



SOCIETY OF ACTUARIES

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# Papers examine long-term-care insurance

by Charles Habeck

The Health Section Council received an excellent response to its announcement last year that a special issue of its newsletter would be devoted to papers on long-term-care insurance. Ten papers were received and published in the May issue.

The Council reviewed all papers and awarded prizes of \$200 each to Hersh Markusfeld and Gail Schaeffer, authors of the two papers deemed most useful to Health Section members. All papers were very well done, and the choice was difficult.

To inform the full Society membership of the scope of the topics discussed, the ten papers are summarized in this article. A very small supply of Health Section newsletters is available from the Society headquarters; please contact Judy Yore if you would like to request a copy.

Papers are discussed in the order they appear in the newsletter.

Arnold P. Shapiro and Bruce C. Stuart of Penn State University coauthored "An Overview of Non-Insurance Publications that Deal with Long-Term Care." This paper lists and characterizes a wide variety of sources that may be unfamiliar to actuaries. Three major categories are used: trade publications, academic literature, and government sources. These publications can be obtained at public or university libraries, or by subscription.

John R. Mathews, counsel with the Health Insurance Association of America, analyzed the current regulatory scene, including the NAIC Model Act and Regulation and various state actions. As might be expected, mandated benefits, minimum loss ratios, and marketing rules are included. More regulation may be forthcoming in regard to LTC riders attached to UL policies, a growing trend.

Stephen W. Kraus, counsel with the American Council of Life Insurance, describes how tax law is being clarified as it applies to a group long-term-care plan that has many aspects of individual coverage, including continuation rights. This and similar efforts aim to encourage develop-

ment of an extensive private long-term-care insurance market, thereby reducing the dependence of the elderly on Medicaid.

Mark E. Litow, consulting actuary with Milliman & Robertson, discusses the rapid growth of the marketplace in LTC insurance. He warns about the "black holes" into which profits and even entire companies have fallen recently. Pitfalls mentioned: lack of data; underwriting controls; marketing mistakes; claims administration lapses; reserve adequacy; tax questions; and regulation. He also points out the wide variations in approach.

John Walsh writes on "LTC Insurance: Why Only the Elderly?" This Australian actuary, through his own firm Quadcare Pty Limited, has studied the total needs of disabled persons of all ages. His paper outlines these needs and his own efforts to gather data that will allow a more equitable and statistically sound basis for underwriting these lives. He describes a new product and the approach needed to make it successful.

Kenneth K. Leong, actuary at Health Care Financing Administration, presents data based on the 1985 National Nursing Home Survey, including incidence rates and lengths of stay. These are further analyzed by age group, sex, and interval of stay. The sources and limitations of the data base are discussed; details of the survey may be obtained from NCHS.

Robert J. Myers, long associated with the U.S. Social Security program, gives his views on the insurance aspects of long-term-care benefits and the difficulty of establishing who is eligible for benefits under any protocol of equitable criteria. One possible solution, by means of a modified Medicaid program, would treat all parties more fairly, while providing for spouse support and intergenerational equity.

Joan P. Ogden, consulting actuary with Wilcox & Company, takes up LTC insurance from the reinsurer's viewpoint. The company, its product, underwriting, and marketing all bear on the kind of reinsurance arrangement to be offered for LTC insurance. Of particular importance is the

monitoring function: experience reports and reserve methodology must be appropriate to the risk involved here.

Hersh Markusfeld, consultant with Senior Health Management Corporation, explores major issues facing insurers in light of demographic trends, public awareness, and government's limited role so far. Underwriting considerations are unique for LTC insurance, and data limitations pose a serious problem. Needed are: clarity in the design of basic benefits, affordability of the product, and more imaginative packaging.

Gail Schaeffer, general director of long-term-care insurance at John Hancock Life, investigates the seeming inconsistencies in rate levels vis-a-vis benefits in current LTC contracts. She focuses on the different gatekeeping mechanisms and their impact on utilization and, therefore, premium levels. Where plan provisions seem similar, rate variations may be due to differences in pricing philosophy from one company to the next, an aspect not readily discernible to the consumers, who must choose based on what they can see.

These papers reflect well on industry dedication to meeting the needs of the public through the institution of insurance. The Health Section expects to publish further special topic issues.

Charles Habeck is Consulting Actuary, Milliman & Robertson Inc. He is an Assistant Editor of *The Actuary*.

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## AFIR cont'd

At the Investment Section meeting in Boston in October, the Section Council encouraged section members to respond enthusiastically to the invitation to join AFIR.

As the international committee begins its organizational steps, SOA members will be mailed further information on AFIR.

Walter Rugland, Chairperson of the Joint Committee on the Valuation Actuary, is a Consulting Actuary, Milliman & Robertson. He is a past Vice President of the SOA.