SOCIETY OF ACTUARIES

April 2004, Issue No. 11

Long-Term Care News

The Newsletter of the Long-Term Care Insurance Section

Published by the Society of Actuaries

Smaller Insurance Companies and Long-Term Care Insurance

by Tony Proulx

Since the introduction of long-term care insurance in the 1980s, the marketplace has been dominated by a few large insurance companies. Sixty percent of the industry sales in 2002 came from the top six companies[1]. There are several reasons for this situation:

- Long-term care insurance was an experimental coverage. The morbidity risk was not well understood. Although there may have been some comfort with the nursing home risk, the home care risk was unknown. If carriers wanted to enter the marketplace, they needed to be prepared to learn from their mistakes. In addition to the morbidity risk, these long duration contracts also carry a significant reinvestment risk.

- A company entering the long-term care insurance marketplace needed to make a significant investment in developing home office expertise and agent training. The product development, actuarial, compliance, underwriting, claim adjudication and sales and marketing functions are more complex than for any other line of business. For example, a very competent life claim examiner would be ill at ease when adjudicating claims based on a loss of activities of daily living definition. (The activities of daily living commonly used in long-term care contracts are bathing, continence, dressing, eating, toileting and transferring.) The critical mass needed to justify the investment in developing such expertise was estimated to be between $25 million to $50 million of inforce annual premium.

- Long-term care is a capital intensive product. There is a large first year loss. The risk-based capital formulas are onerous. There is some relief when the volume of inforce long-term care insurance premium reaches the $50 million mark and the premium factor in the C-2 formula reduces from 38.5 percent to 23.1 percent. But the smaller companies have no chance of reaching this level.

Some of these hurdles still exist today. However, the smaller insurance company now has a wide variety of help available.

- The long-term care insurance risk is better understood today. The recurring intercompany study of the SOA Long-Term Care Experience Committee provides a solid basis for many of the pricing assumptions. Actuaries also use the Non-Insured Community-Based Long-Term Care Incidence and Continuance Tables from the SOA. These tables are based on the National Long-Term Care Surveys

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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*. 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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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 Glenn Pinkus, 847-706-3548, at the Society of Actuaries.

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Thank you for your help.

SOCIETY OF ACTUARIES

Chairperson's Corner

Membership Growth Equals Success

by James M. Glickman

The LTCI Section Council has committed to making this section the "go to" location for the LTCI industry. To this end, the section is attempting to attract membership, particularly from non-actuaries. The first step in this plan is to attract at least 50 to 100 (or more) new section members for each of nine functional tracks: actuarial, claims, compliance, group, management, marketing, operations, regulatory and underwriting. Within each track, it is envisioned that volunteers would participate in developing track-specific Web pages, news articles, bulletin boards, educational meetings and webcasts, as well as taking a leadership role within the section council by defining the educational track sessions for each annual intercompany LTCI conference.

At this point, the section council has begun the process of identifying volunteers to spearhead the formation of each of these functional tracks. Already, 300 non-actuaries have signed up for membership, which should provide a jump-start to this effort. Also, the Web site is currently being redesigned with the aforementioned goals in mind. With everyone's help, we can accomplish this goal. Please contact me (or any of the other section council members) to volunteer.

In other news of note, the Fourth Annual Intercompany LTCI Conference in Houston was a resounding success (see article below). The Fifth Annual Intercompany LTCI Conference, which is scheduled for January 23-26, 2005 in Orlando, is now being organized under the capable leadership of Carroll Stuart, chairperson and Kathy Hamby co-chairperson. If you are interested in speaking at one of the 50-plus educational sessions, or helping out with the organization of this conference, please contact Carroll, Kathy or myself at one of the following e-mail addresses: ❋

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A Word From the Co-Editor

The Possibilities

Wow! It is such a pleasure to come from a conference where a large number of professionals from the sub-tracks (or insurance disciplines) are represented. In the lingo of my children, this is now considered a, "daah, definite no-brainer!" That the attendance at the recent conference was a record speaks very well of all of the volunteers and their hard work. This issue of the newsletter contains some feedback and description, particularly for those who were not able to attend and for those who are thinking about attending next year's conference in Orlando.

While the session topics offered at Houston continue to reflect the ever-changing, evolving face of our own LTC insurance industry, this issue of the newsletter presents the reader with additional perspectives. There's an article considering perspectives of the smaller insurance companies. Also, there is a timely article raising our awareness on LTCI taxability perspectives. Last, and not least, take notice of the article from the marketer's perspective. I won't spoil their articles by giving you further details here. So, please enjoy!

