LONG-TERM CARE

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Long-Term Care Insurance Section

NUMBER 4 APRIL 2001

The Use of Nursing Home and Assisted Living Facilities Among Privately Insured and Non-Privately Insured Disabled Elders

by Jessica Miller, Marc Cohen, and Don Charsky

Introduction

The dramatic growth in the number of Americans over age 75, coupled with the need to minimize the duration of expensive inpatient hospital care, portend continued reliance on nursing home (NH) care for a significant portion of the disabled population. Even in the presence of significant expansions in home and community-based care (HCBC), the nursing home (NH) still remains a key provider of long-term-care (LTC) services to more than 1.5 million people, most of whom are over age 65.

Alternative institutional settings such as assisted living facilities (ALF) are also growing in popularity. Today, there are in excess of 28,000 such residences housing more than one million people, many of whom have limitations in activities of daily living (ADL).

Thus, institutional-based care has and will remain an important component of the LTC service delivery system.

The costs associated with receiving LTC in institutional settings are significant and pose a financial hardship to many individuals. To meet this hardship, a growing number of individuals are purchasing private long-term-care insurance (LTCI). Through a series of actions, the Federal government is also signaling its desire that individuals accept greater personal responsibility for planning and paying for their LTC needs. Such actions include tax clarification of LTCI contracts, a plan to implement a Federal employees LTCI plan, and expenditures on education related to the risks and costs of LTC.

While there is a growing body of knowledge about who buys policies and what motivates them to do so, there has been no systematic study of individuals in institutionalized settings who are receiving benefits under their LTCI policies. On an industry-wide basis, no one knows whether claimants and/or their

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475 N. Martingale Road, Suite 800
Schaumburg, IL 60173
Phone: 847-706-3500
Fax: 847-706-3599

World Wide Web: *http://www.soa.org*

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Bartley L. Munson, FSA
Long-Term Care Newsletter Editor
Munson & Associates
1034 Memorial Drive
Sturgeon Bay, WI 54235
920-743-9255
920-743-9255 (Fax)
E-mail: *bartmunson@itol.com*

Chairperson's Corner

by Loida R. Abraham

For my first article in the Chairperson's corner, I would like to share my vision and goals for the Section. As part of the Council that heads a newly formed section, I have an opportunity to help set the direction and standard for future activities and projects. I know that I, as well as many of my fellow Council members, have been pondering the issue of where we want to go with this Section.

We thought about what the Section members might be interested in and decided to simply ask. We plan to soon send out a survey to the Section members to help us learn more about your specific needs and interests and what you think the Section activities should focus on. When the survey is sent out, I strongly encourage every member to fill it out and really tell us what you think.

In thinking about the Section members' needs and interests, I looked at some of the challenges and opportunities being faced by the long-term-care insurance (LTCI) industry today, as I suspect many of our members are either in this industry or are about to enter it.

The challenges range from low market penetration rates to managing a business with many unknown risks. Overall market penetration rates (anywhere from 5 to 8%) continue to be low despite double digit growth rates. To increase sales, carriers have employed various initiatives, some of which have been successful and others have not.

Loida Abraham

Some initiatives revolve around distribution strategies that offer specialized agent training tools, high compensation, and strong service packages. Others have looked to product innovation to attract the attention of consumers and producers. Some initiatives, e.g., low pricing or liberal underwriting, have backfired, with carriers raising rates and not achieving their expected returns. Yet, the need for programs that will increase market acceptance cannot be denied. But we should strive to develop programs that increase sales without sacrificing the financial soundness of the business, because ultimately, that would not do our industry and the consumers it serves any favors.

Given that the industry is still relatively young and harbors many unknown risks, the business needs to be carefully monitored and managed. Claims utilization is dependent on consumer behavior which can change as generations change and as providers change. We have already seen evidence of this with the advent of assisted living facilities.

Despite these enormous challenges, the industry thrives because of the exciting opportunities it presents. We continue to see high growth rates and can expect even higher ones as a result of the demographics and the aging of the population.

There is also the opportunity that lies in the chance for our profession to help create and form an industry based on lessons learned from others. Whether it's in product development or pricing or underwriting or regulation or financial reporting, there are still areas for building and shaping to determine how ultimately the product line should be defined.

As we face these challenges and opportunities, we need to be able to balance the initiatives that will increase market acceptance and manage the business risks to achieve the expected returns.

