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LONG-TERM CARE

We are pleased to see what appears to be a real interest among some actuaries and some insurers in insurance for long-term care. A Society seminar on this subject was held in October, and one of its faculty wrote an article for this newsletter (Heidi Rackley: December). We consider this article a fine introduction to a complex and difficult, but important, subject.

Those of us already elderly have come to realize that the financial problems associated with old age are not where we once thought. Social security and private pensions have gone far to provide the necessary income, and Medicare and its private sector supplements have done much to relieve our concern about the high cost of medical care. As long as they can live in their own homes and generally take care of themselves, most of our elderly find themselves in at least "comfortable" circumstances. Their greatest fear is the possibility of having to move into a nursing home.

Ms. Rackley has shown us that nursing home financing, at least as it exists today, comes from only two important sources: (1) the not-too-deep pockets of the affected person, or relatives, or (2) Medicaid. The latter is available only after the first source has dried up, leading to that especially unhappy situation — the one-time-self-sufficient individual whose financial resources have already been spent on custodial care, and who now has no alternative but public welfare (Medicaid variety). Although CCRCs (Continuing Care Retirement Communities) once offered guarantees as to long-term care, few of them are able to do so today.

It is heartening to know that the first steps toward the wide availability of long-term care insurance are being taken. It is only recently that insurance companies were in the field at all, and even more recently that the larger and better known companies have become involved. While it is true that long-term care insurance is in its infancy, that only an indemnity benefit is generally available, and that the requirement of a previous hospital stay makes too many ineligible, it is also true that a variety of kinds of services are covered, and the maximum period for which benefits can be paid has become rather long.

We can assume that insurers recognize the need for long-term care insurance, and that their natural reluctance to join this confusing fray stems from concerns about product development, underwriting, marketing, and especially pricing. Imaginative product design should assure a market, imaginative underwriting should be able to control anti-selection, and the statistics needed for adequate pricing should develop, once we have the courage to try.

Ms. Rackley ends her article with a challenge: "Actuaries have a unique opportunity to contribute to the development of products and services for this evolving market". We can only add a fervent AMEN.

C.L.T.

WORKDAY PROBLEMS

As claim manager for an insurance company writing group long-term disability contracts, I have the responsibility for my company's action in a dispute with a disabled claimant. The facts, as we see them, are these:

The certificate holder, a former employee of our group policyholder, has been disabled since 1979, and has been receiving monthly payments, after offset for Social Security, of about \$400. These payments will cease in a few months when the claimant attains age 65.

Very recently we have ascertained that our claimant has also been receiving payments of about \$100 monthly from a defined contribution retirement plan, sponsored by our group policyholder but funded through another insurer. Our group contract gives us the right to offset "periodic retirement benefits...under or by reason of any annuity or pension contract...in respect of which the policyholder shall have paid all or a portion of the cost or made payroll deductions."

We have written to the claimant telling her of this provision, notifying her that the payments for the few months remaining will be reduced to about \$300, and asking her to refund the payments which should have been offset in the past. These amount to about \$4,800.

The claimant feels that this offset, even though it may be justified by a strict construction of the policy language, should not be applied in the instant case. Her argument is essentially as follows:

1. Although she can understand the offset of any other *disability* benefit, she sees no reason for the offset of an *old-age benefit*, especially one that would not normally have commenced before the expiration of the disability coverage at age 65.

2. She claimed the pension at age 61, four years early, as she had the clear right (though no obligation) to do; but she would surely *not* have elected a smaller pension at age 61 (in lieu of a larger one at the normal age of 65) had she known about the offset. It has the effect of paying the \$100 to us instead of

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