On a small business note: It is never too late to consider running for election to one of the opening seats on the LTCI Section Council. I can testify to you that the election process is nowhere near the difficulty or complexity of our U.S. national party primary system. Our council elections will be held in July, but the preparations need to be made starting now. If you are interested, please make sure to contact our section chairperson, Jim Glickman. It's a simple process to volunteer! ❋

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sponsored by the National Institute on Aging. In addition to these sources for assumptions, some painful lessons have been learned regarding liberal benefit triggers, loose underwriting, cognitive impairment risks, voluntary lapse assumptions, etc.

- Reinsurance is available. This can help by transferring a portion of the morbidity risk and the reinvestment risk. Reinsurance can also provide some relief of the capital burden and surplus strain. Financial reinsurance is available from offshore companies. Risk reinsurance can be in the form of a quota share arrangement, or it can be a stop-loss form, aggregate or specific. The specific stop-loss limit may be a dollar limit per claim or a claim duration limit.

- There is expertise for hire. Consultants can aid in the product design, pricing, product filing, administrative systems, financial reporting systems and experience monitoring systems. The consultants are there to get the product up and running.

- There are numerous vendors who can aid in the home office functions of continuing compliance, underwriting and claim adjudication. They can provide sales and marketing support, including illustrations and needs analysis systems. These vendors are generally very flexible in providing as much or as little hand-holding as desired. For example, the insurance company could agree to let the vendor initially underwrite all the applications. In the meantime, the vendor would train the company's staff. Eventually the bulk of the underwriting would be transferred to company personnel. The arrangement may call for the vendor to continue to assist on the difficult decisions. In this way, the smaller company staff still has the vendor's expertise available. The smaller insurance company does not immediately need their own in-house experts. For some functions they may choose to always use hired expertise. They do not need to reach that critical mass.

- The Health Insurance Portability and Accountability Act of 1996 (HIPAA) granted tax-favored status to policies meeting the specified requirements. This has brought much greater uniformity to contracts. In 2002, 92 percent of all policies sold were tax-qualified[2]. This standardization makes it easier for consumers to compare policies, but also leaves them with fewer choices in benefit design. In some sense, HIPAA created a more level playing field for the smaller insurance companies.

I believe all these developments eliminate or lower the hurdles of entry into the long-term care insurance marketplace. Notice that I said some are lowered, not eliminated. This is still a complex, ever-evolving product. However, the long-term care insurance business offers some attractive rewards for smaller insurance companies.

The appeal of the long-term care marketplace has always been in its potential. There is a clear need for long-term care insurance. The average cost for a one year stay in a nursing home exceeds $57,000[3]. This is a financial risk that few individuals can shoulder. The market is under-penetrated. There are only 5.5 million policies inforce[4]. There are 77 million people in the baby boomer generation. The oldest of these reach age 65 in 2010. All these facts contribute to a tremendous untapped market.

Offering long-term care insurance will benefit your distribution force. Long-term care insurance is a high premium product. The average annual premium is nearing $2,000. The large premium generates large commissions. It can provide significant supplemental income for the agent. An additional product offers an opportunity for cross selling and can open the door for a complete review of a client's insurance needs.

Offering long-term care insurance will benefit your distribution force. Long-term care insurance is a high premium product.

The long-term care insurance product generates very large active life reserves, especially when inflation protection is included. The high active life reserves provide an opportunity for the insurance company to earn additional profit on their investment spread. The flip side, of course, is the reinvestment risk.

I have some advice for those smaller companies seriously considering entering the long-term care insurance marketplace. First and foremost is to keep your offering simple. Avoid the bells and whistles. In my opinion, long-term care insurance is meant to cover catastrophic expenses. The insured does not need a prescription drug benefit, a wellness benefit or a medical response system benefit. These ancillary benefits add little value, may only confuse your agents and will keep your claim examiners busier than you would like.

Also under the heading of simplicity, I suggest that you keep the number of plan options limited. Very few applicants choose a 180- or 365-day elimination period, so don't even offer them. Avoid zero-day elimination periods. They have had poor experience. A longer elimination period will weed out trivial claims and help control the claim volume. Be sure there is a large enough spread among the available benefit periods. For example, offer a choice of two-, five- and 10-year plans. This gives the insured the choice of minimal, medium or maximum coverage. Don't offer plans that are too close together. You want to keep the choices meaningful. You don't want to be explaining why a six-year benefit period costs only 5 percent more than a five-year benefit period.