Key to meeting these challenges is the role played by the actuaries who are either responsible for the pricing or management of the business or function as advisors to those who are. For actuaries to perform their functions well, they will need education and information.

Thus, in thinking of how the Section can best serve its members, I believe that providing education and information should be the primary area of focus. By being able to provide our actuaries with information that will help them as they perform their roles, we will be able to best serve our membership, consumers, and the (long-term care insurance) LTCI industry.

Please do respond to the survey that is coming, and help us help you.

***Loida R. Abraham, FSA, MAAA, is second vice president of John Hancock Life Insurance Company in Boston, MA. She can be reached at* labraham@jhancock.com.**

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The Use of Nursing Home and Assisted Living Facilities Among Privately Insured and Non-Privately Insured Disabled Elders

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families feel they are getting good value for their premiums and whether the presence of private insurance influences the type of care people receive in these settings.

This Study

The purpose of this study is to provide basic descriptive statistics on disabled private LTCI policyholders who have accessed LTCI benefits in institutional settings and to compare such data and findings to non-privately insured institutionalized elders. We did this by interviewing 480 LTCI claimants from seven participating companies receiving benefits under their policies and residing in nursing homes or assisted living facilities.

The study was funded by grants from a) the Department of Health and Human Services, Office of Disability, Aging and Long-Term Care and b) the Robert Wood Johnson Foundation Home Care Research Initiative.

(Note: Results from the survey of community-based claimants and their informal caregivers were previously presented in the September 1999 issue of this newsletter. Information here represents only those claimants residing in institutional settings.)

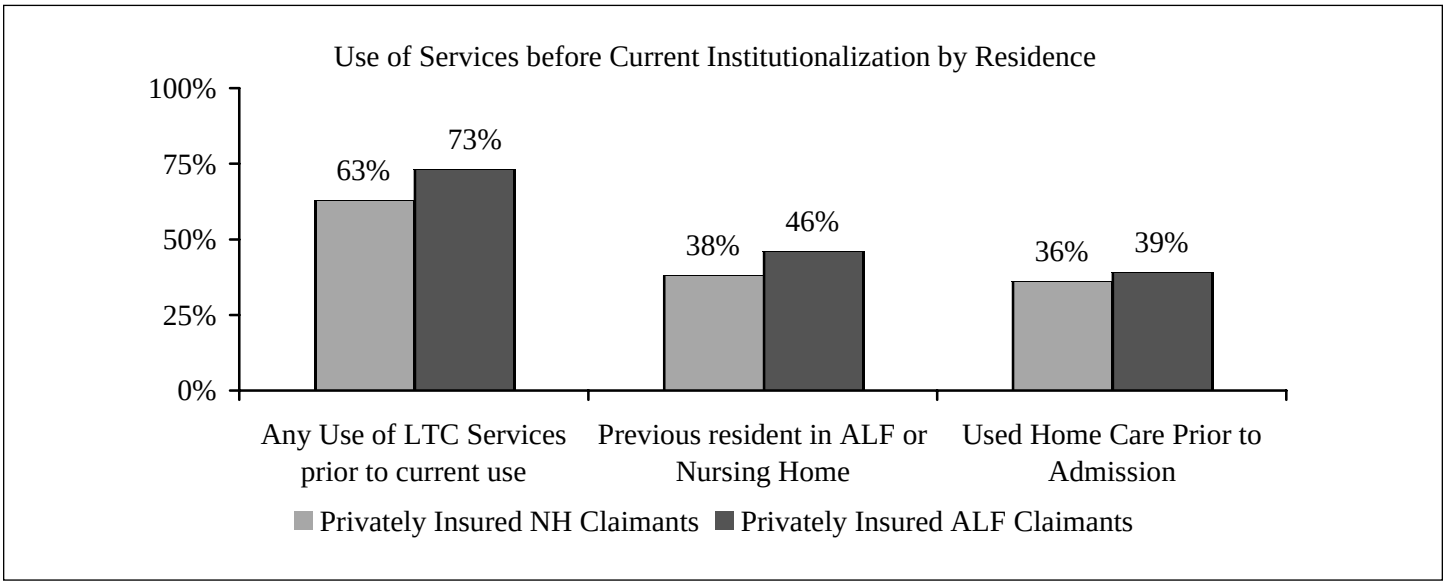
The Profile of Institutionalized Long-Term-Care Insurance Claimants

