



somewhat
different

The main cause of terminal illness claims is cancer, which accounts for some 95% of all claims

Terminal illness

A critical illness benefit or a death benefit?

Terminal illness cover has been available in the UK for many years and is now almost universally added to life term policies. It is sometimes cast as little more than pre-payment of a death benefit – but there is more to terminal illness than this; it provides flexibility for claimants who want to put their financial affairs in order before they die.

The idea of paying a benefit before death first arose in the US and Canada, where policyholders can be paid a proportion of their death benefit on becoming seriously ill.

However, such payments were at the life company's discretion and the sum assured was often much reduced. Demand for early access to death benefits led to the creation of the life settlement market, which enabled policyholders to shop around with a view to selling their policy for more than the life company was offering.

The original concept has since been extended. In the UK today, a terminal illness benefit is almost universally added as a right within the policy at the full sum assured. Including terminal illness as a right, rather than as an ex gratia payment, has the advantage that it can be paid without impacting the qualifying status of the policy for tax purposes.

Critical illness policies were originally intended to provide benefits to people with severe life threatening conditions. A

terminal illness is certainly life threatening and would typically meet the definition for critical illness in the ABI's most recent Statement of Best Practice (SoBP):

A definite diagnosis by the attending consultant of an illness that satisfies both of the following:

- The illness either has no known cure or has progressed to the point where it cannot be cured; and
- In the opinion of the attending consultant, the illness is expected to lead to death within [the earlier of] 12 months [and the remaining term of the cover].

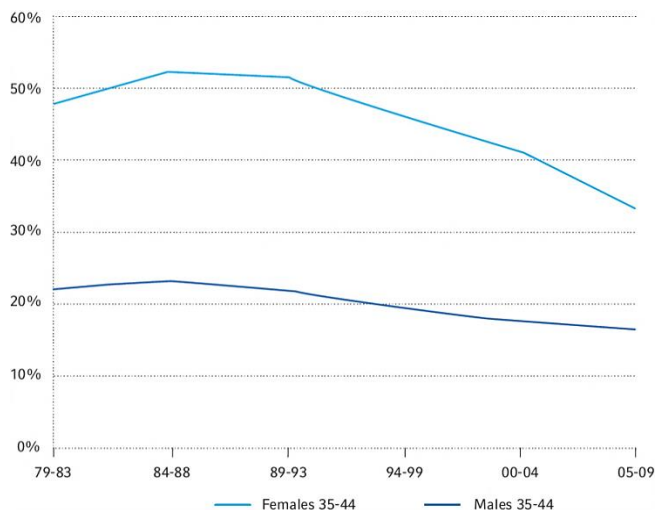
The main cause of terminal illness claims is cancer, which accounts for some 95% of all claims. See Figures 1 and 2 which show the percentage of deaths due to cancer by age and sex. Other causes include severe respiratory conditions, neurological conditions and Creutzfeld-Jakob Disease (CJD). All these conditions would also be covered by a typical critical illness policy, although this would pay out at an earlier stage and usually cover a wider range of conditions. Terminal illness policies do not give the same breadth or depth of cover as critical illness.

Terminal illness currently accounts for 10 to 15% of claims under life term policies, although the percentage can be higher or lower, depending on the maturity of the business. Some might find this proportion surprisingly high. It is perhaps natural to doubt that a significant proportion of people would be both aware that they are eligible to claim and have the initiative to do so.

To understand the scale of terminal illness claims, we first need to consider the proportion of deaths from cancer. About a third of UK male deaths at ages 35 to 44 are due to cancer. For females the figure is just over 50%. At older ages the proportions are typically at least as high and rising, whereas the percentage of cancer deaths at younger ages is falling.

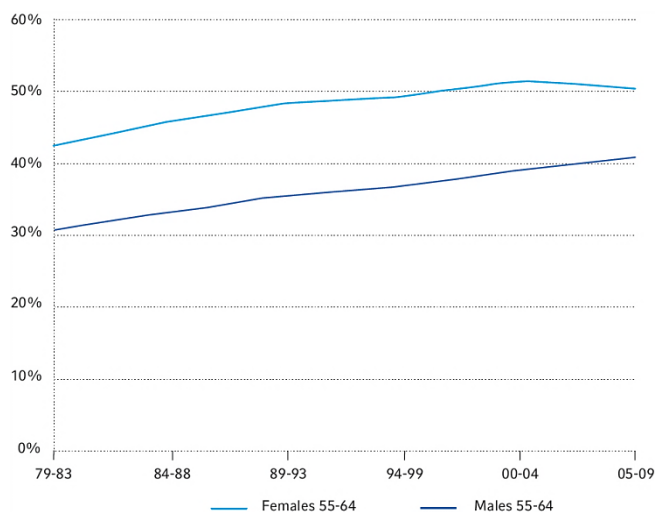
To submit a claim, a patient must, of course, be aware that they are terminally ill. The patient's wellbeing will always be the doctor's main priority when discussing their prognosis, however, many patients will insist on knowing whether they are terminally ill.

