Post Retirement Healthcare

Speaker : Shirley Tan
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Improving Retirement Security in Singapore
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6 Key Risks at Retirement that Affects Healthcare

Longevity Risk	Can your money last a lifetime?	No one knows how long the money must last
Inflation Risk	Medical cost rise faster than general inflation	Retirees medical cost raise even faster than average medical costs
Employment Risk	Employability of older person	May risk losing company's healthcare benefits
Unexpected Healthcare needs	Sudden health problem or complication of chronic conditions	Hard to predict individual costs, even harder to predict far into future
Lack of available care facilities	Low supply but high demand	May lead to high costs
Loss ability to live independently	Can be sudden !	You need care facilities

How Post Retirement Healthcare Cost can disturb your plans

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During employment, we use employer-paid medical care. At retirement, company's coverage is lost

Increase life-expectancy means we have more years to fall ill

Cost of medical care is rising faster than general price inflation

Technology may cure but it comes at a dear cost

Cost of medical care varies between individual. Some spend very little until final illness, others develop chronic conditions and incur above average expenses for years

Retirement medical care is divided into 2 buckets : regular medical & long term care

Medical cost is not spread evenly over retirement. Expenses generally increase over time and bulge in the later years

Post-retirement healthcare cost

Expect higher healthcare cost during post-retirement period

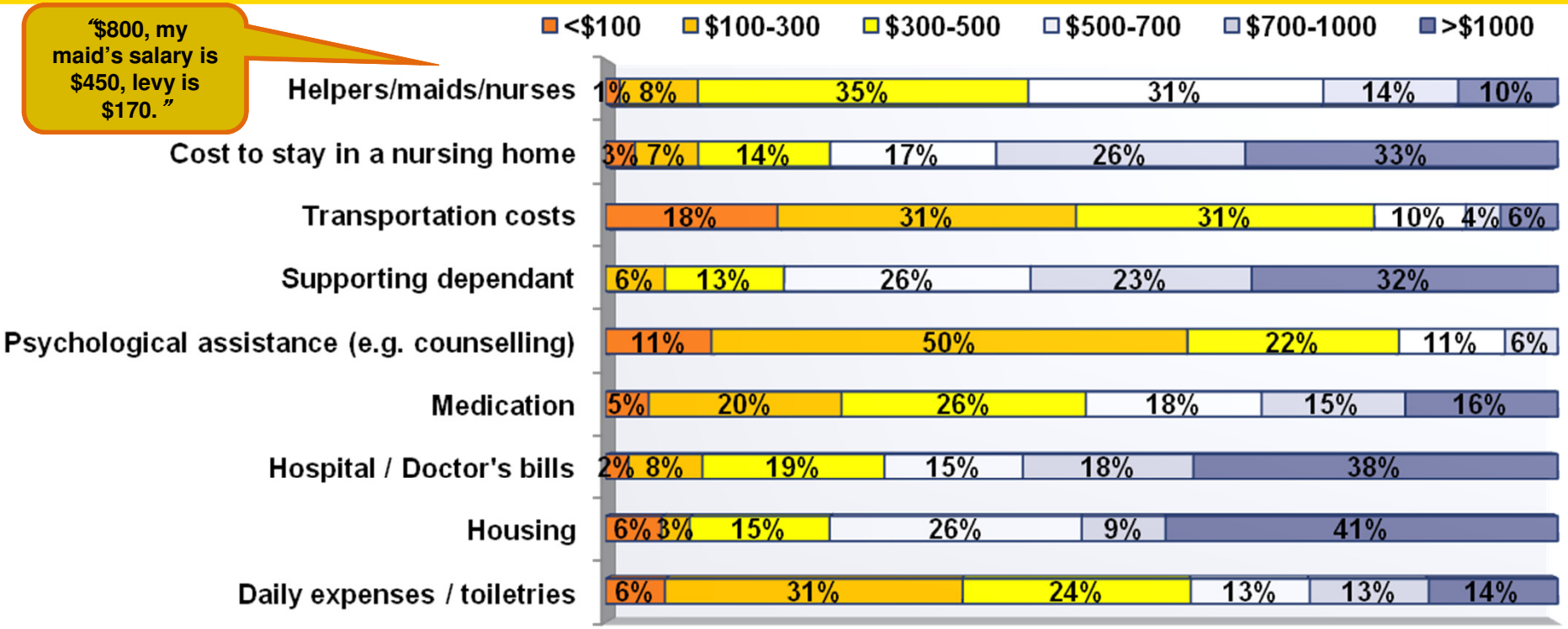
- Acute Care
- Chronic Care
- Long Term Care
- Hospice Care

- ✓ Outpatient cost
- ✓ Inpatient cost
- ✓ Institutional Cost
- ✓ Insurance Premium
- ✓ Co-payments
- ✓ Expenses not covered by insurance

Healthcare Cost : Perceived vs Actual

Example : Cost Perception on Long Term Care

"$800, my maid's salary is $450, levy is $170."



"Nursing home, you need 3,000 but if you are subsidized, you only need to pay 700. So it depends on your family, if you have rich children, you got to pay 3,000 to 4,000, because you do not have subsidy."

