



SOCIETY OF ACTUARIES

Article from:

The Actuary

February 1988 – Volume 22, No. 2

LTC Insurance Cont'd.

Dr. Wallack's view of the kind of product that the increasingly aware and affluent elderly buyer will want is a product which is comprehensive and linked to a local delivery system. He stated a challenge for actuaries to incorporate insurance and managed care into the same product. For example, the insurer could start paying a disability benefit when a well defined, objective "disability" occurs, but pay the money to a provider, which manages the care. Some examples of arrangements which accomplish the integration of managed care and access to a nursing home are the social HMO (SHMO), an HMO offering a LTC product, life care at home (LCAH), and continuing care retirement communities (CCRCs). In the case of the SHMO, the Medicare program functions as the insurer. LCAH is a new concept developed to meet the specific needs of financial protection, home residence, and access. CCRCs are the fastest growing component of LTC, and appeal most to the 75-80 year olds, who are most concerned about access. Because of the changing preferences by age he predicted the market will seek products which allow movement over time from managed care with home residence to CCRCs.

The final speaker was Mr. Dennis DeWitt, Executive Director of the Health and Human Services Task Force on LTC Policies. The Task Force was created by Congress for the purpose of developing policy recommendations for encouraging the private insurance of LTC. Its report was released on September 21, 1987, and includes recommendations on education of the public, regulation, employment-based LTC insurance, tax policies, and use of retirement funds to buy LTC coverage. Mr. DeWitt argued that restraint on taxation and spending will continue even after President Reagan leaves office because Congress will be a largely conservative body, concerned with deficits. He pointed to the growing affluence of the elderly as a reason why federal programs will not be set up to cover LTC expenses. He referred to Brookings Institute studies of the number of elderly who can afford LTC policies (26-45% depending on assumptions) and argued that while the government will be concerned about LTC, it will encourage private approaches rather

than step in with a social insurance program. Seven of the key Task Force recommendations follow. If they are accepted and implemented, they could have a large impact on the future of LTC:

1. Inform consumers that Medicare, Medigap, and acute health care insurance do not cover LTC.
2. Encourage states to adopt the National Association of Insurance Commissioners' LTC insurance model set.
3. Promote the availability of LTC insurance through employment.
4. Develop LTC insurance financing through vested pension funds.
5. Use federal and state tax codes to encourage the purchase of LTC.
6. Encourage new approaches to determine eligibility for LTC insurance benefits.
7. Encourage greater cooperation in the collection and sharing of LTC data.

Before the panelists were recruited, several actuaries from the Futurism Section wrote scenarios of the future of LTC in the year 2010. Two of the scenarios mirrored the panelists' views of an increased role for private insurance of LTC. One scenario envisioned the problems of the aged worsening without government or private solutions developing. It is a sobering contrast, and one which reminds us that scenarios and views on the future can clarify our choices about the future. All of the panelists challenged us as actuaries to take an active role in shaping the future of long-term care.

Dale C. Griffin is a Consulting Actuary with Ann Arbor Actuaries, Inc. in Ann Arbor, Michigan. He was the moderator for Panel Discussion 14 entitled "The Future of Long-Term Care," at the 1987 annual meeting.

Book Review

Hans U. Gerber, *Lebensversicherungsmathematik*, pp. 120, published for the Vereinigung Schweizerischer Versicherungsmathematiker by Springer-Verlag, 1986.

Summary of Review by Cecil J. Nesbitt

This well-written and attractively published book has been influenced by computer developments and by the younger generation's knowledge of probability theory. These factors have

led to a probabilistic approach to actuarial models and formulas and to the relegation of commutation functions to a brief Appendix. In 120 pages, the book covers many of the main concepts presented in the Society's textbook, *Actuarial Mathematics*, and in addition, devotes a chapter to interest theory and to the estimation of basic probabilities. The book is directed to younger readers who take pleasure in applied mathematics and who wish an introduction to life insurance mathematics. A well-organized and elegant introduction awaits their reading.

The text is written in German, but with its many formulas in the international language of mathematics, and with some dictionary assistance, it is not difficult to follow. To actuarial students with lively curiosity it can be both a supplement and an aid to *Actuarial Mathematics*; to practitioners, it can be a useful reference for following up some points they may come up against in applying actuarial mathematics; to educators it can provide a modern introduction to basic actuarial mathematics.

The text appears remarkably error-free. The reviewer has noted only two, a transposition of signs in formula (7.15) of Chapter 1 and a misplaced index in the formula in Section 5.3.4:

$$P_{x:\overline{n}|} \ddot{a}_{x+n}$$

There is no discussion of actuarial accumulated values, or of retrospective formulas for reserves. Under present circumstances, these may be of less importance.

There are a number of enlightening interpretations of formulas, and from time to time numerical examples to illustrate the mathematical theory. There are no exercises, so this is not a textbook in the more usual format. But teachers and students will find the book to be an excellent stimulus for their own understanding of life insurance mathematics. Both pleasure and information await the interested reader.

Cecil J. Nesbitt is Professor Emeritus in the Department of Mathematics at the University of Michigan. He is a co-author of the new *Actuarial Mathematics* textbook.

(Ed. note: The complete version of this review will be published in the TSA.)