



# Long-Term Care News

The Newsletter of the Long-Term Care Insurance Section

Published by the Society of Actuaries

## From the Editor

by Bruce A. Stahl

The Long-Term Care Insurance Section of the SOA is young, yet while still in its infancy, it began an annual conference that is considered by some to be the premier symposium on LTC Insurance. Many LTCI professionals view it as a priority for anyone who is anything in the industry.

Much of the conference's success is attributed to Jim Glickman, who has organized it each year, and to many others who have assisted him in identifying sessions and speakers for the six tracks of sessions: marketing, claims, underwriting, compliance, actuarial and management.

In order to offer you a sense of its value, Jim Glickman asked those who supervised each track for 2003, to write a brief summary of what was covered in their sessions. The articles sometimes offer a general theme that could be gleaned from the entire series, and sometimes they offer helpful insights to the LTCI professional. In either case, they convey only a small percentage of the full educational value of the conference.

A common thread through each track is the value of inter-practice discussions. In addition to the seminars, the Conference offers an important venue for meeting other professionals and for informal discussion of significant events and circumstances facing the industry. We hope you all decide to attend next February 8-11, in Houston. ☺



Jim Glickman

*Thanks, Jim, for all your hard work!!*

## contents

- From the Editor  
by Bruce A. Stahl .....1
- Chairperson's Corner  
by Michael S. Abroe .....3
- 2003 Intercompany LTCI Conference –  
Actuarial Track Highlights  
by Vincent L. Bodnar .....4
- 2003 Intercompany LTCI Conference –  
Underwriting Track Highlights  
by Maureen Lillis .....5
- 2003 Intercompany LTCI Conference –  
Claims Track Highlights  
by Noreen Guanci .....6
- 2003 LTCI Conference Management Track  
Highlights  
by Timothy J. Tongson .....7
- 2003 Intercompany LTCI Conference –  
Marketing Track Highlights  
by Claude Thau .....8
- SOA Presents the Compliance Track from the  
Third Annual Intercompany LTCI Conference  
– January 26-29, 2003 .....9
- Upcoming LTC Sessions at the SOA Annual  
Meeting in Orlando .....11

## Long-Term Care News

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This newsletter is free to section members. To join the section, SOA members and non-members can locate a membership form on the SOA Web site at [http://www.soa.org/sections/ltc\\_form.html](http://www.soa.org/sections/ltc_form.html). Back issues of section newsletters have been placed in the SOA library and on the SOA Web site (<http://www.soa.org/sections/ltcnews.html>).

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# Articles Needed for the News

Your help and participation are needed and welcomed. All articles will include a byline to give you full credit for your effort. *Long-Term Care News* is pleased to publish articles in a second language if a translation is provided by the author. If you would like to submit an article, please call Bruce Stahl, editor, at (856) 566-1002.

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## Submission Deadline

Friday, October 10, 2003  
Friday, February 6, 2004  
Friday, July 9, 2004

## Preferred Format

In order to efficiently handle articles, please use the following format when submitting articles:

Please e-mail your articles as attachments in either MS Word (.doc) or Simple Text (.txt) files. We are able to convert most PC-compatible software packages. Headlines are typed upper and lower case. Please use a 10-point Times New Roman font for the body text. Carriage returns are put in only at the end of paragraphs. The right-hand margin is not justified.

If you have questions, or if you must submit in another manner, please call Joe Adduci, 847-706-3548, at the Society of Actuaries for help.

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Thank you for your help.



SOCIETY OF ACTUARIES

# Chairperson's Corner

## "Volunteer Your Time"

by Michael S. Abroe

**T**his newsletter contains summaries of the sessions presented at the recent 2003 Long-Term-Care Intercompany Conference. The authors of the summaries are volunteers, as are the vast number of people who developed, scheduled and participated in the conference.

Which gets us to the theme of this article ... "Volunteer Your Time." We are proud of the many volunteers and the time they devote to LTCI and related issues.

In addition to meetings, SOA and AAA

committees are comprised of volunteers. A count from the yearbook totals 1,091 people who are LTC Section members and also on committees.

Eliminating duplicates, we estimate the total number of volunteers at 192. Thus, about 17.5 percent of LTC Section membership are supporting the section by volunteering.

