

# The Decision



with **Karen Orozco**, AVP & Chief Underwriter

## Older Ages ... a growing Canadian market

**One of the fastest growing markets in Canada is the older age market. For life insurance, this generally means applicants age 70 and older. This is a potentially large market for life insurance sales in Canada and provided the proposed insured is healthy, there should be few challenges in getting through the underwriting process.**

### Background

Underwriting in the 70 and older age range is very different than the younger age market. For ages 20 to 35, the underwriter is concerned about increased exposure to accidental death. Ages 35 to 55 are the years when the underwriter becomes concerned about early indications of premature death from disease, whereas ages 55 to 69 can also involve recovery from disease. Insurance applicants aged 70 and older may already have had a heart attack or cancer at some time in the past and are more likely to have chronic conditions such as diabetes or arthritis. The challenge is to determine which of these applicants is “living well” despite their medical history versus those who will not survive to their normal life expectancy.

### Underwriting the risk

The underwriter needs a lot more information than they are normally presented with to better assess the elderly applicant. According to the 2003 Canadian Community Health Survey, over 70% of the seniors surveyed indicated they were in good health, which is defined by the World Health Organization as “not merely the absence of illness or infirmity, but a state of complete physical, mental and social well being”. The survey found that seniors who exercised daily, ate five servings of fruit and vegetables each day, consumed moderate amounts of alcohol and belonged to social organizations were in better health than those who did not and the effect of these behaviours is multiplied; the greater the number of behaviours, the better the effect on longevity. The issue is how the underwriter can access this type of information about the applicant.

To develop a complete picture of the proposed insured, we request full chart records from the attending physician. The information in the doctor’s file helps the underwriter understand the health, independence and mobility of the applicant. Although in some regions there is a shortage of physicians, Statistics Canada’s recently published “*A Portrait of Seniors in Canada*” indicates that 93% of seniors aged 65 to 74 had regular physicians and only 10% of seniors in this age group had not seen a physician in the previous 12 months. This indicates that older age applicants generally do have an attending physician they see annually. There is a wealth of information in the Attending Physician Statement (APS) that helps the underwriter better classify the risk and, in fact, with more information, the underwriter can usually make a more favourable decision than if an APS summary alone is used.

Other tools currently used include the Mature Age Focus Interview, which provides additional detail about activities of daily living and independence in addition to the traditional medical exam, blood profile, etc. A cover letter providing an overview of the purpose of the sale and details regarding the lifestyle of the applicant are essential to a smooth underwriting process in this market.

## Financial underwriting

Financial underwriting is as important in the older age market as the general market. The needs for insurance are very different, and the potential for anti-selection is greater. Most people look after their life insurance needs well before their 70s; however, if the applicant owns a business or a property that has accumulated value over the years, there may be estate redemption needs that exist now that did not before. Red flags that concern the underwriter in this market are cases where the insurance purchase is initiated by the applicant's children or where the insured is buying insurance for the first time. Applications where this is the case will be scrutinized closely as these sales are generally anti-selective; no one has more information about the proposed insured than the proposed insured himself or the children who are noticing a decline in their parent's health.

An interesting change is taking place in this market regarding financial underwriting. There are more and more Canadians working beyond age 70, meaning we have to start considering some income replacement needs in this market. Statistics Canada in "*A Portrait of Seniors in Canada*" indicates that in 2004, there were 300,000 seniors actively employed in Canada and this number is expected to increase over the coming years.

Where a sales concept such as a "triple back-to-back" is being used, it is important to provide as much information as possible in the application, including a breakdown of net worth and income details. In other scenarios, if the premium exceeds or is a large percentage of the applicant's income from all sources, the underwriter will want to understand the source of the premium funds. If there is a loan, the underwriter will need to understand why the loan is being taken out. Again, the cover letter explaining the sale will help the underwriter understand the purpose of the insurance.

## The Decision ...

With all of the information gathered, the underwriter makes a decision based on the risk factors presented. As noted earlier, this is a different decision than on a younger age applicant. Underwriters aren't usually concerned about a 35-year-old who has fallen once or twice in the last few years (barring any substance abuse problem); however, in a 76-year-old, a fall can indicate a problem with balance which could be due to a medical condition. A 76-year-old falling on the ice in January on the way to dinner with friends is a different risk than the 76-year-old who fell in her home after getting up from a chair. Conversely, a 55-year-old who had a heart attack 15 years before may be approved with a high substandard rating while the 75-year-old who had a heart attack five years before may be issued with a much lower rating even if the extent of the disease was the same in both applicants. In the older ages, we expect a certain amount of disease to be present; it is the applicant's ability to cope and recover from disease that determines if the application will be approved.

To ensure success in the older age market, it may be advisable to submit the application without ordering all the age and amount requirements, especially if there is existing medical history. Allowing your underwriter to order the APS first to determine insurability will cost some time initially, however it will save the applicant from undergoing routine age and amount requirements if the case will be rated and cannot be placed, or declined. Once the age and amount requirements are completed, the case can be issued quickly since the APSs have already been obtained.