Based on consumers research conducted by Aviva in Oct2011

Actual Costs incurred by Claimants on LTC

	Claimant 1	Claimant 2	Claimant 3
Medical bills	300	600	200
Transportation	200	400	200
Maid	NA	650	NA
Therapy	1000	NA	800
Miscellaneous (food, equipment, etc)	500	250	300
'Hope' cost (like Traditional Chinese Medicine, donations)	NA	400	300
Total cost per month	SGD 2000	SGD 2300	SGD 1800

Based on research conducted by Aviva in Oct2011

Estimation of post-retirement healthcare cost for someone age 65 today

	Private Care	Public Care
Integrated Shield premiums	65000	48000
Rider Premiums (to cover co-payment)	26000	21000
ESH supplement premium	30400	30400
GP visits	1920	480
SP visits	2240	1200
Dental visits	1120	640
Expenses not covered by insurance	Not estimated	Not estimated
Expected Total cost	126680	101720

Notes:
1)The amount does not account for medical inflation or premium increases
2) Cost accumulated from age 65 to age 81 (16 years)
3) Assume 3 GP, 1 SP and 1 dental visits a year
4) Assume $1500/ mth ESH supplement

Key Lessons

Expect more than $100,000 for retirement healthcare expenses.

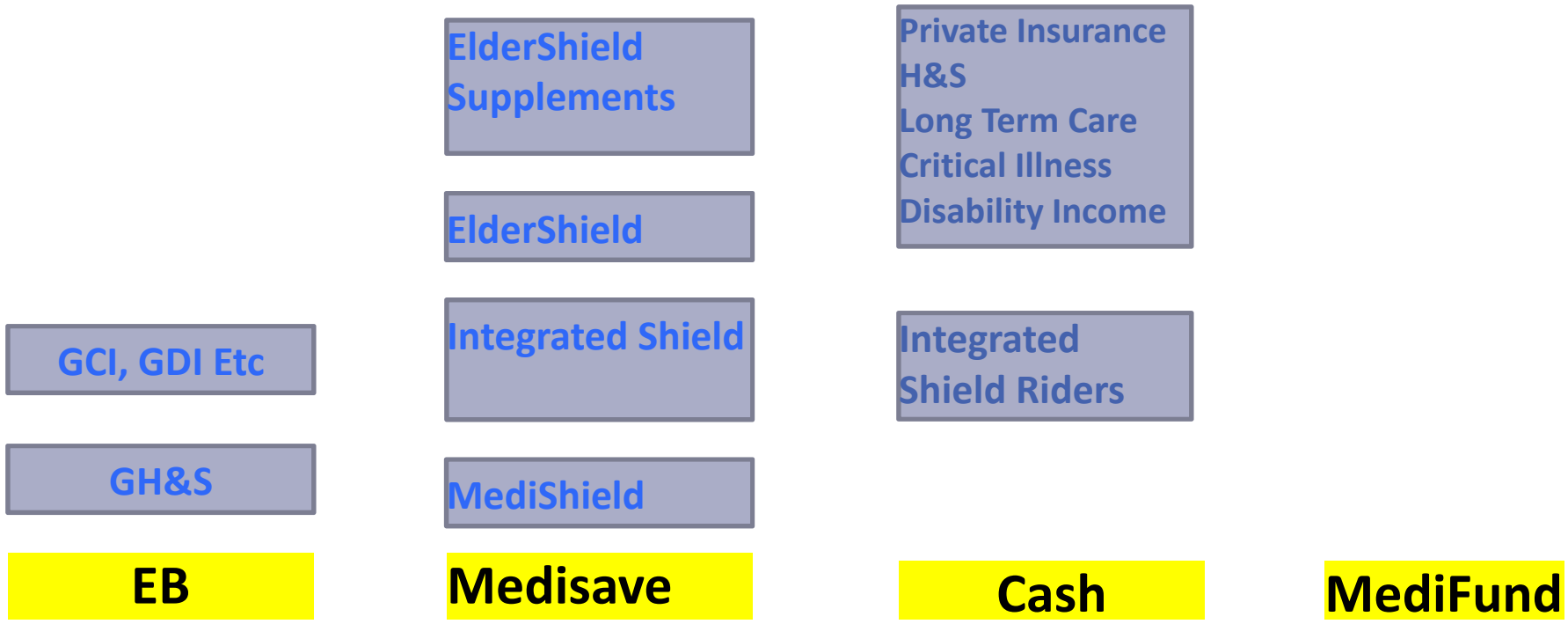
Estimating retirement medical cost is difficult and is probably a cause for many failed retirement plans

There is widespread confusion about what medical care will or can cost – A confusion that can lead to poor financial planning !

Lack of preparedness appears in the way consumers buy health insurance – most do not shop for it and prefers to stick with products they know or with their current insurer