On behalf of the Council and the entire LTCI Section, I'd like to thank all of you for giving your valuable time and services in support of this Section. We look forward to hearing from new volunteers. ♿

## Here are some fun facts on volunteers:

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|--|--|
| <ul style="list-style-type: none"> <li>▶ Section council members volunteering their time.</li> </ul>                                   | <ul style="list-style-type: none"> <li>▶ Nine elected members hold monthly conference calls and coordinate all SOA activities related to the Section.</li> </ul> |
| <ul style="list-style-type: none"> <li>▶ The Third Annual Intercompany LTCI Conference – Las Vegas, NV, January 26-29, 2003</li> </ul> | <ul style="list-style-type: none"> <li>▶ # of Volunteers = 154</li> </ul>  |
| <ul style="list-style-type: none"> <li>▶ SOA Spring Meeting – Vancouver, BC, June 23-25, 2003</li> </ul>                               | <ul style="list-style-type: none"> <li>▶ No. of Volunteers = 21</li> </ul>   |
| <ul style="list-style-type: none"> <li>▶ SOA Annual Meeting – Orlando, FL, October 26-29, 2003</li> </ul>                              | <ul style="list-style-type: none"> <li>▶ No. of Volunteers = 17</li> </ul>   |



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# 2003 Intercompany LTCI Conference – Actuarial Track Highlights

by Vincent L. Bodnar

**L**ong-term care insurance is still a relatively young product. As such, it continues to evolve as plan design, underwriting, claims management and pricing methods and techniques change to reflect our ever-increasing knowledge of the long-term care risk. In addition, regulatory and capital requirements are unique and also continue to change.

Long-term care actuaries have a particular need to stay informed of the latest developments and information related to this product. Accordingly, the actuarial sessions of the Third Annual Intercompany LTCI Conference provided attendees with useful information for actuaries faced with the challenge of pricing, reserving and planning for such a dynamic product line.

Morbidity experience continues to develop. As discussed in the advanced pricing session, it has generally improved over the last several years. However, the ultimate morbidity curve has proven to be elusive to actuaries due to changes in underwriting, claims management and benefits over the years. The advanced pricing session provided some ideas on how to reflect emerging morbidity experience into new product pricing.

Lapse and mortality experience continues to improve (i.e., decreased lapse and mortality rates), which is a concern to many actuaries because of the deferred nature of long-term care benefits.


Reserving practices are quite varied among long-term care carriers. This is partly due to a lack in valuation morbidity standards compared to other insurance products. The valuation session provided an overview of the methods used by carriers to establish statutory, GAAP and tax reserves for their long-term care products. Companies are beginning to perform cash flow testing for their long-term care products as a result of the recently revised NAIC Model Actuarial Opinion Memorandum Regulation. This has become a critical exercise given the

recent trend downward in interest rates. The cash flow testing session emphasized this and demonstrated how cash flow testing can be used for other key risk management, planning and GAAP recoverability testing.

Conservative reserve, capital and tax requirements continue to be burdensome for many carriers, particularly small and mid-sized companies without access to large amounts of capital generated by other lines of business. The capital needs session described ways in which reinsurance can be used to manage this burden and provided an example of a recent reinsurance solution.

Non-traditional product features and modeling methods were also discussed. The valuation and advanced pricing sessions provided useful information on how to reserve for and price non-traditional features such as limited-pay options. The benefits of and useful tips for implementing stochastic pricing models were discussed during the advanced pricing session.

The need for clear and frequent interdisciplinary communication was the theme of two sessions. Actuaries, claims managers and underwriters must stay aware of what their peers in the other disciplines do, how they do it and what they need and expect. This was discussed in depth in the common knowledge session. Non-actuaries had an unprecedented opportunity to look under the hood of a live pricing model in the actuarial 101 session and see how even minor changes in pricing assumptions can have a major effect on pricing and profitability.

It is only through shared knowledge, both among actuaries and other disciplines, that we can expect to fully understand the long-term care risk and succeed with the product. As with the previous two years, the conference facilitated this much-needed exchange within the industry. I look forward to experiencing it again in Houston in 2004. 



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# 2003 Intercompany LTCI Conference – Underwriting Track Highlights

by Maureen Lillis

**T**he Third Annual Intercompany LTCI conference provided the audience with up-to-date information on current underwriting practices that can be applied to daily processing. Although the industry understands the many challenges facing the underwriter, the highest priority remains to protect the risk pool.

