



SOCIETY OF ACTUARIES

Article from:

The Actuary

December 1988 – Volume 22, No. 11

Nonroutine actions of the Board of Governors

October 22 and 23, 1988, Boston

1. The Board reviewed and discussed the report of the Task Force on Strengthening the Actuarial Profession, which consists of representatives of each of the North American actuarial organizations. The Board agreed to a plan to communicate the work of the task force to all actuaries in North America, focusing particularly on the public interface weaknesses of the profession and the implication of the task force report for addressing these weaknesses. The task force is to report on the results of the communications process by the fall of 1989.

2. The Board approved in concept the report and recommendations of the Task Force on the Actuary of the Future. This task force was established to study the future roles of the actuary and the professional activities necessary to prepare and support actuaries for those roles. The report will be discussed with various Society committees as a first step toward implementing the task force's recommendations.

3. The Board approved a process for managing research within the Society. It also approved two new research projects, one on U.S. economic statistics for pension actuaries and the other on actuarial aspects of continuing care retirement communities. This brings to six the number of projects approved since the present program of significantly expanding the Society's research efforts was initiated in early 1988.

4. The Board authorized the Committee on Social Insurance, working jointly with the corresponding committee of the American Academy of Actuaries, to express, in accordance with Article X of the Society's Constitution, an opinion during calendar year 1989 on matters pertaining to the U.S. Social Security system.

5. The Board approved a procedure that would permit, in each Society annual election, up to three Board seats to be reserved for individuals in areas of interest and country of residence deemed to be under-represented in relation to the total Society membership.

6. The Board adopted an amendment to the Society's By-Laws that would allow the President to appoint up to two additional members from the Board to the Executive Committee to represent areas of interest that are not represented on the Executive Committee through the Society's election process.

Anthony T. Spano
Secretary
October 1988

Long-term-care riders to life insurance

by Abraham Gootzeit

The life insurance industry's efficient marketing capability makes it increasingly difficult for a company to develop an innovative product and maintain a competitive edge based on product differentiation.

Life insurance portfolios of most major insurers are remarkably similar. Home office marketing people make quite a fuss about small differences in projected values many years into the future. Have we forgotten how to develop insured benefits that provide real value, are affordable and have wide customer appeal?

The March 10, 1988, *Wall Street Journal* carried a front page story under the Business Bulletin column. That column said:

Some Life Insurers begin paying benefits before death. If confined to a nursing home for at least 6 months, you'll get 2% of your death benefit paid each month... under a First Penn-Pacific Life Insurance Company policy. The National Travelers Life Company version also pays 2% per month and will cover home care to keep the patient out of a Long Term Care facility.

Several life insurance companies have similarly designed programs. Others have begun the design process, and still more are contemplating their next step.

Each of these companies wants to design and market a simple, appealing product feature that provides value at an affordable cost. There are variations among the

product designs, but they generally operate as follows:

a. The long-term-care benefit is attached to a permanent life insurance contract as a rider.

b. When the insured is confined in a long-term-care facility, a monthly benefit equal to 2% of the death benefit is paid. There are contractual provisions concerning minimum years in force before the benefits are payable, a continuous confinement waiting period, and "hierarchy" of confinement facilities (skilled nursing, intermediate nursing, etc.).

c. Otherwise payable death benefits are reduced, dollar for dollar, by cumulative long-term-care benefits paid. Surrender values are also reduced, either on a dollar-for-dollar or other basis.

d. Revenues to support this benefit are deducted from the fund value of interest-sensitive life insurance products. Separate premiums are charged for traditional insurance policies.

e. If an insured is receiving benefits under the long-term-care rider, a waiver provision ensures that the life insurance policy will not lapse.

Target market

The Long-Term-Care Rider is generally targeted to middle-aged persons who want to provide for their own long-term-care needs. Total policy benefits provided are not increased, but paid under an additional contingency — confinement in a long-term-care facility. Hence, the cost of the benefit is low, ranging from 5% to 15% of the life insurance cost.

Regulatory considerations

A number of regulatory considerations must be addressed when developing a long-term-care rider:

- Statutory approval
- Definition of life insurance per Internal Revenue Code Section 7702
- Taxation of benefits

Statutory approvals

Long-term-care riders attached to life insurance contracts are innovative. Most state insurance departments are enamored with the concept and will work diligently to find a way to approve the contract. The Maryland Insurance Department found a legislator to sponsor enabling legislation, which has been enacted. Pennsylvania has promulgated specific guidelines permitting the sale of long-term-care riders. Other states have advised companies of the exact contract changes necessary to gain approval.

Continued on page 12 column 1

Long-term-care cont'd

Thirty-three states have approved at least one long-term-care rider. Some state insurance departments, however, cannot seem to find approval authority within existing statutory regulations. Objections usually fall within two categories: a regulatory prohibition that may bar the combination of life and health insurance in a single contract, and noncompliance with an individual state's variation of the NAIC model long-term-care regulation. Little by little, the number of state approvals is increasing.