Figure 1: Percentage of deaths due to cancer (ages 35-44)



Source: ONS, England and Wales, Deaths by Cause

Figure 2: Percentage of deaths due to cancer (ages 55-64)



Source: ONS, England and Wales, Deaths by Cause

In the future we can expect the proportion of terminal illness claims to increase at older ages and reduce at younger ages reflecting the changing proportions of deaths due to cancer. Overall, terminal illness will continue to account for a significant proportion of our claims team's workload – all the more so if the propensity to claim increases.

The issues that arise at the claim stage – in terms of identifying valid claims and obtaining a clear prognosis from doctors (who often feel they are the patient's advocate) – are similar to those encountered with critical illness claims. As with critical illness, claims adjudicators face challenges in determining whether a claimant's condition meets the definition for payment.

Having an accurate prognosis is important to patients. It helps inform the decisions they take about their treatment and care in the final stages of their life and at what point they should consider moving from more aggressive treatments to palliative care. An accurate prognosis is also important in identifying patients for inclusion in clinical trials for new medical studies appear to show that doctors' prognoses are not always accurate. This may be a little unfair, of course, given the very tight criteria against which they are measured. It is only natural to expect some variation around any estimate. For predictions of up to six months, doctor's estimates correlate closely with actual survival therapies. It is also key to ensuring we pay all claims that meet the definition for terminal illness.

Medical studies appear to show that doctors' prognoses are not always accurate. This may be a little unfair, of course, given the very tight criteria against which they are measured. It is only natural to expect some variation around any estimate. For predictions of up to six months, doctor's estimates correlate closely with actual survival rates. The longer the predicted life expectancy, however, the greater the likely discrepancy.

One medical study indicated that the more experienced the doctor, the more accurate are their predictions – and conversely that the stronger their relationship with the patient, the less accurate their prognosis will be. The study concludes that seeking a second opinion from an experienced doctor who has had less contact with the patient may provide a more accurate prognosis.

Overall, terminal illness will continue to account for a significant proportion of our claims team's workload – all the more so if the propensity to claim increases.

When we pay a terminal illness claim, we usually lose contact with the claimant and will never find out whether our assessment that they were terminally ill was accurate. There have been companies, however, which pay 50% of the sum assured on terminal illness and 50% on death for older policies. For a small group of policies it is possible to track the period of time that elapses between the date of diagnosis and the date of death. On average this is 11.5 months. In other words, the date of claim is advanced by around a year. In this group of policies there are terminal illness claimants who have survived longer than 12 months after diagnosis, with the longest survival following payment of a terminal illness claim so far recorded at 26 months.

Based on these figures, we can calculate the theoretical cost of adding terminal illness benefit to a term policy at the full sum assured. If terminal illness is paid exactly one year before death, costs are small: around 0.5% for a level term policy. For a decreasing term policy the cost will be higher, around 1.5%, because the sum assured is also greater if the benefit is paid one year earlier in the benefit term.

It is difficult to get an industry-wide perspective on how accurate we are in assessing terminal illness claims, as data on the claimant survival rates is sparse. It is clear, however, that we are heavily reliant on doctors' prognoses, which, as we have seen, can be influenced both by their level of experience and by the closeness of their relationship with their patient.

We also need to take account of variables such as changing techniques in determining prognosis and communicating these to patients – as well as changing patterns in the propensity of severely ill people to claim.

If the ABI's speedier claims initiative proves successful, this could potentially influence the propensity to claim. If the public had greater faith that death claims would be paid quickly, might there be less incentive to claim under terminal illness? Funds received from a terminal illness payment could get tied up in a claimant's estate for some time, whereas those from a death claim could be paid directly to the nominated recipient.

When considering the risks it brings, and when determining underwriting, pricing, and claims philosophy, we need to recognise life term with terminal illness as an accelerated advanced cancer benefit. It is also the first severity-based accelerated critical illness product, and remains the most universal severity-based product. It is an unacknowledged trail-blazing product that is reasonably low cost but provides valued flexibility at one of the most difficult stages of life.

infocus

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