The underwriting sessions were designed to provide both education and interaction from participants. The underwriting track focused on information that provides the administrative staff, actuary and the agent with the necessary tools to complete appropriate risk management decisions.

This perspective was evidenced by positive opinions voiced during the panel presentation addressing the prevalence of cognitive conditions in the management of long-term care. Education is the buzzword in LTC sales, and it's the necessary forum for broader understanding of cognitive issues facing the carriers. The agents struggle with identifying applicants with potential early onset cognitive deficits while the underwriters' objective is to offer coverage to healthy candidates. The session included an outline of current medical diagnostics on mild cognitive impairment compared to actuarial analysis of cognitive deficits in the general population.

Yet another observation was included on the underwriting track focusing on product administration. The session focused on such attributes as involving qualified, professional services with thorough operations that are more efficient. By offering the opportunity to discuss challenges in servicing LTC products, the program was developed to make the journey as simple as possible.

Likewise, the LTCI industry remains committed to offering competitive products to the marketplace. To address this concern, the underwriting track included an interactive session focusing on

pricing, administrative issues and marketing strategies facing the agent force. This interactive session solicited opinions from audience participants. Accordingly, the collective advice offered up resulted in a colorful dialogue between carrier representatives, agents and actuaries alike on issues facing product administration.

Insight into psychiatric conditions, delivered by a team of experts consisting of clinicians and administrative managers also touched on educational guidelines in line with protecting the risk pool. This session included medical diagnostics addressing potentially serious chronic disease caused by mental health conditions. Current treatment programs resulting in positive clinical trial outcomes through therapy and pharmaceutical advances were discussed. However, this optimism was decidedly tempered by a comparative analysis of psychiatric claims utilization data.

Finally, there was an observation delivered outlining the challenges and concerns for the group LTCI underwriter. We understand the differences between individual products and group processing but need to validate current practices in offering products to the employer marketplace. The panel discussion focused on strategies and differences between underwriting techniques on individual applicants versus underage active employees as each consumer presents unique challenges for the underwriter and actuary.

Our business is based on a strong commitment to serve the education of LTCI and administration of competitive products to the marketplace. As evidenced during the underwriting sessions, the success in LTCI is measured through the agent, underwriter and actuary in offering programs that emphasize training to simplify the road to increased LTCI sales. ☺

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**The underwriting sessions were designed to provide both education and interaction from participants.**

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# 2003 Intercompany LTCI Conference – Claims Track Highlights

by Noreen Guanci

Claims professionals within the long-term care industry clearly are eager to gain knowledge regarding what other insurance companies experience with their claimants. The 2003 Intercompany LTCI Conference provided a wonderful and lively forum for this exchange of information.

Claims operations continue to evolve and discussion encompassed the challenges in managing departments in light of rapidly changing technology and shrinking budgets. Varying staffing structures, vendor relations and customer service were all included as part of the interactive conversations. Another focus of discussion included the difficulties with policy interpretation that claims personnel have. Creative solutions for working with actuaries and underwriters were proposed so that future policies and underwriting approaches would reflect the claims experience. Lastly, operations personnel overviewed the wide range of community and facility care delivery options and locations and regulatory challenges associated with these. Audience participation and personal accounts from experience in the claims arena made these sessions extremely valuable to the attendees.

A new spotlight for the 2003 conference included a focus on the group product and the unique challenges and opportunities it presents. Discussion included the clarification of disability verses impairment and misconceptions that exist. Much attention was given to strategies used to assist benefit eligible claimants in returning to work. An occupational therapist presented case studies to demonstrate success stories.

Consistently, the claims audience highly regards the discussion of medical treatments and commonly seen claims diagnosis. Disability trends and mortality rates were presented by a team of experts. Medical advances and potential effects on long-term care insurance claims were reviewed.

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Unfortunately, claims managers are always cognizant of the ever present possibility of fraud. Current trends with fraud case studies and options for investigation were presented. A discussion ensued regarding the financial and legal risk that fraud can potentially present to a claims department.

