



SOCIETY OF ACTUARIES

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Actuaries...be careful!

by Jerrold G. Dolins

On January 1, 1986, a life insurance company began issuing whole life policies countrywide on a nonmedical issue basis. Each applicant was asked whether he was a smoker or a nonsmoker. In 1986 a total of 3,800 policies were issued to males aged 40-45. Following each of these policies through the first policy year indicated that 21 deaths occurred, for an overall first-year select mortality rate of 21/3,800.

The actuary desired to compare the smoker first-year select mortality rate with the nonsmoker mortality rate for these 3,800 policies. The company's files were kept in two separate locations: Nashville for policies issued east of the Mississippi and Los Angeles for policies issued west of the

Mississippi. Nashville issued 2,000 policies and processed 13 deaths; Los Angeles issued 1,800 policies and processed 8 deaths. Each office supplied smoker and nonsmoker data.

Nashville reported that smokers had a higher mortality rate than nonsmokers (6/900 > 7/1,100). Los Angeles reported the same conclusion (5/1,100 > 3/700). The actuary therefore concluded (since the entire population was considered) that the overall mortality rate for the 3,800 issued policies must be greater for smokers than nonsmokers. Right? Wrong! 11/2,000 < 10/1,800. What went wrong?

Jerrold Dolins is Senior Manager in the financial analysis area at CNA.

Nonmedical, male, duration 1, issue ages 40-45						
Office	Smoker		Nonsmoker		Total	
	Deaths	Policies	Deaths	Policies	Deaths	Policies
Nashville	6	900	7	1,100	13	2,200
Los Angeles	5	1,100	3	700	8	1,800
Total	11	2,000	10	1,800	21	3,800

Task force analyzes financial implications of AIDS

by David J. Christianson

The Society of Actuaries Task Force on the Financial Implications of AIDS has been hard at work since last June. Much has been accomplished, and we plan to present our report in an open forum at the Vancouver meeting. The Canadian Institute of Actuaries will also present its findings, and the audience and panel will have a chance for dialogue on these reports. Actuaries will also have the chance to discuss actions their own companies have taken.

Because we needed to concentrate our efforts to produce a report in a reasonable time, we limited the scope of our research to individual life

insurance and individual disability insurance. These plans of insurance were selected because they are of great interest to the industry and have limited ability to respond to changes in experience.

The output of our research is clearly taking shape. We have settled on general population scenarios for AIDS deaths and have focused on the midrange scenario. From this population model we are developing mortality factors for the general population and are researching the correlation between population data and the insured population. We will suggest

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AFIR opens wider financial arena to actuaries

by Walter Rugland

Is there life for actuaries other than in insurance companies or with employee benefits?

For years the French have thought so, and this summer at the International Congress of Actuaries, the rest of the world agreed. The International Actuarial Association (IAA) established AFIR (Actuarial Approach for Financial Risks), a "division" within IAA that directs its research and discussion efforts to those financial areas other than insurance and benefits in which actuaries can make contributions.

Nearly 40% of the accredited actuaries in France work in major banks and other financial institutions that are not insurance or benefit oriented. They help those institutions analyze risks associated with different transactions and institutions both in terms of structure of the arrangements and quality.

AFIR gives actuaries worldwide the opportunity of sharing experiences with actuarial theory and operations in the wider financial arena. The focus is broad and different. But, the application of actuarial skills is not different, even though the language and the approaches are.

Led by an international committee, AFIR offers membership to actuaries throughout the world who are members of the International Actuarial Association. The initial focus of the group's activity will be an International Symposium to be held in Paris in 1990. Ideas for other activities are being presented and refined.

Members of the Society of Actuaries provided major impetus to the establishment of AFIR. Nearly coincidental to the charter granted AFIR was the establishment of the Investment Section within the Society. A broad view of the purpose of the Investment Section calls for extension of actuarial skills to the entire range of investment and financial affairs. Investment Section leadership endorsed the concept of AFIR and encouraged the Congress to adopt the recommendation that it be established.

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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*.

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.