Another important consideration is the contract type. There are three types. The reimbursement model pays benefits based on actual expenses incurred. The indemnity model pays the full benefit, regardless of the dollar amount of expense incurred. The disability model goes one step further in that it pays the full benefit without requiring that any health care services be provided. Of course, all three types require that the claimant meet the benefit trigger, such as loss of activities of daily living or severe cognitive impairment. I recommend the indemnity model for smaller companies. Some actuaries argue that the reimbursement model is better because it avoids overinsurance. But I believe that if the disability is severe enough to cause the loss of activities of daily living, then the insured will have enough nonmedical expenses that overinsurance is not a concern. Also, the indemnity model eases the adjudication process. The examiner does need to review every bill to determine the benefit amount. I recommend against the disability model for smaller companies. I do have concerns with overinsurance with this model. Also, it places greater emphasis on the examiner's determination of satisfaction of the benefit trigger.

Underwriting is everything! The expected claim incidence is very low. A few extra claims from weak underwriting can be disastrous. Use the expert services that are available, at least until your own underwriters are sufficiently trained.

Finally, price your products conservatively. Typically smaller companies will have little competition for long-term care insurance. Smaller insurance companies tend to have market niches where their competitors usually do not even offer long-term care insurance. They may have a captive agency force. The current environment is conducive to conservative pricing. Many large companies have implemented rate increases recently. The product is priced to be level premium, so these increases have not set well with the regulators or agents. They present a significant burden to a senior person on a fixed income. In response to this situation, the current NAIC LTCI Model Regulation has removed the minimum loss ratio requirement. Instead the model regulation emphasizes rate sufficiency, placing increased responsibility on the pricing actuary to encompass "moderately adverse" experience deviations into the initial pricing. Regulators have felt that policyholders are better served paying a higher initial premium with a smaller chance for future rate increases. At last count, 17 states have either adopted the new model regulation or their own form of rate stabilization.

In summary, I believe that there is a place in the long-term care insurance market for the smaller insurance company. The carrier needs to utilize the services of outside experts. Their product should be simple in order to be more easily understood and more easily administered. Now is a great time to take the plunge! Recent emphasis has been on rate sufficiency and not rate competition. Market penetration is low and with the graying of the baby boomers the potential is tremendous. A well-designed, appropriately priced long-term care insurance product can be profitable for you and provide financial security to your policyholders.

A few extra claims from weak underwriting can be disastrous. Use the expert services that are available ...

[1]Fifth Annual Long Term Care Insurance Survey, James M. Glickman, Broker World, July 2003

[2]Ibid

[3]Survey conducted by Evans Research Associates, sponsored by GE Financial's Long-Term Care Division

[4]LTCConsultants.com ❋

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SOA LTCI Conference 2004:

One Marketer's Perspective

by Mike Muench

Having attended the SOA Annual Intercompany LTCI Conference for the last three years, it has been a pleasure to watch this event evolve from a forum primarily for actuaries to a very well-rounded LTCI conference with an actuarial base. Nowhere else do so many top-level people from various disciplines within LTCI have an opportunity to honestly interact. It was rewarding to renew and develop relationships with colleagues from the industry.

There were over 700 conference attendees this year, and I would guess that each of us took away something different. I attended mostly marketing-oriented sessions, but tried to visit with individuals across the spectrum of disciplines. I came away with the sense that three long overdue trends are emerging. These issues are not new and we still have much work ahead. However, the number of informed Americans in and out of the industry may be nearing the critical mass needed to meaningfully address the needed solutions. I'm talking about employer market, the "separate-ness" of LTCI and the urgency and scope of the LTCI issue.

The group/employer market is finally heating up. More and more companies are tapping into younger, healthier clientele through the employer market. Whether through true group policies, affinity discounts or the willingness to list bill, most companies are taking definitive strides toward attacking this segment of the market.

In the past, John Hancock and MetLife have been dominant players in the employer market, primarily through the government program. Talking to company representatives from Med-America, Kanawha, and many others, it is clear that production from the employer market will rival and possibly exceed the individual market in the near future. Confirmation of this trend arrived via e-mail this week in the form of Jesse Slome's invitation to attend the first national conference on group LTCI in Boston in May.

