Q: What type of information do insurers collect in the underwriting process?

A: Life insurers’ underwriting decisions are based on a variety of factors that over time have been shown to be accurate predictors of risk. This may include an applicant’s height and weight, blood pressure, cholesterol, blood sugar, smoking status and medical history.

Life insurance underwriting is a holistic evaluation – insurers usually do not make decisions based on one factor, like a genetic test. They look at the whole picture, including steps the person might be taking to manage that condition. For example, those who have heart disease but are taking appropriate medicines may pay lower rates than those who do nothing for their condition. It makes sense for life insurance companies to charge people based on their life expectancy.

The results of a genetic test that a person has taken as ordered by a doctor may be of interest to an insurer. But, it would represent one more piece of medical information. It might – or might not – be relevant.

Q: What is adverse selection?

A: Adverse selection is information asymmetry between the insurer and the applicant. This occurs when an individual is aware of information that would increase his or her mortality and/or morbidity risk but does not disclose it to the insurer at the time of application. As a result, the insurer assigns a lower risk to the individual than they normally would have.

A basic example of adverse selection is if a smoker claims to be a non-smoker on their application and receives the non-smoking risk classification. Smoking is known to cause increased mortality and morbidity rates, which may be reflected in premium rates for life insurance. If enough smokers get added to the nonsmoking risk pool, adverse selection could occur because the premiums charged to the pool are too low to account for the increased mortality and morbidity of the smokers. The pool eventually becomes financially unsound because the insurer is not collecting enough premiums to pay the higher rate of claims.

Q: How real of a concern is adverse selection to insurers?

A: Adverse selection is a real concern for insurers. For example, studies have shown the potential for adverse selection when it comes to people getting genetic tests for Huntington’s Disease and Alzheimer’s (specifically, the AP0E4 allele) before they decide whether to apply for long-term care insurance.

At-risk individuals who received positive Huntington’s Disease results were twice as likely to purchase long-term care insurance as untested, at-risk individuals.\(^1\) In addition, research shows individuals with family histories of Alzheimer’s Disease who tested positive for AP0E4 allele were 5.6 times more likely than untested or non-positive individuals to increase their long-term care coverage.\(^2\)

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<th>Question</th>
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<td>Q: What is the impact of adverse selection to policyholders?</td>
<td>A: If an insurer has a significant imbalance between the premiums and the benefits paid, it may have to raise rates on future policyholders. This may make it less likely that healthy people buy insurance, which would again push up the price of insurance coverage. With certain kinds of insurance, the insurer may even raise the premiums for the entire class of policyholders to make sure it stays financially sound.</td>
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<td>Q: Do life insurers protect your medical information?</td>
<td>A: Life insurers are keenly aware of the importance people place on the privacy of their medical information. For generations, life insurers have been keeping applicants' information confidential. They have every incentive to ensure medical records are not compromised, and only obtain this necessary information with applicants' knowledge and consent.</td>
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<td>Q: What consumer protection laws apply to life insurers' underwriting?</td>
<td>A: State unfair trade practice laws prohibit life insurers from engaging in unfair classification on any basis. Insurers must be able to demonstrate that individuals in the same risk class are treated the same way and that the treatment is justified by sound actuarial principles or actual or reasonably anticipated experience. The life insurance industry strongly supports state unfair trade practice laws and regulations. Furthermore, the industry supports state and federal privacy laws that protect consumer's personal health information.</td>
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<td>Q: What is a genetic test?</td>
<td>A: A genetic test refers to an analysis of human DNA, RNA, or chromosomes. It is performed for the purposes of disease prediction, transmission risks, monitoring, diagnosis or prognosis. However, since the introduction of direct-to-consumer products from companies such as Ancestry.com and 23andMe, more and more people are taking home-based genetic tests to learn more about their ancestry or their genetic makeup.</td>
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<td>Q: Do life insurance companies require applicants to take a genetic test?</td>
<td>A: ACLI is not aware of any insurers currently requiring an applicant to undergo a genetic test as part of the underwriting process. It is important for life insurers to have access to an applicant's existing health information to underwrite fairly and appropriately. If the results of a genetic test are part of an applicant's medical record, life insurers may factor that information into their underwriting particularly if there is a high degree of certainty the applicant will develop the disease.</td>
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Q: Will companies ask for the results of a genetic test that an applicant may have taken?