Lastly, the 2003 Intercompany LTCI Conference could not have been complete without a discussion of HIPAA. An overview of Administrative Simplification, Privacy of Health Information and Data Security was presented. Attention was given to privacy and security issues experienced on a day-to-day basis within all divisions of insurance companies. Regulations were presented and recommendations for compliance were reviewed. Sessions were well attended and great interactive discussions ensued. ☺

# 2003 LTCI Conference Management Track Highlights

by Timothy J. Tongson

**M**anagers at all levels of expertise and experience in long-term care insurance benefited from the diverse sessions offered by the Management Track. Read on to learn what you may have missed.

## Thinking of Entering the Market?

Management 101 was the course for you. It focused on what you need to know prior to entering the LTCI industry. Is it a strategic fit? What are the underwriting, distribution, service and competition considerations? Important financial and capital factors were also addressed.

## Consumer Views on Long-Term Care Offered Many Perspectives of LTCI.

The needs of consumers, family members and LTC professionals were discussed along with key elements of a quality LTC program. The difficult choices children face when their parents need long-term care services were presented and the audience benefited from the advice of a professional advocate.

## What Went Wrong and Why?

It was one of the most fun and interesting sessions of the conference. Through a talk show format, carriers shared business strategies that didn't work out as expected. The audience had the advantage of hearing real-world situations and discussing how to make better decisions and improve their own LTCI strategies. Due to its popularity, this session will be offered at the 2004 conference with new cases and is expanded to cover successful business strategies.

## Achieving Profitable Growth in the Long-Term Care Insurance Market Focused on How to be Successful.

The session highlighted the importance of establishing and adhering to clear goals and objectives. It identified the key drivers of success such as prioritizing the needs of stakeholders as well as

developing sound practices for measuring emerging experience and acting on it.

## Building LTCI Business through Acquisitions and Mergers Discussed Strategies and Tactics through Case Studies.

Topics included handling of distribution, products and underwriting. Meaningful information on understanding buyer/seller objectives, performing due diligence and integrating businesses was also provided.

## Group Executive Carve-Out

This had a marketing emphasis, yet it addressed other considerations in this niche. Pros and cons were discussed, as well as important considerations in pricing and underwriting and the drivers to achieving profitability.

## The Federal Long-Term Care Insurance Program

It discussed the goals, objectives and process in setting up this program. Topics included how partners were selected, the preparation and bidding process and the development of a joint mission statement to provide LTCI to federal family members.

## LTCI International Issues

They focused on what you need to know before entering a particular country. It also touched on how to design and price new products in the absence of good information and considerations in specific markets such as Latin America, Japan and South Africa. The panelists acknowledged the challenges of operating internationally, but also noted that significant opportunity exists.

These sessions helped managers identify ways to be more successful in the LTCI. The 2004 sessions promise to offer just as much variety and will be of interest to anyone in the management arena. ☺



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# 2003 Intercompany LTCI Conference – Marketing Track Highlights

by Claude Thau

**T**he Marketing Track put on a broad array of topics the highlights of which are shown below.

In “One Call versus Two Call Close,” three veteran agents discussed how they handle face-to-face appointments with clients. The differences are less than some people think because some one-visit proponents have a significant pre-qualification interview on the phone in advance and some “two-call” advocates often close cases in one visit. They also discussed how their closing style affects placement, persistency rates and obtaining referrals.

The animated “Enrolling Relatives” session asked: Do we sell group LTCI based on worker productivity issues, then ignore sales to parents and grandparents? Should group LTCI insurers refer those relatives to their individual side? Two speakers discussed emerging successful approaches. A regulator opined that some “scare tactics” are honest and should be allowed, as demonstrated by a taped focus group discussion.

“New Trends in LTCI Product Design,” was a highly interactive forum featuring panelists Barbara Stahlecker and Anita Potter. The session discussed future policy design and how to understand the wants and needs of distributors.

The “Association Market” session concluded that the potential for this market is large and growing, but those who arrive first are more likely to be long-term winners. Understanding the pricing and whether to approach the market from a single-carrier or multi-carrier approach are the keys that can determine your success.

The “Executive Carve-Out” session viewed this tax-favored worksite approach to LTCI from both the home office perspective (risks and rewards a carrier might expect) and the field perspective (the secrets of successfully writing LTCI in the high-end market). Finally, using executive carve-out as an incentive to obtain better participation in all sizes of group enrollments was explained with real case studies and results.