LTCI is being recognized as a separate entity from other insurances. The consensus seems clear: whether from an actuarial, managment, marketing or underwriting perspective, LTCI is a horse of a different color. While there are basic tenets to successful sales, underwriting and actuarial issues, we are finally understanding that LTCI is different. Specialists are ultimately essential. As this recognition grows, it will continue to affect how LTCI is marketed.

Historically, most companies' individual LTCI has been sold based on a negative selection basis. General agents contract with multiple carriers and simply steer clients toward the policy that has the loosest underwriting or lowest premium for a given situation. Spreadsheeting makes great sense if you are an individual marketer or consumer, but each time this is done, a carrier is being chosen in essence where it is the weakest. As we look to the future, more companies will look to move away from this model and toward more employer groups, LTCI specialists and captive agencies. As this trend takes hold we should see more stable (or at least predictable) blocks of business.

There is an increasing sense of mission inside and outside the LTCI field. For many years, there has been a small number of dedicated voices ringing out, but today there exists a zealousness, a "we can and must make a difference" mentality which is becoming universal today. While formerly true within the industry, the message now is being heard outside as well (as evidenced by the recent HRA legislation).

In every session I attended there was a clear passion to serve this mission as well as an acknowledgement of our grave responsibility. The men and women at the conference seemed to realize that we have one chance to pass the mantle of financial security to our children and grandchildren and we must not fail.

I look forward to attending future SOA LTCI national conferences. It's rewarding to see so many dedicated people engaged in a meaningful cause. My hope is that we can continue working together to increase awareness that LTCI should be a foundational element in responsible financial planning.

Mike Muench is the vice president of strategic alliances and a founder of Platinum Services Inc. He can be reached at mmuench@pltnm.com

Will the Medicare Modernization Act Jump Start Growth in Employer-Sponsored Long-Term Care Insurance?

by Allen J. Schmitz, FSA and Scott A. Weltz, FSA

Though the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (DIMA) has received much publicity for its prescription drug provisions, it could also profoundly affect the long-term care insurance (LTCI) industry.

DIMA includes provisions for health savings cccounts (HSAs) which can be funded on a pretax basis with employer or employee contributions. An HSA's primary function is to offset some of the cost sharing associated with an employee's high-deductible medical plan. However, DIMA specifically states that the HSA may also be used for qualified medical expenses as stipulated in section 213 of the IRS tax code. One such qualified medical expense is a LTCI premium. In other words, DIMA offers significant tax advantages for people covered under these plans to purchase LTCI with their HSAs.

LTC Financing Background

LTC is one of the largest unfunded liabilities facing senior citizens. The pay-as-you-go approach of Medicare and Medicaid will come under significant pressure as the demographics in the United States change. LTC Insurance provides an attractive pre-funding solution to this potential crisis that reduces the emotional and financial strain on family members, decreases reliance on the Medicaid program and helps ensure access to high-quality care. Although LTCI appears to be a sound solution, market penetration remains low. Because of this, the industry has long lobbied for tax incentives that will encourage the purchase of LTCI.

There are clearly other fundamental issues such as lack of public education of the LTC risk and a flawed Medicaid system that is preventing the private LTC insurance market from expanding. These issues are beginning to be addressed. The Federal LTCI program has begun to raise public awareness of the risk, and state Medicaid agencies continue to shore up loopholes in the Medicaid system. However, according to various surveys published on buyer behavior, tangible tax incentives may do more to increase sales than any other initiative. DIMA has just created a tangible tax incentive.

The Current Tax Incentive for LTC

The current tax treatment of LTCI plans is governed by the 1996 Health Insurance Portability and Accountability Act (HIPAA). HIPAA provided the following:

- LTCI benefit payments are not taxable (capped at $230 per day for indemnity plans).
- Employee-paid LTCI premiums are only deductible to the extent that, when combined with other medical expenses, they exceed 7.5 percent of adjusted gross income. Further, the allowable annual deduction for LTCI premiums cannot exceed the following inside limits for 2004:
  - 40 and under $260
  - 41-50 . . . .$490
  - 51-60 . . . .$980
  - 61-70 . . . .$2,600
  - 71 and older $3,250
- Employers can deduct the cost of LTC premium for employees.
- Premium contributions made by employers are not taxable income to employees.

