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2004 LTC Operations and Technology Survey

by Van Beach

Introduction

The budget for claims processing seems very high—is it reasonable for a company our size? It seems to take a long time to get a policy issued—how does our time to issue compare with other companies? Are we certain there isn't a new technology that we should be pursuing? What initiatives and challenges are other companies addressing? These and other questions were the drivers behind the creation of an operations and technology benchmark survey specific to the long-term care industry.

The goals of the first Annual LTC Operations and Technology Benchmark Survey were to develop time and cost benchmarks for LTC operations, identify the most pressing operations and technology issues, and gain insight into the technologies that are being used to administer long-term care business. The survey was conducted through the SOA, and was sponsored by the operations track of the Long-Term Care Section. The full 2004 Summary Report can be found on the SOA Web site at www.soaltci.org.

Methodology

The 2004 Long-Term Care Operations and Technology Survey responses are based on data from the first two quarters of 2004. Point-in-time data is as of June 30, 2004, while annualized data is based on the period from January 1 through June 30, 2004.

The survey questions were categorized into four sections:

- **Company information, Part 1** (new business premium, in-force premium, employees, etc. for *all lines of business*); and **Part 2** (new business premium, in-force premium, policy counts, new business applications, employees, claims, etc. for *group and individual LTCI lines of business*).
- **General questions** (use of various technologies, challenges and initiatives, etc.).
- **Costs** (budgets, staff, internal versus external costs, information technology versus other functional costs, etc.).
- **Times** (time to issue, time to receive underwriting requirements, time to complete home office requests, etc.).

Survey questionnaires were submitted to 40 companies, and several follow-up e-mails and calls were made in an attempt to maximize participation rates (the survey committee quickly found that one of the challenges of a new survey is developing an appropriate distribution list). All survey responses were de-identified and confidential.

Participating Companies

Companies participating in the survey include those that are currently marketing and selling new long-term care insurance policies as well as others that have ceased writing new policies and are administering a closed block. Of the 40 companies, to which survey

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questionnaires were distributed, 17 responded (42.5 percent). However, when measured by annualized LTCI premium or by LTCI premium in-force, it has been estimated that over 70 percent of the industry is represented by the survey participants.

The participating companies represented 2.5 million in-force policies, \$3.6 billion of annualized in-force premium, and 50,000 open claims (as of June 30, 2004). The participating companies, categorized by LTC annualized premium in-force as of June 30, 2004 are shown in Table 1 to the right.

Sample Benchmarks Based on 2004 Results

With the information that was gathered, a wide array of benchmark metrics can be calculated. Just a few of the many examples of the types of benchmarks include:

- The cost to issue a LTC policy,
- The cost associated with not taken or declined applications,
- The cost to administer an open claim, and
- The overall budget supported by each in-force policy.

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Table 1: Participating Companies

| | Group | Individual | Total |
|-----------------|-------------|-------------|-------------|
| Average | 193,203,355 | 201,287,731 | 225,388,752 |
| 25th Percentile | 184,805,033 | 16,236,775 | 16,273,323 |
| 50th Percentile | 142,992,506 | 80,835,502 | 103,926,531 |
| 75th Percentile | 276,496,253 | 121,558,166 | 232,075,050 |

* Note that for the calculation of the percentiles and average, only nonzero responses were included (e.g., the calculation of the average group premium in force only considers those companies with nonzero amounts of group LTC).

Table 2: New Business Budget per LTC Policy Issued

| | 2004 Total Policies Issued | NB Budget Per Policy Issued |
|-----------------|----------------------------|-----------------------------|
| Average | 15,495 | 435 |
| 25th Percentile | 3,088 | 208 |
| 50th Percentile | 9,170 | 386 |
| 75th Percentile | 13,133 | 459 |

* Total 2004 policies issued per company were estimated based on the policies issued per company through June 30, 2004.