Definition of life insurance

Long-term-care riders do not fall within the five qualified benefits under IRC Section 7702. Guideline premiums are not increased when a long-term-care rider is attached. However, life insurance treatment of the underlying base policy does not appear to be jeopardized.

Taxation of benefits

As a general rule, benefits received from personal health insurance are exempt from income tax. There is some question if long-term-care insurance qualifies as health insurance. Since the insuring clauses in long-term-care insurance policies and riders are the same, we expect that long-term-care rider benefit payments will be treated the same as long-term-care policy payments.

The ACLI has requested a revenue ruling from the Treasury Department. If a favorable ruling is granted, long-term-care insurance would be treated as guaranteed renewable health insurance—both from a company and personal perspective. Payments to consumers would, therefore, be nontaxable. There appears to be no opposition to a favorable ruling.

Other considerations

Product pricing involves setting assumptions for claim costs and

related items, and projecting the interaction of the rider with the policy. A few open issues in GAAP, statutory, and tax reserving methodologies are being addressed by actuaries and regulators.

Long-term-care riders have many administrative similarities to other riders currently marketed with life insurance policies. Administrative modifications may be necessary when benefit payments are made.

The focus of existing product designs has been on new life insurance sales. There is no reason why this rider cannot be attached to existing policies, pursuant to appropriate underwriting.

Summary

Long-term-care riders to life insurance are new. They provide real insurance value at a reasonable cost. These riders will allow life insurance companies to compete on a basis other than cost.

Abraham Gootzeit is a Consulting Actuary, Tillinghast/Towers Perrin.

Survey gauges interest in serving on committees

by Darryl Leach

In the May issue of *The Actuary*, the Society's Professional Development Committee promised to give you the results of the questionnaire concerning interest in serving on committees. Although the table is self-explanatory, the following comments and observations may be of interest:

- Of the 253 respondents, 220 were FSAs and 33, ASAs.
- Respondents indicated an interest in serving on an average of 2.1 committees each.
- The survey was aimed at FSAs, of which there are 6,042, and ASAs no longer taking exams. There were 4,074 ASAs at the time of the survey, but it is difficult to estimate the number no longer writing. Assuming that about 1,000 are no longer writing (probably a high estimate), the potential respondents numbered about 7,000.
- About 800 committee slots are now filled. If we assume the average number of committees per person is about 1.2, then about 650 members already serve on committees. Based

Continued on page 13 column 1

SURVEY RESULTS

COMMITTEES	NUMBER OF		COMMITTEES	NUMBER OF	
	CURRENT MEMBERS	POTENTIAL ADDITIONAL MEMBERS		CURRENT MEMBERS	POTENTIAL ADDITIONAL MEMBERS
PRESIDENTIAL			ACTUARIAL PRINCIPLES AND VALUATION		
Complaints and Discipline	13	9	Valuation and Related Areas	10	35
Guides to Professional Conduct	4	10	Life Insurance Company	12	47
International Relations	8	16	Valuation Principles	—	23
EDUCATION AND EXAMINATION			Actuarial Principles	10	29
Education and Examination Parts	500	80	Task Force on Non-Forfeiture Principles	9	29
SERVICE TO MEMBERS			Joint Committee on the Valuation Actuary	9	29
Program Committee	23	36	PENSIONS AND SOCIAL INSURANCE		
Continuing Education	16	—	Pension Principles and Related Research	13	36
Computer Science	7	18	Social Insurance	12	7
Life and Health Corporate Affairs	9	8	CAREER DEVELOPMENT		
Management and Personal Development	10	20	Professional Development	7	17
RESEARCH AND STUDIES			Public Relations	8	14
Mortality & Morbidity Experience Studies			<i>Career Encouragement</i>		
<i>Individual Life Insurance</i>			Subcommittee on Relations with Colleges, Universities, High Schools and Related Matters	7	29
Life Insurance	13	15	Subcommittee on Minority Recruiting	11	10
Aviation and Hazardous Sports	4	2	Subcommittee on Actuarial Opportunities	5	14
<i>Other</i>			PUBLICATIONS		
Individual Health Insurance	15	12	Publications	12	1
Retirement Plans	16	16	Papers	15	5
Group Life and Health Insurance	14	18	Review of Literature	13	4
Annuities	12	10	Memorials	5	0
Research on Theory and Applications	15	12	Editorial Board— <i>The Transactions</i>	5	2
Credit Insurance Study	9	6	Editorial Board— <i>The Record</i>	10	2
Government Statistics	9	9	Editorial Board— <i>The Actuary</i>	13	4
Relations with Statistical Organizations	10	5			