Several tax proposals have been considered over the past few years, but as yet, none have been adopted. H.R. 831 and S. 627 (which have not been adopted) would amend the Internal Revenue Code (IRC) to allow individuals to deduct qualified LTC premiums as an "above-the-line" deduction (deductible whether or not an individual itemizes deductions) and up to the age-based limits listed above. These bills would also allow for LTCI to be paid for under cafeteria plans or flexible spending arrangements.

The president has also proposed budgets that included above-the-line deductions for LTC premiums. These sections of the budgets were cut.

How HSAs Fit In

HSAs offer a unique opportunity for individuals to purchase LTCI with an "above-the-line" tax deduction. An individual with an HSA plan can use the HSA to purchase a tax-qualified LTCI plan. Based on our

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> The popularity of HSAs will naturally impact how many people are able to take advantage of the LTCI tax advantages ...

understanding of DIMA, the tax-free amount of the LTCI premium that can be paid from the HSA is limited to the age based limits mentioned earlier.

As mentioned earlier, the HSA can be funded by employer and/or employee contributions. This is an important provision of DIMA, since it allows an individual to add contributions to the account and thereby pay for LTCI with pretax dollars. Of course, an employer has

always been able to pay for LTCI for an employee on a tax-free basis. However, given the high cost of employee benefits, employers typically offer group LTCI plans on a voluntary employee pay-all basis. This practice contains employers' costs associated with the LTCI offering since the employer is really only responsible for some minor employee communication costs. However, few employees participate in such offerings since they must pay the entire premium with after-tax dollars. HSAs offer a unique vehicle to offer LTCI to employees on a tax-preferred basis at little additional cost to the employer. Further, the employer contribution to the HSA may be used to offset part or all of the LTCI premium payment, depending on the employee's medical costs in a given year and, potentially, the age based limits mentioned earlier.

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Implications

What are the implications, and how can employers, employees and insurers take advantage of this legislation relative to LTCI?

Employers—By offering or endorsing an LTCI plan in conjunction with an HSA plan, an employer can:

1. Expand their benefit offerings. Sponsoring a voluntary LTCI program (i.e., without employer premium contributions) is very inexpensive for an employer. If the employer offers LTCI with an HSA medical plan, employees can use the HSA for qualified medical expenses. If the employee incurs very few common medical expenses (physician visits, prescription costs, hospital stays, etc.), the HSA may be used to offset an employee's LTCI premium payment.
2. Provide employees with a tax break. By implementing an HSA, employers are providing employees with a significant tax incentive for the purchase of LTCI which is not currently available anywhere else.
3. Potentially increase worker productivity. If an employee is able to use the HSA account to purchase LTC insurance for a dependent parent, the employee may be able to avoid missed work time to care for their parent.
4. Encourage the purchase of LTCI. LTC financing is a looming problem for many. Offering an HSA encourages the purchase of LTCI, which can alleviate some of these problems.

Employees/Individuals—Individuals with an HSA can take advantage of the legislated structure of the plans to purchase LTC insurance with pretax dollars. An employee may choose to use the account funded by the employer in order to purchase LTCI. If that account is insufficient, the employee may contribute to the account so long as the total contribution from the employer and employee is not greater than the plan deductible (or a maximum of about $2,600 per individual and $5,150 per family in 2004). Since the individual's contribution is on a pretax basis, the LTCI premium can essentially be paid for with pretax dollars.

LTC Insurers—LTC insurers should recognize this opportunity and target employers or individuals with an HSA. This target market has the advantage of including individuals who may:

1. Use pretax dollars to purchase LTCI. Keep in mind that the LTCI may be purchased on either an individual or group basis. This allows preferred risks to shop the individual market for a better premium than they may be offered on a group basis. Also, employees who are offered group LTCI coverage with less stringent underwriting standards may also purchase their group LTCI plan with the HSA dollars.
2. Be healthier than average. Individuals who have an option between an HSA and a more common medical plan (i.e. HMO, PPO or

indemnity plan) will likely be healthier than the average employee. Also, even if an HSA plan is the only option offered by an employer, the healthier individuals will be the people who accumulate large account balances that could be used to purchase LTCI at some point in the future. If these individuals with large HSAs are educated on the merits of LTCI, they may present a strong marketing opportunity for LTC insurers.

Summary

There are still several questions surrounding the new legislation. For example, if an HSA is offered through a cafeteria plan, can the HSA still be used for the purchase of LTC? It appears this is the case. The age-based limitation on premiums for purposes of tax deductibility is also still somewhat uncertain. Issues such as these will need to be addressed and the tax issues clarified before a plan is implemented.