Table 3: Costs of Not Taken and Declined Policies

| | New Business Budget Per Application | Percent of Applications Not Taken or Declined | \$ Spent on Applications Not Resulting in Issues | \$ Per Policy Issued Spent on Policies Not Issued |
|-----------------|-------------------------------------|---|--|---|
| Average | 354 | 30% | 1,058,365 | 99 |
| 25th Percentile | 144 | 18% | 42,579 | 64 |
| 50th Percentile | 278 | 31% | 932,308 | 65 |
| 75th Percentile | 325 | 38% | 1,495,905 | 108 |

* Total 2004 applications per company were estimated based on the applications per company through June 30, 2004.

Table 4: Operational Claim Costs

| | Open Claims | New Claims | Open Claims/1,000 Policies In-force | New Claims/1,000 Policies In-force | 2004 Claims Budget Per Open Claim |
|-----------------|-------------|------------|-------------------------------------|------------------------------------|-----------------------------------|
| Average | 2,823 | 1,079 | 12.7 | 4.7 | 965 |
| 25th Percentile | 63 | 8 | 2.1 | 1.0 | 397 |
| 50th Percentile | 246 | 89 | 7.2 | 3.3 | 637 |
| 75th Percentile | 2,217 | 863 | 16.0 | 4.9 | 843 |

* Total 2004 new claims per company were estimated based on the new claims per company through June 30, 2004.

* Open Claims and Policies In-force were as of June 30, 2004.

Table 5: Total Cost per Policy and Cost per \$1,000 Premium

| | Total LTC Budget Per Policy | Total LTC Budget Per \$1,000 Premium |
|-----------------|-----------------------------|--------------------------------------|
| Average | 113 | 82 |
| 25th Percentile | 48 | 31 |
| 50th Percentile | 100 | 74 |
| 75th Percentile | 167 | 110 |

These included here are an example of the types of benchmarks that can be gleaned from the survey results. As mentioned above, the full 2004 Summary Report is available on the SOA Web site under the Operations Track of the LTC Section at www.soa.tci.org.

New Business Budget per LTC Policy Issued

Table 2 details the new business budget per policy issued. Here the “new business budget” includes operational costs associated with underwriting (including underwriting requirements) and other new business administration and processing costs. The new business budget does not include any commissions shown in Table 2 on page 3.

Costs of Not Taken and Declined Policies

For Table 3, the new business budget described above is allocated to all LTC new business applications. The applications that resulted in issued policies are subtracted to get the number of applications “not taken or declined.” The absolute amount spent on applications that don’t result in issued policies is shown as well as this amount allocated to issued policies. These results are shown in Table 3 on page 3.

Operational Claim Costs

Claim information collected for the first two quarters of 2004 was used to estimate the total 2004 new claims. Open claims and policies in-force were as of June 30, 2004. The operational claims budget (i.e., does not include claim payments) was used to calculate the budget per open claim. Results are shown in Table 4 on page 3.

Total Cost per Policy and Cost per \$1,000 Premium

For the calculation of the per-policy expense and the per-premium expense, the total 2004 LTC budgets (internal and external, individual and group) were included and divided by the in-force amounts as of June 30, 2004. The results are shown in Table 5 above.

Comments on the 2005 Survey

In future releases of the survey, we (the Survey Committee) anticipate that the results will be released in the fourth quarter of the year of the survey (e.g., 2005 results would be released in fourth quarter of 2005). Collection of data for the 2005 survey will begin in September. We anticipate that the survey will close on Oct. 31, 2005. In order to continue providing this valuable industry information, it is very important that all companies are represented. If you have any questions or would like more information, contact Van Beach, 2005 survey chairperson.

Thanks

Thanks to all of those who invested the time to respond to the survey and a special thank you to the 2004 Survey Committee for their diligence and hard work in creating this first annual survey. *

2004 Survey Committee

Chairperson: Van Beach, Milliman
 Maryellen Beach, Society of Actuaries
 Kimber Howard, Society of Actuaries
 Lynn Hartung, Aegon
 Sandra Latham, LTCI Partners
 Pete Petersen, Northwestern Mutual



Van Beach, FSA, MAAA, is a senior consultant at Milliman STEP Solutions in Fort Washington, Pa. He can be reached at van.beach@milliman.com