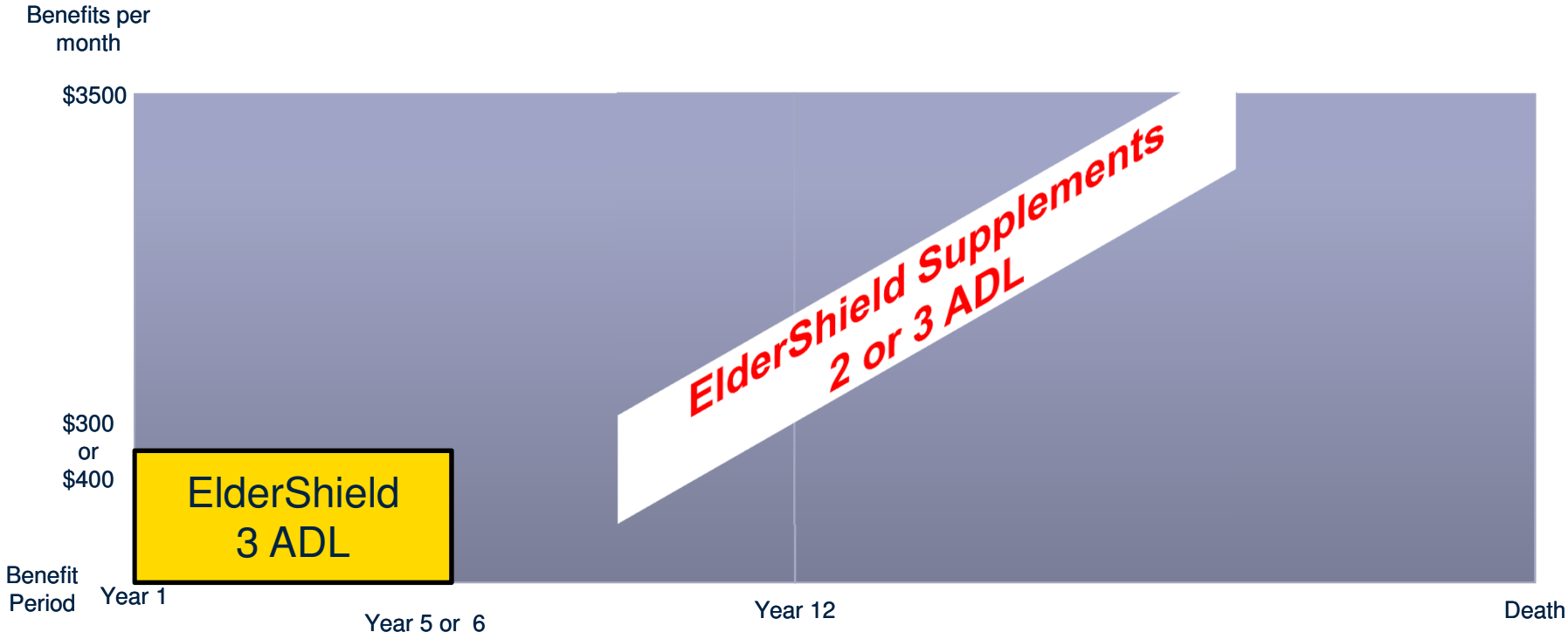
Overview of Healthcare Funding in Singapore

Singapore – Healthcare funding options



MediShield & Integrated Shield (Hospital & Surgical Coverage)

ElderShield & ElderShield Supplements (Long Term Care Insurance)



Guaranteed Renewable
Design abide by MOH guidelines
Payout not tie to institutional care
Premium is level but non-guaranteed, pay with Medisave

National Schemes in Singapore

Strength

Government regulated schemes
Premiums paid with Medisave
Guaranteed renewal
Opt-out nature improves take-up rate
Low unemployment rate in SG

Opportunities

Public education
Competition
Take-up rate
Wellness

Weakness

Small coverage for opt-out schemes
Medisave withdrawal limits
Design has to follow specific guidelines
Poor public awareness esp on LTC

Threats

Over-reliant on Basic plans
General belief that basic cover is sufficient
Sustainability of schemes

Covered on Shield Schemes - Are they enough?

What are the Gaps?

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Compulsory co-payments

Does not cover everything

MediShield / Integrated Shield

Pre-ex conditions not covered

Non-guaranteed premiums

Benefits not related to amount spend

Benefits bought now not sufficient for later use

ElderShield/ ElderShield Supplements

Benefits not related to amount spend

Understand when the policy will pay

Can these gaps be opportunities for insurers?

Retirement is so far away……..
Should we buy Health Insurance early?

Factor 1 : Underwriting

Health generally deteriorates with age

Ages	Healthcare Utilisation
Birth to 20	8%
20 to 39	12%
40 to 65	31%
Post 65	49%

More likely to meet underwriting requirements when you are young

Fact :
Half of our lifetime healthcare expenditure will accrue in post 65 years

Source : The Lifetime Distribution of Health Care Costs by Berhanu Alemayehu and Kenneth E Warner

Factor 2 : Premiums (Applicable to LTC insurance)

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Level Premium on LTCI

Premium does not increase with age

Lock in much lower premiums when younger

Better to invest the premium somewhere else and use the resulting gain to buy a higher-priced coverage later – say at age 60?

Buy Early or investment the money over 20 years?

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Annual Premium	Age 40, Female	Age 60, Female	Difference
$1000 monthly benefit	$637	$1720	$1083 or 170% more

Premium based on 10 year benefit period and payable up to age 80 years

Cost of LTCI at Age 40	$637	
Cost of same protection at Age 60	$1,720	
Invest age 40 premiums for 20 years	4% return	5% return
Accumulation by age 60	$18,968	$21,063
Annuity Value (20 year pay-out period)	$1396	$1690

Factor 3 : Uncertainty of when you need cover

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Time Lag on purchase date and claim date

Will policy be obsolete by the time you need to use it?

But there is real risk of actually needing heatlhcare especially LTC before 65 !

What about the insurer?