The popularity of HSAs will naturally impact how many people are able to take advantage of the LTCI tax advantages offered by these plans. However, individuals who find themselves with an HSA should take advantage of the above-the-line LTC premium tax deduction that the LTC insurance industry has been requesting for a very long time. ❋

The Fourth Annual Intercompany LTCI Conference Summary

Editor's note: As of this writing, readers interested in seeing the final presentations should visit the Society of Actuaries Web site at: www.soa.org. Click on Sections/Special Interest. The information you seek will be under Long-Term Care Insurance. Also, audiotapes of the sessions are available for purchase for a limited time period. This audiotape information is available at: www.aven.com.

The Fourth Annual Intercompany LTCI Conference was held at the Houston Hilton Americas February 8-11, 2004. On every front, it appears that this conference was the best one yet with 63 breakout sessions among the eight tracks. Attendance hit a new record of 725 and the hotel rooms, venue and food received rave reviews.

The conference began with an opening reception in the exhibit hall—which was sold out with exhibitors for the third straight year! As in the past, the exhibit hall served as the networking (and partying) headquarters for the conference with exhibitors around the perimeter and an abundance of food and drink in the center. On Monday, the first full day of the conference, each attendee had the opportunity to choose three breakout sessions from among the 24 choices. Breakfast, lunch and a late afternoon reception in the exhibit hall provided plenty of networking time together with great food and drink. That evening, three companies, MedAmerica, MetLife and Parameds.com, sponsored hospitality suites for those who were not already involved in other corporate-sponsored events.

Tuesday featured the opportunity to pick three more breakout sessions, interspersed between another six hours of networking in the exhibit hall during breakfast, lunch and the closing reception. During the closing reception, exhibitors provided prizes to 20 lucky recipients. Evening activities included two more hospitality suites hosted by Wakely Actuarial and John Hancock.

On Wednesday, attendees had the opportunity

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to choose their final two breakout sessions including the very popular CEO roundtable discussion. Impressively, nearly half of the attendees made it to the networking luncheon, where another 25 lucky winners received prizes from the corporate sponsors and exhibitors.

The chairperson of each educational track has provided a brief description of the highlights from their track activities. These descriptions follow.

ACTUARIAL TRACK
by Andrew Herman

The Actuarial Track hosted eight informative sessions addressing the latest LTCI product design, marketing, pricing and valuation issues. Attendees of the first track session learned from industry leaders about LTCI benefits packaged with life and annuity products. Subsequent sessions were devoted to traditional LTCI designs, with a focus on the actuarial modeling challenges specific to LTCI benefits.

In the session "Current LTCI Valuation and RBC Issues," panelists discussed pending regulation that would impose higher active life reserve standards for LTCI new business, as well as proposed risk-based capital requirements that, if adopted, would impact all in-force LTCI business. Presenters for these sessions included marketing and state regulatory experts, as well as insurance company and consulting actuaries.

CLAIMS TRACK
by Carolyn Heindl

Claims sessions at the SOA LTCI Conference in Houston shared important insights from third-party administrators and actuaries, as well as home office claim professionals. Presentations gave varying perspectives on staffing models, disease management, determination of benefit eligibility, insight into care coordination practices, as well as how contract language develops for the changing continuum of care.

Utilizing case studies, TV-style special reports, and interactive and open forums, panelists allowed discussion to flow freely as the data was digested and audience participation provided additional information. The focus of these sessions was to provide practical take-aways that can enhance home office processes, not only in claim departments, but also in underwriting, compliance, systems and actuarial functions.

COMPLIANCE TRACK
by Kathy Hamby

Regulators, marketers, public policy experts, consumer advocates and compliance professionals helped to make the 2004 Compliance Track sessions informative and practical. Energetic discussion points developed from differing views of the best direction for the long-term care industry as a whole to take. Development of best practices for submissions and compliance with procedural regulations were explored overall, as well as specifically for existing partnership programs, and HIPAA privacy implementation.

Engaging the audience from the perspectives of home office (sales/marketing and compliance administration) interaction with regulators, public policy experts and consumer advocates, the compliance sessions gave insight into what purpose regulators hope to achieve in giving regulatory protections to the consumer, how consumer advocates approach the needs of the public and how implementation can sometimes offset the benefits that were expected to be realized.

