enabled insurers to better assess the risk and possibly offer coverage.”

A 2009 study by Emily Oster and other researchers at the University of Chicago found that those who know they carry a genetic marker for disease are far more likely to purchase LTC insurance than those who don’t. “Individuals who carry the [Huntington’s disease] genetic mutation are up to five times as likely as the general population to own long-term-care insurance,” the report concluded.

While that may sound like good news for purveyors of the insurance, it actually could have a deleterious effect down the road, the study finds. If the customer base is disproportionately made up of people who are likely to need LTC services, the carriers will be burdened with many benefits claims. “Even relatively limited increases in genetic information may threaten the viability of private long-term-care insurance,” the report stated.

Dolan says that if underwriters don’t have access to the same genetic information as their customers, that’s a distinct and potentially costly disadvantage for the insurance providers. If, on the other hand, companies do have that information, they might choose not to cover those customers at all, or at least charge them a higher premium.

“At this point,” says Foss, “I would say genetic screening is not good news for most people trying to obtain LTC insurance.”

F. Michael Zovistoski, a managing director at UHY Advisors NY, a fee-based advisory service, puts it another way. “If we were able to segregate those with the DNA that [makes them] most likely to have Alzheimer’s,” he says, “they would conceivably be the only individuals shopping for LTC insurance, and the cost would potentially skyrocket even greater than today.”

Clearly, the pricing is at least partly related to the underwriting. The more data the underwriters can crunch, the more appropriate the pricing. Early LTC policies are understood to have been underpriced in part because of inadequate data.

“When LTC insurance was launched in the 1970s, the product was designed, marketed and regulated as a level-premium product, which we know today was a flawed pricing model,” says Julie Westermann, a senior director at Richmond, Va.-based Genworth Financial, a leading supplier of LTC insurance. She says several decades often elapse between the time a long-term-care policy is purchased (typically, when the clients are in their mid-50s to early 60s) and the time policyholders make claims (generally when they are in their 80s).

That means “carriers were expected to predict what would happen to risk drivers during that time, including mortality, morbidity, and lapse and interest rates,” she says. “In fact, those trends were unknowable, and, as a result, carriers suffered billions of dollars of losses.”

Since then, many carriers have exited the industry. Many of the survivors have “had to seek high, double-digit premium increases,” says Westermann, “to ensure that premiums were adequate to pay future claims.”

If DNA data leads to more accurate risk assessment and, therefore, more appropriate underwriting and pricing, that would ultimately be good for the industry and for policyholders. Rates might even stabilize.

Wishful thinking, perhaps. Fortunately, there are other innovations in the offing, too. Some carriers use data mining to draw conclusions about potential policyholders' health prospects. Those individuals who maintain a gym membership and shop at health food stores, say, are likely to be in better shape than those who frequent fast-food establishments, the reasoning goes.

"That is happening already, and it's already impacting underwriting and premium rates," says Chow. "Companies are applying social information from all sorts of third-party sources. People are scored based on their histories and demographics."

At the same time, there are other innovative ways LTC insurers are trying to improve their underwriting standards. "For the longest time, LTC products have been underwritten based on mortality rather than health," says Chow. "But now carriers are using more health-type measures. ... Mortality, after all, is not a great predictor of the need for LTC services. This was one of the reasons the industry got in trouble before."

Genworth is working with state regulators to try to implement annual premium adjustments based on claims, similar to the way policies on homeowners and auto and health policies make pricing decisions. "This is completely opposite of the way long-term-care insurance policies historically have been regulated, where carriers had to wait so long for actuarially justified increases that they incurred large losses and were forced to raise premiums by double, even triple digits," says Westermann.

She is optimistic. "When this new framework is enacted, it can spur a stronger and more attractive private sector solution to helping Americans address the financial challenges of aging, which is especially important as government programs are increasingly facing budget cuts," she says.