Article From:

The Actuary

December 1986 – Volume No. 20, Issue No. 10

The Actuary
The Newsletter of the Society of Actuaries
VOL. 20, No. 10 December, 1986

REINSURANCE SECTION

by Gene Woodard

The Reinsurance Section was formed in the fall of 1982. The primary purposes for its existence are to keep its members informed with respect to issues affecting reinsurance from either the ceding company's or reinsurer's perspective, and to provide a means by which educational as well as other information can be disseminated to its members.

One of the tools used by the Section is the offering of various programs, including special topics seminars, in conjunction with the Society's Regional and Annual meetings and geared to the interests of its members. Another tool is the Section's Newsletter which is published 3-4 times a year providing updates on current topics and other articles of interest.

The Section's activities are directed and managed by the Section Council which consist of nine members of the Section. The Council officers for the 1986-1987 year are: Denis Loring, Chairman; Johanna Becker, Vice Chairman; Diane Wallace, Secretary; and Denise Fagerberg, Treasurer. The ongoing activity of the Section is carried out by committees. Each member of the Council serves as a liaison to one of the committees. The current committees are as follows.

Administration	Program
Education	Statistical
Elections	Treaty
Financial/Tax	Underwriting
Newsletter	Other Sections

A summary of the recent activity of the committees will conclude this report.

Administration

During 1985 and early 1986, this committee was involved in a study of the

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TAXATION OF LIFE INSURANCE COMPANY PRODUCTS

by Stephen W. Kraus and Richard V. Minck

The latest saga of Tax Reform is over. The Congress has enacted, and the President has signed, what has been called the most comprehensive revision of the federal income tax system since its inception in 1913 — The Tax Reform Act of 1986 ("Act"). The insurance business and its policyholders faced major threats at the start of the tax reform process which would, by Treasury estimates, have raised $100 billion over a five-year period. Most of these threats were not enacted by Congress. While the insurance business avoided disaster on the major policyholder issues, the final bill was not greeted with any sense of triumph. The Act will cause many insurance company clients to pay more taxes. Changes in taxation of employee benefit plans are also important, but these are outside the scope of this article.

When the tax fight started, prospects for the insurance business were gloomy. In November 1984, the Treasury Department released its plan to the President on "Tax Reform for Fairness, Simplicity and Economic Growth." Several of the proposals would have had a significant adverse impact on the products sold by life insurance companies. Most critical was the proposal to tax the owners of life insurance policies or annuities on the annual increases in the cash surrender value of their policies — the so-called "inside build-up." The Treasury plan would also have treated policyholder loans and partial withdrawals as coming first from any previously untaxed "inside build-up"

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AN APPROACH TO ENHANCING LONG-TERM CARE INSURANCE

by Heidi Rackley

The 65-plus population is the fastest growing age group in the United States. Not only is this segment growing in absolute numbers, but also in socio-economic power. Those persons turning 65 today are on the whole better educated and healthier with a greater future life expectancy than their counterparts in prior generations. They also represent greater purchasing power. On average, they own 80% of the equity in their homes; many receive private pensions in addition to Social Security benefits; and some will have accumulated assets tax-effectively in Individual Retirement Accounts.

With the emergence of seniors as a major new market force, actuaries will be called upon to develop products and services geared specifically to their needs. One of the areas of greatest need, and hence opportunity, is the delivery and financing of long-term care. Long-term care refers to health or personal services required by persons who are chronically ill, disabled or retarded, in an institution or at home, on a long-term basis. The array of services encompassed within the long-term care industry ranges from Meals-On-Wheels, homemaker and visiting nurse services to community based programs including senior citizen centers, adult day care and respite care, and finally to services rendered in an institutional setting such as a congregate care home, intermediate care facility, skilled nursing facility or state mental hospital. As one might surmise from the breadth of this array of services, fragmentation among both provider services and funding sources is a major problem for persons currently in need of long-

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Long-Term Care Insurance

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erm care, frequently leading to unnecessary and inappropriate institutionalization.

Who Pays for Long-Term Care?