8 Key Risks for Insurers

Longevity Risk	Expect more claims
Inflation Risk	Co-payment eroded by inflation overtime Speed of passing inflation risk to consumers
Interest Rate Risk	Especially real for LTC insurance with level premiums
Technology	Coverage to keep up with technology
Regulation & Policy Changes	Can restrict product design Can affect demands for insurance, insurance benefits etc
Customers' demands	Insurance stimulates healthcare demands and use - may lead to unlimited demands
Efficiency & Competition	Can we achieve economies of scales to compete?
Reputation Risk	Eg in claims payment, premium increase, renewablity

Is there still a market for Health?

Size of health insurance sales in 2011

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Health insurance sales grew 6% to $165 million in 2011

88% to integrated Shield and Riders

2.48 million lives

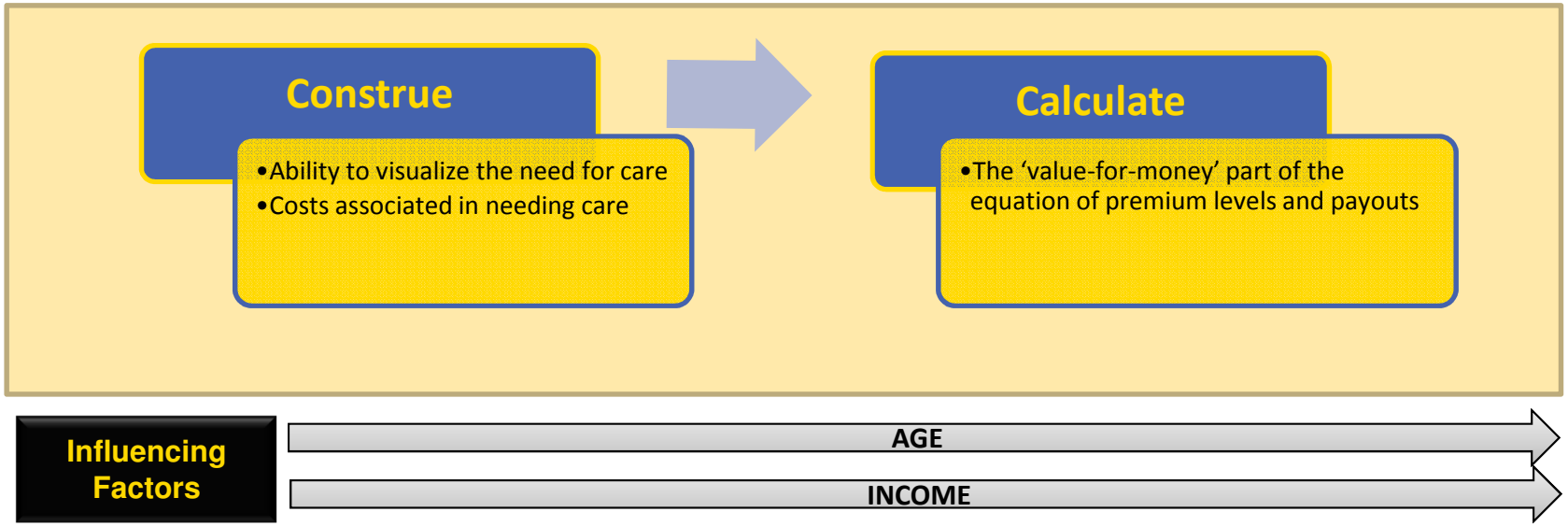
Take-up rate of Shield Schemes

MediShield & Integrated Shield Plans	2008	2009	2010
Eligible Population with MediShield	84%	88%	90%
MediShield holders who upgrade to Integrated Shield	58%	59%	61%
Eligible population with Integrated Shield	49%	52%	55%

ElderShield	2008	2009	2010
Eligible population with ElderShield	50%	51%	53%
ElderShield holders who top-up with ESH supplements	9%	14%	21%
Eligible population with ElderShield supplements	5%	7%	11%

What motivates customers to buy Health Insurance?

Purchase Life Cycle of Health Insurance



What are their reasons for buying?

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Not confident of government's aid	Protect Own Assets & Family resources	Peace of mind on affordability
Avoid depending financially on others for care	Leave estate to family	Freedom of choice on services
Was sold the product	Know someone who was recently hospitalized or needed LTC	Can afford premium now

Based on consumers research conducted by Aviva in Oct2011

What are their reasons for NOT buying?

Premium is too high, especially when I am older	Don't know which policy to buy	Think it will be difficult to claim under the policy conditions
Waiting for better products	Think policy bought today will be obsolete in future	Government / family will take care of me
I can stay in class C ward. It shouldn't be expensive	My spouse cannot get cover, so I don't want to buy	I may not afford premium if it increases in the future
Troublesome Underwriting process	Cheaper Substitutes – Maid, daughter-in-law	Family Solidarity Is this best way to send elderly to nursing home?