- The majority of institutionalized claimants — 72% — were residing in a NH, and 28% were receiving services in an ALF.
- There are few differences in the socio-demographic profile of NH and ALF claimants.
- Most institutionalized claimants are over age 80, female, unmarried, and highly educated. The average income of these institutional claimants was about $33,000. Married claimants are more likely to be in a NH than in an ALF.
- The differences in the prevalence of specific diagnoses between residents of NH and ALF are not statistically significant. This suggests that it is not the underlying primary diagnosis that differentiates individuals in each of these service modalities but, instead, the way the diagnosis manifests itself.
- The average number of ADL limitations on a six ADL scale for NH claimants is 4.7, whereas, for ALF claimants, this figure drops to 2.8. This represents 79% of current institutional claimants who have two or more ADL limitations.
- Slightly less than one in three dementia patients receive their care in ALF. Typically, the costs associated with caring for individuals in these facilities are less than in NH. Thus, for some cognitively impaired individuals, private insurance coverage for ALF care substitutes for more costly NH care.
- The prevalence of cognitive impairment (as measured by diagnosis and orientation) is higher among NH claimants than it is among ALF claimants. Overall, claimants in the NH are 1.3 times more likely to be cognitively impaired than are those found in ALF.

Socio-Demograhic Characteristics	Privately-Insured NH Claimants	Privately-Insured ALF Claimants
Average Age	81 years	81 years
Male	34%	28%
Female	66%	72%
Never married	5%	5%
Married	44%	34%
Divorced/separated	4%	2%
Widowed	47%	59%
Less than HS graduate	17%	11%
HS Graduate	22%	27%
Some College	29%	27%
College Graduate	32%	35%

Prior Residence and Service Use

- About three in five (63%) of all NH residents and three in four (73%) ALF residents had used LTCI services — either been a previous resident in an ALF or NH or used home care — prior to entering their current facility.
- About one-quarter of the ALF residents had been transferred to assisted living from a NH. This suggests movement in both directions along the continuum of care: from NH to ALF and from ALF to NH.
- About two in five institutionalized residents had accessed formal home care services before their current admission to the facility.
- The probability of entering a NH from a hospital is more than twice as high as entering an ALF directly from a hospital — 25% compared to 11%.
- Prior to entering an institution, between 43% and 47% of institutional residents resided either alone or with their families, and between 33% and 39% resided in a hospital or other NH. [1]



Service Use, Costs and Payment Sources in Institutional Settings

- Not surprising given their higher level of need as measured by both ADL loss and cognitive status, NH residents use more medical services, skilled nursing care, nutritional services, and social services than do ALF claimants. In contrast, ALF residents are much more likely to use transportation services.
- With the exception of charges for skilled care, charges for care provided at the intermediate, residential and Alzheimer's levels are significantly lower in ALF — an average of 27% for these claimants.
- ALF enable Alzheimer's patients to be cared for at a lower cost than care provided in a NH. For this block of claimants, the associated "savings" of being able to access cognitive-related care in an ALF instead of a NH are16%.
- Depending on institutional setting, the insurance is the primary payment source for between 70% and 80% of these claimants. What is not paid for by the insurance is typically funded from personal resources.
- An average of 73% of the LTC liability is paid for by insurance. For NH claimants, 67% of the costs are covered, whereas for ALF residents the average daily benefit pays for 88% of the incurred costs.
- In cases where insurance is not the primary payment source for NH claimants, the average daily benefit is lower, and there is less likelihood of having a policy with inflation indexed benefits.

Benefits Paid Under Insurance Contracts and Insurance Policy Designs

- The average monthly insurance benefit paid to claimants is $2,141. Monthly NH benefits are about 23% higher than ALF benefits — $2,251 versus $1,827.
- These claimants have already used an average of $29,000 in insurance benefits per person —

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$34,000 for NH residents and $16,000 for ALF residents.

- Most of these individuals (85%) have reimbursement policies covering four or more years of care at around $83 per day.
- About two in five are eligible to receive over $100 per day in benefits for institutional care services; 45% of the claimants have policies that include some level of inflation protection.
- The average amount of available lifetime benefits is $161,000, and these individuals have thus far used up about 18% of their benefits.
- On average, individuals have been on claim for about 17 months.