By far the largest portion of total long-term care expenditures is for nursing home utilization. In 1984, nursing home expenditures in the U.S. for people 65 and over came from the following sources:

Residents and their families	50.2%
Medicare	2.1
Medicaid	41.5
Private insurance	1.1
Other sources (e.g., VA)	5.1
TOTAL	100.0%

Contrary to the belief of much of the elderly population, Medicare offers few benefits relating to long-term care. The Medicare program has been structured to cover acute, episodic illness followed by a return to independent living. Skilled nursing care benefits are limited to 100 days of post-acute care, with $62.50/day coinsurance imposed after the 20th day.

Although private long-term care insurance products have been on the market for over a decade, in 1984 they paid only 1.1% of the total cost of nursing home care. While this is due in part to a lack of market penetration, it also reflects product design. Most policies issued through 1984 were individual indemnity policies designed to supplement Medicare — paying benefits beyond the 100th day of post-acute care. Intermediate and custodial care were covered only as a step down from skilled nursing care. The fixed dollar benefits usually paid only a fraction of the cost of care and were subject to lifetime maximums. Insurers further limited their risk by applying restrictive individual underwriting and excluding benefits related to pre-existing conditions.

Only a small percentage of nursing home stays are covered by Medicare and long-term care insurance. This is because the need for long-term care most often arises as the result of chronic, debilitating illness coupled with the absence of adequate informal support. Failing to satisfy the acute illness/prior hospitalization requirements for Medicare or private insurance benefits, these individuals and their families pay privately for nursing home services. After their personal resources have been depleted, they may qualify for Medicaid payments — the biggest source of public funding for long-term care.

How Might Meaningful Long-Term Care Insurance Be Provided?

To satisfy the needs of a diverse elderly population, long-term care insurance must cover utilization arising from chronic as well as acute illness and include a broad range of services. To avoid inappropriate utilization of services, two practices now widely used in group health insurance could be adapted to long-term care: (1) cost sharing and (2) concurrent utilization review.

Cost sharing in the form of deductibles or elimination periods and coinsurance coupled with a maximum annual out-of-pocket limit provides a mechanism for influencing consumer behavior while satisfying the elderly's need for predictable expenditures.

A more difficult though seemingly essential component of an insurance program would be concurrent utilization review (case management). The fragmentation of long-term care providers makes this concurrent review function even more important than in acute care delivery. To effectively utilize the continuum of long-term care services available, the case manager would:

- assess the functional status of the insured (one example of a functional assessment scheme is the Resource Utilization Group classification system used for Medicaid nursing home reimbursement in New York State. This system is being expanded to include home health care);
- determine the appropriate service setting in light of the insured's functional status and informal support network (home, community or institutional program) and coordinate provider services, including informal supports; and
- authorize the delivery of the service to be reimbursed under the terms of the insurance policy.

The case management function has been largely missing from the financing of long-term care to date. Continuing care retirement communities and Social Health Maintenance Organizations are examples of health care providers which bear some risk for utilization and which control that risk through case management. The geriatric nurse practitioner has, in Canadian experiments, successfully fulfilled the case manager role.

The demand for meaningful long-term care benefits, whether met through insurance products, provider based prepayment plans, or public funding, will continue to increase as our population ages. Innovative solutions are called for. Actuaries have a unique opportunity to contribute to the development of products and services for this evolving market segment. □

Math Oddities

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2. Cut this number between the 3's - 113 355.

3. Divide the second half by the first - 355/113 = 3.1415929.

This ratio overstates the true value of π by 2 in the **8th** significant figure! Are we likely to need to be more accurate than that? □

DEATHS

Horace Holmes	FSA 1921
Thomas A. McCrosson	FSA 1976
Harwood Rosser	FSA 1949

STOCK MARKET PREDICTIONS

Louis Rukeyser, in his "Wall Street Week" program on PBS, asks his experts to predict the course of the stock market over the ensuing year, then compares their prognostications with what actually comes to pass. Pete Plumley has volunteered to keep score if actuaries would like to try the same. Do actuaries have any credentials as stock market predictors? We shall see.

For the Dow-Jones Industrial Average, make your guesses as to (1) the 1987 high, (2) the 1987 low, and (3) the 1987 year-end close. Exact figures are required, not ranges. Submit your entries by Jan. 15 to Pete at his *Yearbook* address. He can accept only one entry per reader, and the entrant must be identified.

There are no prizes to be awarded, but *The Actuary* will recognize the best predictors in an early 1988 issue; and all entrants will receive a complete summary of the results. □