Based on consumers research conducted by Aviva in Oct2011

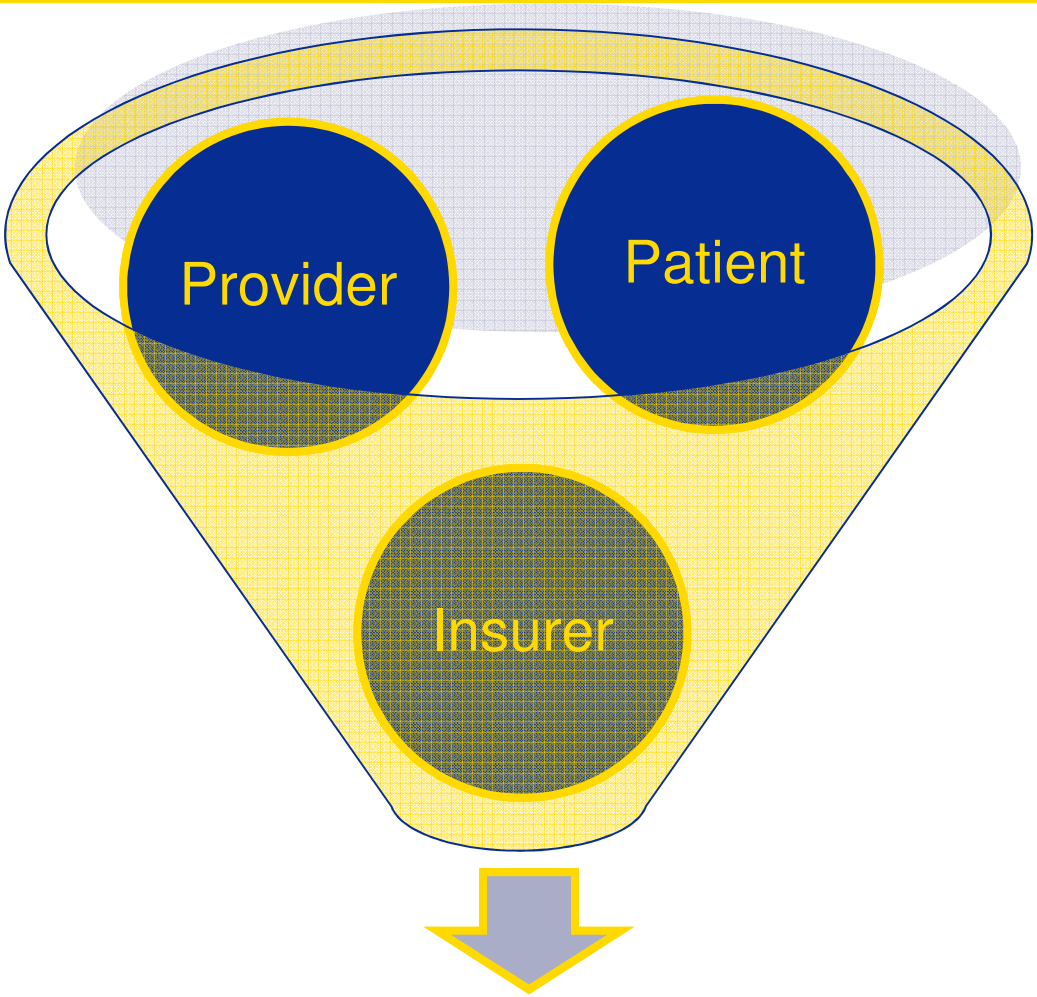
Managing Health Insurance

Is health insurance the culprit for medical cost increase?

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Healthcare is affordable because of insurance

Healthcare is not affordable because of insurance



3 parties don't talk together !

