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# New to LTC

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## **W**hat drew you to working in the LTC industry? And what makes you excited to continue working in LTC?

Like most actuaries, the three of us universally enjoy the opportunity to solve complex, meaningful problems. This was a key factor in our decision to enter the LTC industry. The industry does not have a shortage of problems, which can be concerning, but it can also make it an exciting place to work where you can make a difference. LTC is still a relatively new product and we are facing some of the most difficult challenges. This allows LTC actuaries the opportunity to be creative while designing solutions. While the product can be quite complex, we feel the complexity makes it interesting and rewarding.

Once we started working in the LTC industry we realized many of the reasons we entered the industry were validated. We get to work with complex products, are provided the opportunity to design solutions and are given the opportunity to take on new and exciting projects. We realized although it is difficult to truly become an expert in LTC, it also means there are always new things to learn and new opportunities to grow as actuaries. Further, the burden of paying for LTC expenses in America is unyielding and the need for LTC coverage remains indispensable. The work we do allows us to fulfill our promises to our current policyholders while also putting us in a position to provide coverage to those who still have LTC needs. We continue to work in the LTC industry because we see the value we are bringing and the overall impact we are making to our company, industry and broader population.

### **Compare Life and LTC in terms of:**

#### a. Product Design

Even though LTC is a relatively new product, the industry has come up with a wide variety of product designs and features. Many older LTC policies pay benefits on an indemnity basis, while newer policies pay benefits based on the actual cost of care. Typically, the insured must demonstrate that they are unable to meet at least two activities of daily living in order to start receiving benefits. Other key product features include inflation protection and elimination periods that act as a deductible that delays the initial payments. Due to the long duration of the product, experience often takes decades



to emerge. This, combined with the lack of industry and historical experience, presents challenges in product design and assumption setting.

#### b. Assumptions

LTC tends to be more reliant on assumptions than life insurance, which can make it more interesting to work with, but also gives a steeper learning curve. Similar to life insurance, LTC insurers keep track of mortality and lapses. Additionally, LTC actuaries analyze incidence rates (the probability of going on claim) and track policyholder behavior once on claim. Since LTC claims often occur 30+ years after the policy is purchased, estimating claim severity can be very challenging. Often severity is split out between benefit utilization and claim termination rates. Trends in the cost of LTC are also studied, as they can affect future benefit utilization.

#### c. Regulations

LTC policies are generally guaranteed renewable and noncancelable. As such, insurers can pursue rate increases if experience

deviates from expectations subject to state regulations. States often employ different regulatory approaches, leading to a very diverse regulatory environment. The LTC regulatory environment is constantly changing, which gives actuaries an opportunity to collaborate with regulators to help create the future of LTC. New potential regulations are being developed and proposed in an effort to create a landscape that solves current problems while encouraging a healthy market.

#### d. Challenges

An initial challenge for the industry was lack of applicable data for assumptions. Early LTC products were priced using disability insurance assumptions, which have proven to be very different. The low interest rate environment has proven challenging for LTC, as it has for many life products. Poor understanding of assumptions and early mispricing have led to the need for rate increases that have damaged the reputation of the industry. Poor understanding and communication of the product features and designs by companies and agents have added to this reputation deterioration.

Many players have exited the market and only focus on managing their in-force block. The overall market has declined in recent years emphasizing the importance of in-force management. Many carriers are focusing on pursuing actuarially justified rate increases for in-force policies. It is very challenging to balance innovating solutions for the market while addressing issues with existing business. While LTC insurers face many challenges, this provides opportunities to fix these problems and improve the industry.

#### **Describe an interesting LTC actuarial project you worked on.**

Each of us has had opportunities to work on projects that are unique to LTC. This includes building tools to aid assumption development, pricing alternative options that mitigate the impact of rate increases and working on rate-increase filings while directly interacting with regulators. These projects have challenged us and increased our LTC knowledge while allowing us to contribute to valuable efforts.

#### **Why is it important for LTC insurance to exist?**

There are 74 million baby boomers in America. As this generation ages into its 70s and 80s, a large number (some studies say 50 percent plus) will need some type of long-term care. While

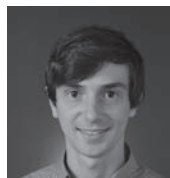
health-care and long-term care costs continue to rise, people are living longer and not saving enough. Many are unprepared or surprised by the large costs of staying in an LTC facility or receiving home care. Medicare only covers short LTC stays and Medicaid requires one to spend down assets before eligibility. LTC insurance is a great way to prepay and pool risk for these costly events.

#### **What makes you hopeful for the future of LTC and why should a new FSA consider working in LTC?**

The need for LTC isn't going away. While we still face the problems of the past there remains a need for innovation. This is an opportune time to enter LTC as the industry learns from its past and works to provide solutions for a growing need for coverage. Working in LTC allows an actuary to have a real impact at a pivotal time for the product where the future is uncertain. LTC has plenty of opportunity that other industries can't offer due to the unique circumstances surrounding the product. In our experience, the biggest and most challenging problems are often the most satisfying to work on and result in the most growth. ■



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