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The Actuarial Opportunity in Long-Term Care Insurance

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We have all heard the rallying cry for years that the baby boomers (those born between 1946 and 1964) are aging and it is going to strain our economy. As the Medicare Hospital Insurance Fund and The Social Security Trust Fund face serious funding issues, the country has struggled to find a long term financing solution for our seniors. Long-term care insurance (LTCI) faces similar problems as the insured population continues to age and behave in ways no one could have predicted 20 years ago. LTCI faces the harsh reality that it needs to innovate or relegate. I believe that our aging population needs LTCI and developing LTC actuarial talent is a key.

Financing the growing health care needs of our senior population will prove challenging as the traditional options for LTCI have proved to be wanting. Traditional stand-alone long-term care insurance has many well-documented pitfalls and exists in a marketplace that is volatile and largely untrusted. For all those that have been around the industry for any significant amount of time, the reasons for the current state of the LTCI market are apparent, and the solutions are scarce. LTCI is an increasingly complex product that requires a great deal of actuarial and product expertise to understand, as well as a great deal of technical expertise to quantify and model. It takes a team of actuaries with varying talents to properly analyze and digest the complexities that the product presents. While this may seem daunting, it also provides an excellent forum for building strong student/teacher relationships and developing strong actuarial talent within the industry.

This past March there was a session at the Intercompany Long Term Care Insurance (ILTCCI) conference in which the topic of discussion was developing LTC actuaries. Many interesting opinions were discussed, but the overwhelming theme of the session was that the industry needs to be thinking about and doing something to develop LTC actuaries. There are differing opinions on the preferred SOA learning track that aspiring LTC actuaries should follow. Currently, traditional LTCI is represented through the group and health track while LTC riders on life insurance contracts and combination products (meaning

a product that combines life insurance with LTC insurance) are covered in the individual life and annuities track. This overlap is consistent with how LTCI is viewed in general as “Not quite health insurance, but not quite life insurance, either.” While the learning track of preference was up for debate (and what topic isn’t in a room full of actuaries?), the one thing the group agreed on was the necessity of LTC actuarial development occurring through actual experience.

When I started as an LTC actuary, I had the distinct privilege of benefiting from a strong student/teacher relationship with some very knowledgeable and experienced LTC actuaries. Among all the wisdom imparted on me, one bit has always stuck with me and I have repeated it many times: “If you can understand LTC insurance, you can understand any insurance.” Now, I do not take that to mean any LTC actuary can jump right into any other product line and be an expert, and I certainly would not be qualified to offer opinions on universal life products or Medicare advantage bids. What it means is that if you are up to the actuarial challenge of fully understanding long-term care insurance, there would not be many other actuarial subject matter challenges you find more daunting.

The LTCI industry sits at a crossroads where learning from the past intersects with decision points about the future. We have a window of time in which a small community of actuaries need to start coming up with possible answers to the questions that are strangling the growth of the industry. This ranges from industry actuaries developing new products, to actuaries figuring out how to deal with the issues of existing products, and even government actuaries determining how to promote growth through stabilizing a volatile market. Even with all of the competing interests of a number of parties, one thing is clear: LTCI needs to survive and innovation is the name of the game.

The focus on innovation has been pushed to the forefront as LTCI products approach the precipice of the future. This should be incredibly exciting to young actuaries who are looking to make an impact with the need for LTCI becoming increasingly more evident. Opportunity is in abundance. Demand for talented and able LTC actuaries is present. Solutions are scarce and more needed than ever. The problems facing the industry, while not simple, are clear and are in desperate need of problem solvers. Never has there been a better time for actuaries to show their worth and make their mark. I know I look forward to the challenge and I hope others are willing to join. ■



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