Healthcare Tri-patiate

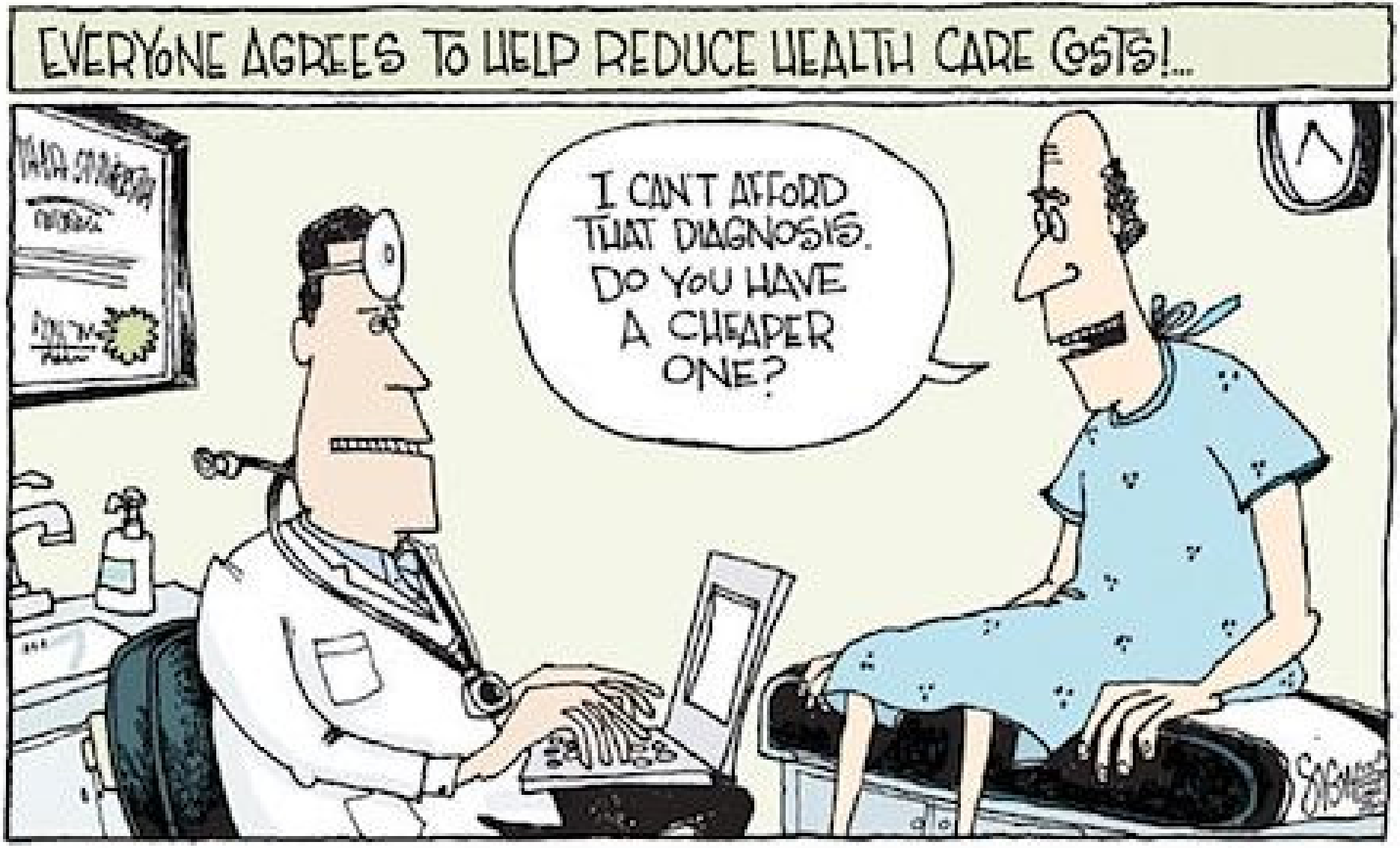
Patient's Behavior on Healthcare

Typically not an informed patient

- They don't look for treatment alternatives
- They don't request for cheaper drugs or treatments?
- They don't question the need for lab tests?

Do you understand the costs?

- They don't know the cost, so how to know if doctor has overcharged them?
- They don't bargain with doctor
- They don't know how to check with medical bills


EVERYONE AGREES TO HELP REDUCE HEALTH CARE COSTS!...
I CAN'T AFFORD THAT DIAGNOSIS. DO YOU HAVE A CHEAPER ONE?

Key Lesson

If healthcare is fully paid by a third party, why would patients bother to shop around or bargain?

Patients are expected to show buffet syndrome

Provider’s Behavior on Healthcare

Is he concerned about your health?

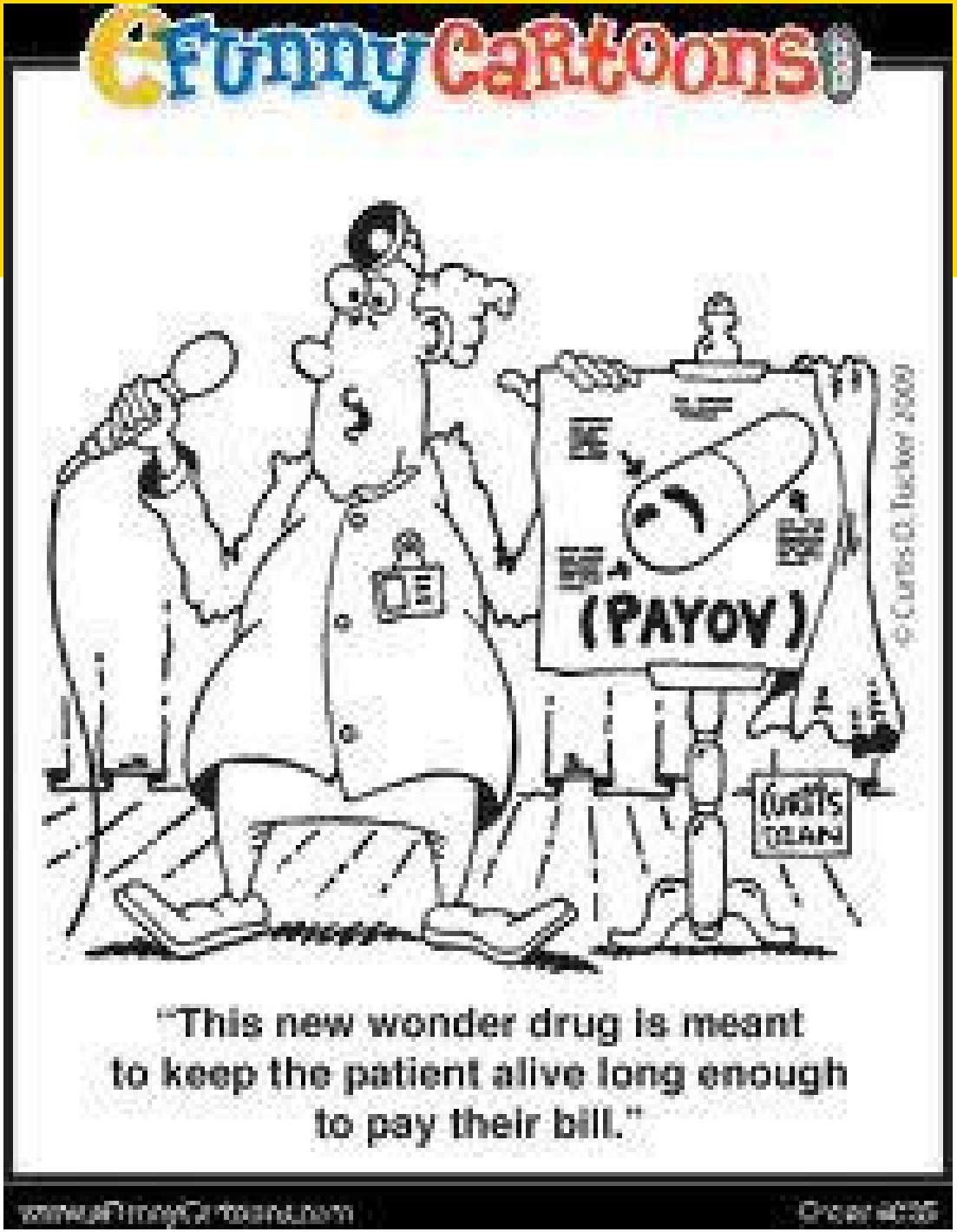
He wants you to receive the best treatment