“Policies for Dummies: Should we Simplify?” postulated that simplified product structure and

language would increase LTCI sales. The session identified specific areas needing simplification, and evolved into an extremely spirited audience-interactive debate about whether we can create policies that anticipate evolution in the LTC delivery system.

The “Quote Engines” session discussed critical strategic and logistical issues for insurers sharing rate files. A Tillinghast survey performed by Thau, Inc. demonstrated that few companies have a strategy for sharing files and all companies lack resources to satisfy requests for their files.

The session on “Measuring the Effectiveness of Training” covered the goals of training and discussed the importance of identifying ways to subsequently measure results against those goals. Testing results at multiple intervals is preferable to one-shot snapshot tests. Also, it is desirable to use variable compensation for those responsible for the training program and then study the insurer’s return on investment.

The session dealing with LTCI designations had speakers representing five different programs: Corporation for LTC Certification (Harley Gordon); Society of Certified Senior Advisors (Edwin J. Pittcock); HIAA’s/AALTCI’s LTCP (Margie Barrie); Center for Senior Studies (Jan Kaplan); and CareQuest University (Robert Pearson). The speakers discussed purpose, curriculum and cost, differentiating their programs based on such issues as the background and credentials of the course designers, whether it is backed by for-profit or non-profit entities and whether it is intended to reflect individual LTCI vs. group LTCI.

The SOA session on the “Federal Government LTCI program” was extremely timely in presenting its results. With over 215,000 insureds in the first rollout and more than \$250,000,000 in annual premiums, the federal LTCI program is the largest ever enrolled. Among one of the more surprising results was that 69 percent of the enrollees selected the pre-funded benefit increase options instead of the guaranteed future increases, thus breaking with “conventional wisdom.” ☺

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**Testing results at multiple intervals is preferable to one-shot snapshot tests.**

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# SOA Presents the Compliance Track from the Third Annual Intercompany LTCI Conference

January 26-29, 2003

**W**ith a goal of sharing how compliance is woven into all the fractious and frantic day-to-day activities of LTCI, track co-chairs Kathy Hamby and Kirk Shearburn marshaled a select group of insurance professionals who provided practical know-how for processes as varied as advertising review, suitable sales and market conduct examinations, as well as insight into product design. The track took a look at new marketing approaches and how regulators view their own requirements, stressing the need for both industry and regulators to be proactive in addressing long-term care issues. Audience participation in these sessions evoked additional information, giving further depth to the discussion.

Eileen Mangold of LifeCare Assurance Company orchestrated the opening session, where Arizona state auditor Paul Hogan shared insight into how a market conduct exam evolves, and how penalties are determined. His presentation blended with those from John Dohman, IMSA, and Rich Luttrell, New York Life, who laid out guidelines for an ethical LTCI business as well as the parameters of working compliance throughout home office processes, with concrete examples for advertising, record maintenance and agent training.

Debate between two regulators on the filing process and rate stabilization regulations was lively at the Agreeing to Disagree session. Kirk Shearburn also from LifeCare Assurance moderated the regulators as each stated a position. The differences in approach by Commissioner Carroll Fisher of Oklahoma and the California DOI's Marsha Seeley were apparent as the discussion moved from developing practical regulations and rate stabilization implementation to the day-to-day tasks each face. Both viewed desk drawer



rules as an unfair practice that regulators are trying to abolish.

Recognizing the complexity of using an individual product in a group environment, a session was developed by Kathy Hamby of AF&L Insurance Company that utilized the professional acumen of those companies active in worksite marketing. Marie Roche, from John Hancock, provided insight into the various categories of filing products for this use, and a detailed analysis of the effect ERISA could have on such programs. Norman Hill, Kanawha Insurance Company, focused on the actuarial approach and how the underwriting guidelines, specific product parameters and commission structure for a specific worksite affect the rating process. Beth Ludden, New York Life, in her own inimitable style, took the audience through the challenges of advertising material—the review and filing processes, as well as backroom issues that worksite marketing presents for the home office, such as policy issue, billing and commissions.

continued on page 10

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**These successful professionals emphasized the need to individualize suitability to each client.**

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Industry trade associations were well represented at a session developed by Winthrop Cashdollar, HIAA. He, and Anne Eowan from the Association of California Life and Health Insurance Companies, provided insight into the political process that drives legislation at both state and federal levels. Don Kauke, from LIMRA International, presented current research results indicating LTCI trends, advancing the importance of solid statistical evidence in recognizing the importance of private LTCI. Ms. Eowan also shared the “Dos” and “Don’ts” of lobbying at the state level, while Mr. Cashdollar focused on legislative advocacy for LTCI tax incentives at the congressional level and federal consumer outreach and education programs.

