Mature age underwriting
"How much?"

The American population continues to age. Based on 2010 census results, there were approximately 26 million individuals between age 70 and 89, representing a little over eight percent of the population. Other sources indicate that upwards of 10,000 individuals turn 65 everyday.

The senior market, generally individuals aged 70 and older, is comprised of many retirees. However, a substantial and increasing number of this group continue to work—full-time or part-time—for various reasons, including as a means to make ends meet.

This market has presented its challenges, and the insurance industry has adjusted existing underwriting protocols in response to the additional risk that may be present, but not easily detected through the normal risk selection process in place for ages under 70. We have added cognitive, functional and specialized lab testing to identify additional risk. We have adjusted our financial criteria in relation to high face amounts in light of prior STOLI and IOLI concerns (third party financial documentation, 4506T use, Internet searches, post-issue checks, etc.). Virtually all the changes that have been implemented to date were reactions to poor initial experience on large face amount cases in the older age market. Most changes were implemented in order to better assess the medical risk, though the financial criteria were basically adjusted in response to STOLI and IOLI prevalence throughout our industry. These changes have helped mitigate risk to some degree, and we should expect to achieve satisfactory underwriting results the longer these practices are in place.

Nonetheless, this segment of our population has insurance needs that must be met. With the economic recession and ongoing weak recovery, we will be faced with an expanding group of potential clients with more modest needs. While we should anticipate seeing more applications with lower face amounts, we still must be able to assess the medical and financial aspects of a risk in order to make the appropriate offer as it applies to classification and amount.

Here are some facts that need to be considered as we market our products to seniors:

- Social Security benefits are all, or most of, the monthly income for about 75 percent of single individuals aged 65 and over (Social Security Administration).
- 33 percent of senior households either have no money at the end of each month or are in debt after meeting essential expenses (Institute on Assets and Social Policy),
- Of adults aged 65 and over, 14 percent face retirement with a negative net worth (Aging and Bankruptcy, U.S. Courts).

Noting the above, what criteria or guidelines do you have in place to aid in assessing whether the face amount being requested is appropriate? What tools do you utilize to assess the validity of the financial data provided? Remember, the economic landscape has changed. Before the recession, most considerations at the older ages involved estate preservation scenarios.

We must be prepared to meet the changing insurance needs of our senior population. For those still employed, by choice or out of necessity, there will be a need to protect the income stream. What is a reasonable amount? The need to cover final expenses will be ever present, but those costs continue to escalate, so, how much is makes sense? The decision must involve a reasonable assessment related to life expectancy, as well as an attempt to somewhat gauge future economic conditions such as inflation, income growth and expenses. What is a reasonable growth factor? Is it two percent, five percent, something in between, or a factor greater than five percent? Should the growth period be the estimated life expectancy or an abbreviated period? These are all questions that need to be considered and adjustments made as economic factors change.

What tools do we use? The application should contain questions requesting income and assets and liabilities to estimate net worth. Additionally, request the source of the income: is it earned, unearned (investment related), pension-related, Social Security benefits, etc.? Also, don't hesitate to ask questions about the nature of both the assets and the liabilities. Is one of the liabilities a looming medical expense that may continue to rise in cost and seriously deplete the asset base? Try to verify assets via property searches. Utilize credit reports to gauge a prospective client's ability to maintain a satisfactory record of payments as it relates to financial transactions. Perform bankruptcy checks as necessary.

Be aware of any existing insurance. When this is added to the pending coverage will the total be appropriate? If the purpose of the new coverage isn't apparent, ask questions and obtain documentation related to the ultimate purpose and total line of coverage as necessary.

Pay particular attention to who is applying for the coverage. Is it the proposed insured, the spouse, a child? Is the child (applicant/owner/beneficiary) the sole means of support for the senior, who may have a limited income and negligible or non-existent assets? If so, pay particular attention to the amount of coverage and the information supplied to support it, and make every attempt to verify its accuracy. The possibility of over-insurance is very real in these circumstances and ultimately, the insurance could be a windfall for the child.

You will continue to see applications related to estate preservation. Is this truly the need that is being addressed? Be aware of current and possible future regulations related to taxation and estate transfer. A number of these supposed "estate preservation" applications actually involve "wealth creation," which is not the core purpose of life insurance. So be persistent and question all applications that appear to be "wealth creation" before you consider offering coverage.

Another factor to keep in mind is the proposed insureds' ability to pay. Does your company have guidelines in place related to how much income should be used to buy life insurance? Do they vary by age, income and/or wealth? If they vary by income or wealth, what do you use to verify financial data? Tax returns? Third party financials? Do you verify the source of the third party financials? Do you question the relationship between the third party source, the agent/broker and the proposed insured/applicant? Are there guidelines in place for proposed insureds whose sole source of income is Social Security benefits (see factors above)?

The underwriter's job is to identify applicants who are insurable, determine the cost based upon the medical factors, and establish the appropriate amount based upon the financial picture they are able to develop from all the sources available. The senior market can be fraught with challenges due to medical concerns, limited life expectancy, limited financial resources, inability to continue premium payments, etc. If the underwriter is up to the task, taking all factors into consideration, there is every reason to suggest that the senior market can be profitable and persistent, and we can meet the needs of these seniors with products and features that are attractive, easy to understand and cover the intended and readily identified need.

Gary Haddow
Risk Management Consultant
Munich American Reassurance Company