He decides what treatment/ tests you should take.

Is he concerned about cost?

How is he rewarded? Who pays him?

He makes spend decisions yet, he does not need to pay !


FunnyCartoons
(PAYOV)
"This new wonder drug is meant to keep the patient alive long enough to pay their bill."

Key Lesson

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Every dollar spent on healthcare is a dollar earned by healthcare providers, so there is no incentive for healthcare providers to want to contain costs. Indeed, providers could be expected to exhibit **entrepreneurial behavior.**

Insurer's Behavior on Healthcare

Are they concerned about your health?

They do not offer you alternative views on treatment

Do they actively engage you to keep fit and healthy?

Are they concerned about cost?

Who approves and pays claims?

What is their KPI?

Health Insurance Claims

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Claims Payment

Is the medical condition covered under policy?

What is amount payable based on coverage?

Pay claims within x days

Fast Fact : Claims is single largest spend for health insurer

Claims Management

Provider Management

Patient Management

1) Disease management
2) Case Management
3)Prevention

Analytics Management – identifying complex claims

Technology Enablement

Challenges to health insurers

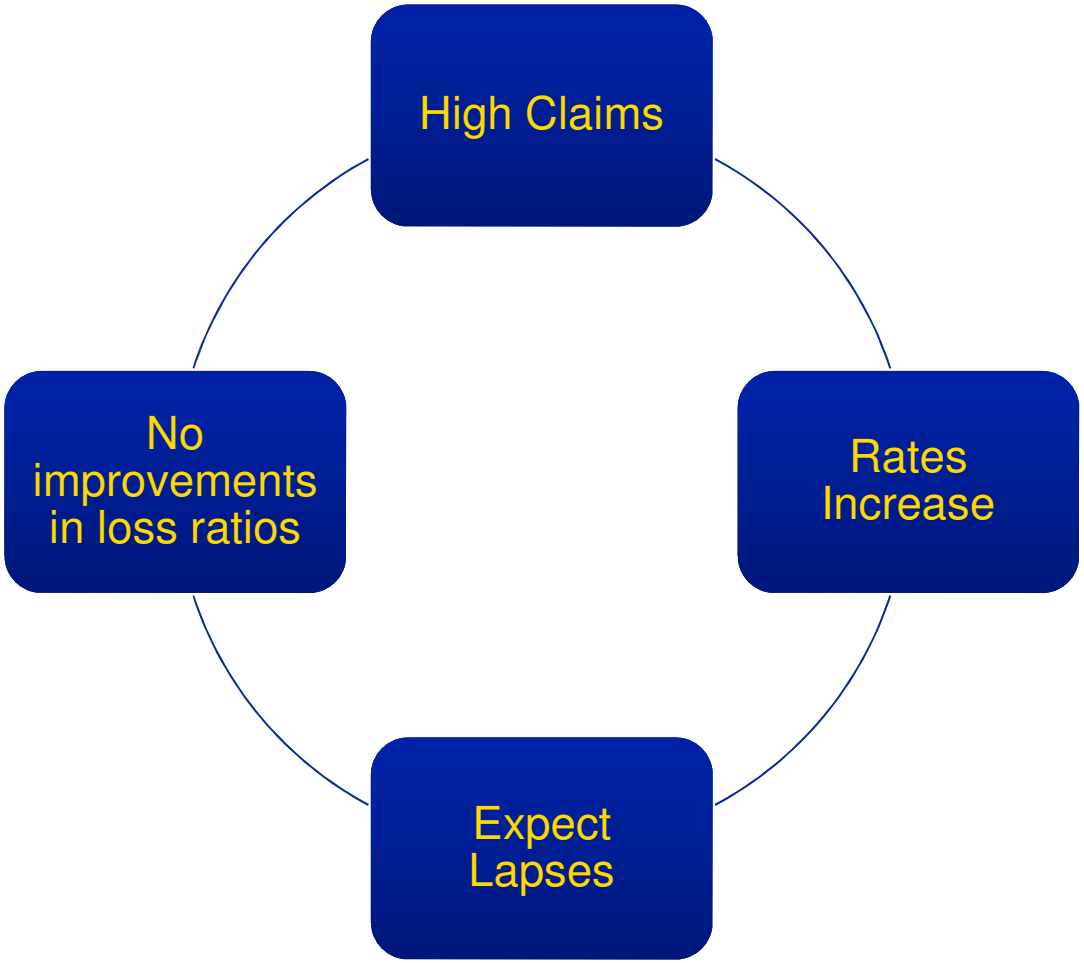
How can we get patients to care about medical cost?