One final issue worth noting is that underwriting older ages generally takes longer than the average case due to the additional requirements. Investing time in a cover letter and completing the medical section of the application with all details, including doctors and medications will help expedite the process.

**The older age market is increasing in size and as their insurance needs grow, you will probably encounter opportunities to sell in this market. Manulife has the expertise to underwrite these cases and based on our experience, and that of John Hancock in the U.S., we have developed an industry-leading approach to this market.**

**By Karen Orozco, Chief Underwriter, Individual Insurance**



## Geriatric Underwriting: Opportunities and Risks

By Rubin Becker, M.D., FRCP(C)

### Demographic changes

The proportion of people over 65 has almost doubled in Canada over the past 50 years and will again double in the next 50 years. Currently, approximately 13% of our population is over 65 and by 2005, Canada will have close to 27% over 65. During the same period, the over-85 population will quadruple. Most dramatically, Canadian centenarians will increase from about 6,000 today to 100,000 by 2050. In the U.S., a similar trend will result in 1 million Americans over 100-years-old by 2050. These changes are the result of the aging of our baby boomers, combined with greater life expectancy.

While the top causes of death at younger ages include suicide and circulatory problems, the five most common causes of death at older ages include circulatory problems, malignancies, respiratory problems, accidents and liver diseases. Applicants that Manulife insures as “standard” at age 65 can expect to live to age 85 (men) and 88.5 (women). With advanced medical technologies and improved socioeconomic conditions, we may, with time, challenge the traditional longevity limits.

These changes make underwriting the elderly a much more attractive target market.

### Underwriting advantages and difficulties

As the population is older, the expected death rate increases with less unexpected deaths witnessed. There is more available medical information, so the file can provide a more detailed understanding of the health of the client. There is less concern with risk factors, as most conditions will already be present in the older age groups. Family history can offer a credit for clients showing greater longevity among family members. Given the extensive available information that can influence decision-making, the role of the underwriter in the older age groups is even more valuable.

The underwriter is challenged by the presence of many more medical conditions, some with interactive effects. The dossiers are often incomplete and there is greater need to get an APS from many doctors. The lack of normative data and lack of medical expertise in assessing the elderly client increases the uncertainty in our underwriting efforts. We are now more concerned with information related to cognition, falls and functional capacity, as these become important predictors of shortened life expectancy. It is increasingly important to distinguish the frail elderly from the healthy older client.

The more arduous process of underwriting the older age groups results in lower placement ratios. This creates greater frustration for advisors. It is also difficult to recognize the “Investor Owned Life Insurance” (IOLI) policies, which tend to carry higher underwriting risks. The advisors seek greater communication with underwriters in order to manage some of this frustration. With better information about our elderly clients, it is expected that our risk assessment will increase and placement ratios will improve.

### Frailty

Recognizing frailty in the review of potential clients is the most important challenge for underwriters. Loss of weight, low BMI, lower albumen and lipid levels should raise suspicion of a frailer elderly client. A history of recurrent falls, abnormal posture or unsteady gait should be considered as markers of frailty. Our medical exams should include comments on gait and posture with a complete neurological evaluation. A timed-up-and-go test can offer more objective evidence of gait difficulty. An appropriate review of ability to perform activities of daily living is also helpful to distinguish healthy elderly from the frail

impaired. Cognitive impairment progressing to Dementia is much more common with increasing age, and over age 80 affects more than 30% of the population. Cognitive loss is associated with an early mortality at all ages and needs to be considered in evaluating the risk of our elderly clients. Our assessments need to include a screening test for cognitive impairment. Respiratory function is also an independent measure of frailty and early mortality. However, routine testing of respiratory function may be impractical in the screening of our clients. Finally, an evaluation of the lifestyles of our elderly clients can be very useful in evaluating risk. Higher-level education, regular exercise and modest alcohol use are all associated with better survival. Continuing to drive a car may reflect more independent functioning but is also associated with a higher fatality rate for elderly drivers, particularly in the presence of some cognitive loss.

The underwriting approach for older ages can be modified when considering many common conditions. For example, coronary artery disease is very prevalent in the population over 70 years old and especially in the over-80 age group. Therefore, the presence of stable coronary artery disease does not warrant additional ratings in the older population. With a successful bypass or stent, this older age group may experience even more favourable survival than elderly without evidence of cardiac disease. Similarly, certain cancers, such as prostate cancer, have less impact on mortality as the person ages. In an 80-year-old man, watchful waiting for a higher PSA is a reasonable strategy for medical management as the disease progression is often very slow. These situations can become insurable in the older ages.

**In conclusion, the elderly represents a challenging but very attractive market for the insurance industry. With better evaluations of our clients and ongoing education of our underwriters, the market for older age insurance, as well as placement ratios, will dramatically increase in the next decade.**

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**Tip: Learn about underwriting Long Term Care insurance in the October issue of [Risky Business](#).**