



SOCIETY OF ACTUARIES

Article from:

# Long-Term Care News

September 2010 – Issue 26

# What are the Primary Risks that Face LTC Insurers When Issuing a Policy?

by Bruce A. Stahl



Bruce A. Stahl, ASA, MAAA, is vice president and actuary at RGA Reinsurance Company in Chesterfield, Mo. He can be reached at [bstahl@rgare.com](mailto:bstahl@rgare.com).

Ten years ago many LTC professionals would have expressed concern that the lapse and mortality assumptions might be misestimated. In contrast, today many LTC policies being issued are priced with such low lapse and mortality assumptions that the profitability is not sensitive to overestimating the decrements. Instead, today the greatest concerns may be investment risk and morbidity misestimation risk.

This issue of *Long-Term Care News* attempts to address how LTC insurers manage investment risk and morbidity misestimation risks. For addressing investment risk, we have reprinted an article by Luke Girard from the February 2001 Investment Section newsletter *Risk & Rewards* as it helps us understand how we might value business with reference to investment risk. For addressing morbidity misestimation risk, we provide two articles: one regards how to manage morbidity factors that are outside the control of the insurance company; the other provides an example of how an insurance company can proactively manage morbidity in accordance with the policy language.

As always, our intent is to provide you with information that is helpful to you and that challenges your thinking about topics related to the health care industry, long-term care in particular, of course. We hope you enjoy this issue of our newsletter and invite you to send in article ideas for us to consider for future editions of this publication. ■

## Long-Term Care News

Issue Number 26 | September 2010

Published by the  
Long-Term Care Insurance  
Section Council of the  
Society of Actuaries

This newsletter is free to section members. Current issues are available on the SOA Web site ([www.soa.org](http://www.soa.org)). To join the section, SOA members and non-members can locate a membership form on the LTCI Web page at [www.soaltci.org](http://www.soaltci.org).

### 2009-2010 Section Leadership

John Nigh, BOD Partner  
Mark Costello, *Chair*  
David Benz, *Vice Chair, Treasurer*  
David Kerr, *Council Member*  
Jason Bushey, *Council Member*  
Roger Gagne, *Council Member*  
Laurel Kastrop, *Council Member*  
Roger Loomis, *Council Member*  
Amy Pahl, *Council Member*  
Allen Schmitz, *Council Member*

Winona Berdine, *Affiliate Member*  
Ron Hagelman, *Affiliate Member*  
Denise Liston, *Affiliate Member*

Winona Berdine and Denise Liston,  
*Underwriting & Claims Track Co-Chairs*  
Steve Pike, *Marketing Track Chair*  
Jim Smith, *Management & Operations Track Chair*  
Mark Whitford, *Actuarial Track Chair*  
Ali Zaker-Shahrak, *Regulatory & Compliance Track Chair*

### Content Managers

Brad S. Linder  
*Content Manager*  
E-mail: [Brad.Linder@GE.com](mailto:Brad.Linder@GE.com)

Bruce A. Stahl  
*Content Manager*  
E-mail: [bstahl@rgare.com](mailto:bstahl@rgare.com)

### SOA Staff

Jacque Kirkwood, *Staff Editor*  
E-mail: [jkirkwood@soa.org](mailto:jkirkwood@soa.org)

Sara Teppema, *Staff Partner*  
E-mail: [steppema@soa.org](mailto:steppema@soa.org)

Jill Leprich, *Section Specialist*  
E-mail: [jleprich@soa.org](mailto:jleprich@soa.org)

Julissa Sweeney, *Graphic Designer*  
E-mail: [jsweeney@soa.org](mailto:jsweeney@soa.org)

Facts and opinions contained herein are the sole responsibility of the persons expressing them and should not be attributed to the Society of Actuaries, its committees, the Long-Term Care Insurance Section or the employers of the authors. We will promptly correct errors brought to our attention.

© Copyright 2010 Society of Actuaries. All rights reserved.  
Printed in the United States of America.