Marketers and sales professionals gave added depth to the compliance presentations on Suitability and Advertising. Eileen Tell from Long Term Care Group produced the advertising session where Phyllis Shelton elevated the financial impact from delays due to advertising review and approval processes on the sales chain, including the training consultant, the individual producer whether independent or captive and the managing agent. John O’Leary, CNA, lectured on how the insurance advertising rules can inhibit the tenets of good marketing that must be followed in order to successfully introduce and sell an insurance product. Brenda Etzel, an insurance analyst with the Oregon Insurance Division, held her own, explaining the Oregonian approach to advertising review. Sharing current national requirements, her view in looking to the future is that, due to state economics, the review of advertising is going to take place at the back-end—through market conduct, rather than this current time-and-resource consuming process.

In Jack Mackin’s Suitability session, Dana Adams, UAFC, and Claude Thau, Thau, Inc., made suitability tangible, with both men stressing that suitability is not a compliance issue, but an ethics issue, not only at the point of sale but also at the corporate level. Focusing on agent

training, Dana highlighted the need to determine financial suitability as well as medical suitability. These successful professionals emphasized the need to individualize suitability to each client. Claude gave real-life situations, challenging those present to decide if there was a suitable sale. He also brought the issue to the carrier in reporting inappropriate sales, either by its own sales force or through an inappropriate replacement by another carrier. Kathy Hamby walked the audience through home office processes made necessary by regulation in most states, as well as the reporting requirements that drive the process of corporate oversight.

### **Compliance 101**

The “Basics” was designed specifically for newcomers to LTCI compliance. Moderated by Karen Danese from Penn Treaty and developed by Karen Smyth from Prudential, the panel examined the regulatory structure of long-term care insurance, including the NAIC Model Act and Regulation and federal requirements for a tax-qualified contract. The panel—Karen Smyth, Cheryl McNamara, CNA, and Bill Weller, Omega Squared—also covered the approval process for products, rates and advertising. Compliance issues that affect the sale of long-term care insurance were discussed, including suitability and state reporting, agent training, licensing and compensation. Adding to the ambience of the session, a fly-in-the ointment set the room with laughter, as an uninvited insect guest decided to do some buzzing during the discussion.

Did the track meet its goals? Measurements are always important, and evaluations from those who attended the various Compliance sessions validated the delivery of practical value to their work, with an overall track average of (6), equivalent to EXCELLENT for this category! 🍀

# Upcoming LTC Sessions at the

SOA Annual Meeting in Orlando

## Monday, October 27, Session 7

*Current Issues in Long-Term Care.*

This session of small group discussions will address important issues including those related to rate stability and reserves, product design and data availability and financial measurements. This is an opportunity to learn from the experience and thoughts of others, as well as offer some of your own.

## Monday, October 27

*Long-Term Care Section Luncheon.*

Michael Weinstein, Director of Research at Conning, has agreed to address the Section on Conning's recent report on LTCI pricing. This ought to be stimulating and valuable.

## Monday, October 27, Session 27

*Long-Term Care Overview for the Non-Specialist.*

Hear reputable actuaries in the LTCI industry discuss product design, pricing, underwriting and claim processes, valuation issues and how LTCI compares to more traditional insurance product lines.

## Tuesday, October 28, Session 56

*Rate Stabilization: How Much risk Has Been Added to LTCI?*

Now that many have filed premium rates with certifications that the rates are adequate under moderately adverse experience, the panel will address the additional risks associated with the certification. The panel expects to have interactive discussion with the audience as it addresses whether other members of the management team and corporate strategists understand what the risks are, the degree of documentation expected from the actuary, and how to address profit targets if adverse experience exceeds what is considered "moderate."

## Tuesday, October 28, Session 86

*The Long-Term Care Insurance Business: Risk and Historical Perspective.*

Designed for strategic planning, this session will address the historical development of the product line as a background for planning a profitable LTCI line of business. ♿



SOCIETY OF ACTUARIES

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