GROUP TRACK
by Eileen Tell

The Group Track enjoyed a very successful initiation as one of the two new tracks at this year's conference. Critical topics of concern in the group market were addressed, including improving enrollment results, adequate and competitive pricing, identifying and demystifying significant claims data as well as managing claims and designing successful offerings for public employers.

Other key topics explored included new approaches to offering cash benefit plans and the offering of employer-paid core plans, along with voluntary buy-ups. Presentations were informative and insightful and audience participation was animated.

MANAGEMENT TRACK
by Jim Berger

The Management Track focused on issues relevant to the overall direction of the LTCI product line. Industry data, company data and management reports were reviewed with respect to validity, credibility and relevance.

The question of rate increases was addressed in a session examining how a mock medium-sized insurer might approach the topic.
Senior officers and CEOs explored the good and bad experiences that companies have had with LTCI. This led to a lively discussion of what the future may hold for LTCI. Investment return as a profit driver and risk management issues were explored during another active session. Finally, the industry looked past its current positioning to ask how the middle class could be better reached while examining the broader question of our nation's LTC financing crisis.

MARKETING TRACK

by Ron Hagelman

The marketing track's eight sessions were both informative and lively. Marketing sessions were attended by a growing number of top producers, agents and general agents. Thus, these sessions benefited from an open, perceptive and positive interaction of home office veterans and successful sales professionals. Excellent and challenging questions from the floor enhanced each session.

It is indeed the best of both worlds when you can combine in-depth and informative content from recognized industry experts with an open spirit of entertaining delivery and fun. I believe those who attended the marketing sessions were impressed with the professional and detailed analysis that seminar participants brought to these exciting meetings. Yet, the marketing sessions did not shy away from cutting-edge issues or controversy. Clearly, a good time was had by all.

OPERATIONS TRACK:

by Lynn Hartung

The success of any company involved in long-term care insurance is impacted fundamentally by the effectiveness of its operations team. Recognizing the need to discuss operational issues, the Operations Track was introduced for the first time at the 2004 conference.

Many timely topics were addressed and presented by industry professionals from varying disciplines covering staffing, exception processing, systems, vendor relations (both domestic and international), policy evolution and technology. Sessions were well attended by people from both within and outside the Operations Track. This allowed for valuable interaction among the diverse views. The Operations Track had a very successful inaugural conference and the foundation is in place for even more exciting sessions in 2005.

UNDERWRITING TRACK

by Noreen Guanci

The Underwriting Track engaged the audience using an interactive style to maximize the involvement of the presenters with the attendees. Cognitive testing, depression and psychiatric issues were thoroughly examined in three of the sessions. Underwriters, agents and actuaries debated the various approaches to these challenging situations.

Discussing the consequences of new information discovered during the underwriting process was the focus for one session, while the impact on morbidity data of ADL loss was the topic of yet another session.

The use of case studies provided an interesting format for several of these sessions. Industry experts presented various underwriting staffing models demonstrating that different approaches can be quite successful and efficient. Finally, one of the sessions examined the topic of underwriting younger applicants. ❋

Planning has already started on an even bigger and more exciting conference for next year, at the Orlando Rosen Centre Hotel, January 23-26, 2005.

Enjoying the 4th Annual LTCI Conference in Houston are the co-chairperson Kathy Hamby (left) and chairperson Carroll Stuart (right) of the 5th Annual Intercompany LTCI Conference to be held in Orlando January 23-26, 2005.

Section council members smile for the photographer at the LTCI Section Luncheon at the SOA Annual Meeting in Orlando.
Left to right: Mark Newton, Peggy Hauser, Jim Glickman (2003-2004 section chairperson), Phil Barackman

Long-Term Care Insurance Persistency Experience

Jointly sponsored by the SOA and LIMRA International, the Long-Term Care Insurance (LTCI) Persistency Study examines both voluntary lapse and total termination activity for calendar years 2000 and 2001. Overall, the results indicate that LTCI persistency continues to improve; however, the current improvement has come from the individual lines of business rather than the group lines. For all policy years combined, the overall lapse rate was 4.2 percent for individual plans and 8.9 percent for group plans.

Detailed reports are available both at the SOA's Web site (www.soa.org) and from LIMRA Online (www.limra.com). For more information about LIMRA's persistency research program, contact Marianne Purushotham at (860)285-7794 or mpurushotham@limra.com.

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