A: A life insurer may ask an applicant for any relevant information about his or her health to fairly and accurately assess the applicant’s risk. This may include relevant information contained in a person’s medical records or the results of a genetic test. That said, life insurers look at a variety of factors when considering an application, including preventative care that may mitigate or lessen an individual’s risk.

An appropriate analogy is the home-buying process. When you’re buying a house, you want the previous owner to disclose all the information about the house you’re purchasing. Similarly, when life insurers are considering financially protecting someone, they rely on the person to be honest about their medical history.

Q: As genetic tests advance, how might life insurers use them?

A: It is difficult to speculate on the future when science and clinical medicine is constantly evolving. We believe that the field of genetics is an expanding science. Genetic information is used clinically today in the diagnosis and treatment of existing disease and, to a lesser degree, in the prediction of risk for future diseases. Over time, its use will continue to increase both clinically and commercially.

No one can predict how life insurers may use genetic information in the future. However, in the past, advancements in medicine have improved the risk classification process, making it possible for insurers to offer coverage to more people. 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. The advent of precision medicine may help insurers offer coverage to more consumers.

Q: Could insurers deny coverage based on the findings of a genetic test?

A: Millions of Americans have coverage and can choose from many different companies competing for their business. Life insurance, long-term care and disability income insurance carriers are in the business of offering life insurance coverage. They have every business incentive to offer coverage to as many people as possible.

At the same time, they have a responsibility to accurately and fairly assess the risk they are being asked to assume. It is possible that an applicant may be denied coverage or offered coverage at a higher rate to reflect a higher level of risk.

If this were to happen, there are many life insurance companies in the United States and each underwrites differently. Therefore, it may be possible to obtain coverage from another company.

Q: How are medical records in the underwriting process similar to genetic tests?

A: If an applicant’s medical record shows a history of heart disease, insurers may look at how the disease is being treated and factor that into their underwriting. Similarly, while a genetic test may indicate that an applicant is at a higher risk of developing a particular disease, it also may indicate a path for prevention and treatment that the insurer may take into account.
Q: Why do life insurers oppose limits on the use of genetic information in underwriting?

A: In order to underwrite fairly and appropriately, life insurers need access to an applicant’s relevant medical information. If the results of a genetic test are part of an applicant’s medical record, a life insurer may factor that information into its assessment of an applicant’s risk. Limiting how life insurers use important medical information could lead to adverse selection.

As noted earlier, adverse selection is information asymmetry between the insurer and the applicant. This occurs when an individual is aware of information that would increase his or her mortality and/or morbidity risk but does not disclose it to the insurer at the time of application. As a result, the insurer assigns a lower risk to the individual than they normally would have.

Research indicates that individuals who receive positive tests for serious diseases are more likely to purchase coverage than untested or non-positive individuals.

Q: What is the Genetic Information Nondiscrimination Act (GINA)?

A: The Genetic Information Nondiscrimination Act of 2008 (GINA) is a federal law that protects individuals from genetic discrimination in health insurance and employment.

Q: Does GINA have a loophole that allows life insurers to use genetic information in underwriting?

A: GINA applies to the use of genetic information in health insurance and employment. Congress wisely did not include life insurers products in the law. And, despite the many developments that have taken place in the genetics field since the law was enacted in 2008, the major differences between health insurance and life, long-term care and disability insurance continue to validate GINA’s inapplicability to life insurers.

A key difference is that health insurance reimburses the cost of medical care to third-party providers for routine or chronic illnesses. In contrast, life, long-term care and disability income insurance are long-term financial products that protect against the loss of a wage earner, the cost of long-term care services and being out of work due to a disability.

Another major difference is that at the time GINA was enacted, health insurance was primarily purchased through group policies. This has changed somewhat with the advent of the health care exchanges. Health insurers can also adjust their premiums annually based on the prior year’s claim experience.

Individual life, long-term care and disability income insurance are sold in a private, voluntary market. There is no mandate to purchase these products. Medical underwriting occurs only at the time of application and an insurer may not change the individual’s original risk classification even if the risk is later revealed to be greater than anticipated.