Provider Management : Is disease too profitable to prevent or cure?

How often and how much to increase premium rates?

How to Manage Rate Increases

So you need a rate increase due to high claims?



You may end up in circles if rates increase is not managed well !

What can go wrong?

Anti-selective Lapses	Where rates increase result in selective groups leaving or not leaving the portfolio
Still competitive after rates increase?	Would healthier lives leave us while less healthy one remains?
Persistency	There is a rate increase threshold above which persistency decreases sharply

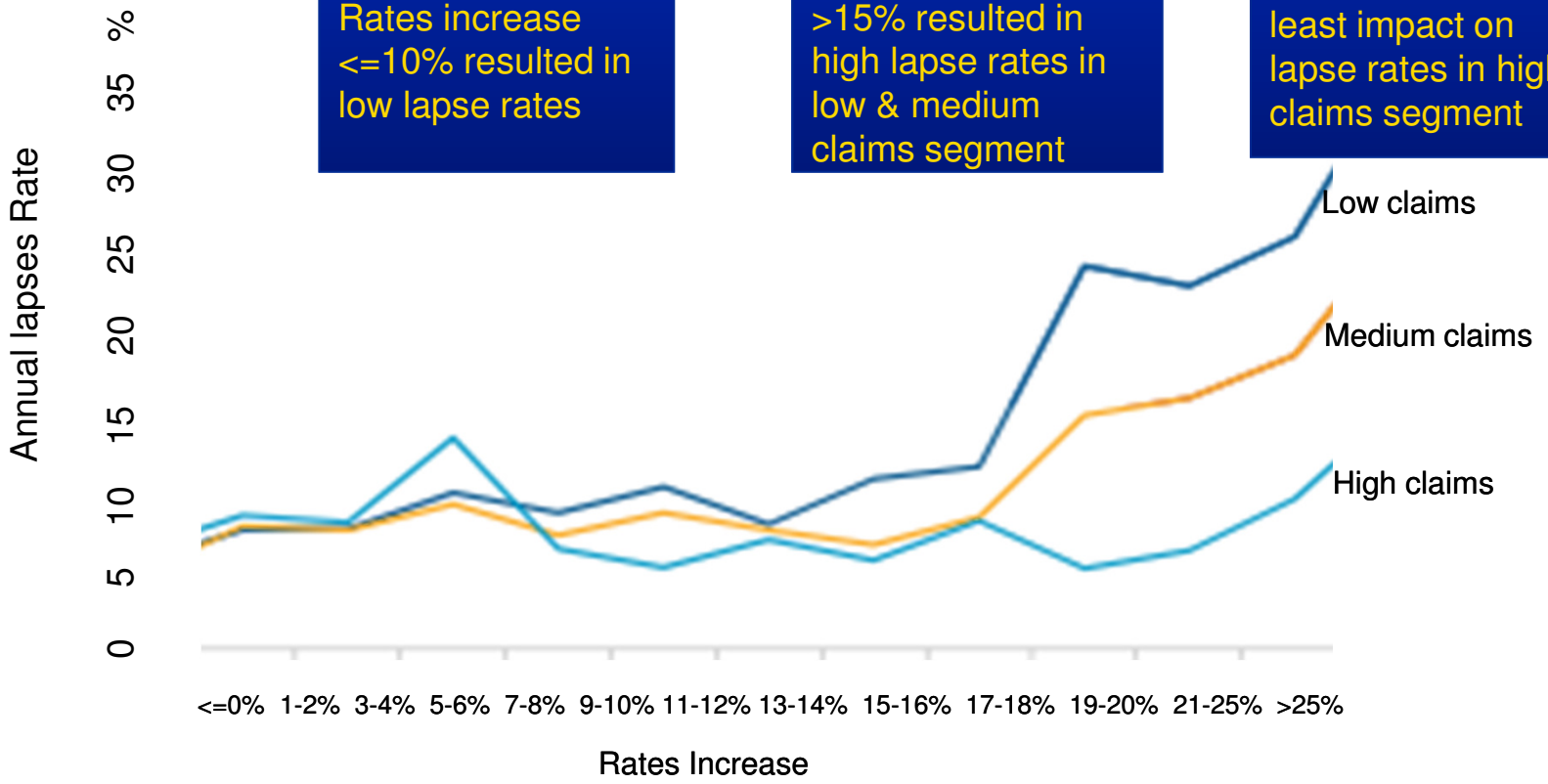
Rate Increase and Lapse – Case Study

Lapse Rate and Claims Level

Finding 1 :
Rates increase <=10% resulted in low lapse rates

Finding 2 :
Rates increase >15% resulted in high lapse rates in low & medium claims segment

Finding 3 :
Rates increase has least impact on lapse rates in high claims segment



Source: Risk Insights,2011- No.4

Key Lessons in managing health premiums :

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- Do not delay response to rates increase. It can lead to ballooning effect
- Huge rate increase, even if justified by claims experience, can hurt our business
- Know your market before setting premium rates
- Rates increase needs to be gradual and high claims cannot always be the main trigger
- Good to set frequency of premium increases to manage market's expectation

Thank you