Claimant Satisfaction with Insurance Policy and Insurance Company

- The vast majority of claimants are satisfied with their policy, with most being very satisfied.
- The vast majority (85%) had no difficulty understanding what their policy covered.
- Roughly four out of five ALF claimants felt that the benefits were adequate given their care needs; the corresponding figure for NH claimants was about three out of five residents.
- Most individuals — more than 70% — found the process of filing a claim to be easy.
- ALF claimants were more likely — 1.7 times more likely — to find the process of filing a claim to be difficult.
- About 90% of all individuals filing claims had either no disagreements with their insurance companies or had a disagreement(s) that was resolved satisfactorily. About 4% of claimants felt their disagreement was not resolved satisfactorily.

"Data suggests that for some claimants, entry into the institution is motivated by social concerns as well as by a desire to be in a protective environment should additional declines in functioning occur."

Impact of Private Long-Term-Care Insurance on Claimants

- For about three-quarters of claimants, the presence of insurance was not viewed as having had an influence on service seeking behavior.
- One in five ALF claimants and one in eight NH claimants indicated that the presence of insurance that provided for home care services allowed them to delay their entry into an institution.
- Data suggests that for some claimants, entry into the institution is motivated by social concerns as well as by a desire to be in a protective environment should additional declines in functioning occur.

Comparing Privately Insured and Non-Privately Insured Institutionalized Disabled Claimants [2]

Nursing Home Residents

- On average, disabled NH residents with LTCI are somewhat younger than their non-privately insured institutionalized counterparts; the proportion of privately insured claimants age 85 and over is only half that found in the general population of NH residents.
- NH residents with private LTCI are 2.8 times more likely to be married than are those without such insurance, and there also tends to be a greater proportion of male residents among the privately insured.
- Compared to non-privately insured NH residents, insured residents are four times as likely to be college educated and about 3.2 times more likely to have incomes greater than $20,000.
- Privately insured disabled residents receive fewer services than do other residents — 5.4 services per month versus 6.7.
- The non-insured resident population has somewhat greater medical or skilled care needs. This is borne out by their greater use of skilled nursing and medical services.

- Data presented here suggests that after gaining admission to a NH, the privately insured appear to use fewer services than that seen for other residents. Thus, if the costs associated with room and board are similar between privately insured and other residents, the former would be more profitable for the provider of services because: (1) the daily rate paid is likely to be higher than what is paid by other residents; and (2) service use is lower.

- In nominal terms, the average monthly charge among privately insured residents ($3,742) was between 10% and 22% higher than for other residents.

- For the privately insured, LTCI and personal resources account for the major payer sources, whereas for the non-privately insured, Medicaid and personal resources comprise the primary payer sources.

Assisted Living Residents

- Compared to other residents in ALF, LTCI claimants are somewhat younger, more likely to be male and much more likely to be married. They also have somewhat higher income levels.

- LTCI claimants in ALF have more disabilities than do non-privately insured residents. The average number of disabilities among privately insured claimants is 2.8, whereas, among non-insured residents, the comparable figure is 1.7.

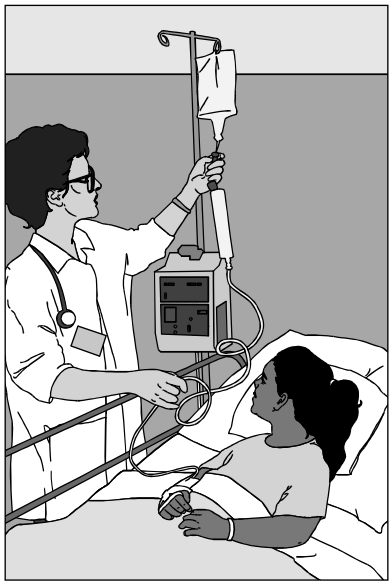
- About 75% of all ALF residents have two or fewer ADL limitations. Among the privately insured, only 35% have two or fewer ADL limitations.

- ALF residents with LTCI are about twice as likely to be cognitively impaired compared to all ALF residents.

- The monthly costs of care for insured residents ($2,700) are roughly 1.3 to 1.8 times higher than for other residents.

Conclusions

Whereas, one might have thought that the continuum of care moves from home care to ALF to NH care, the data present a more complicated picture. For some individuals, ALF may actually substitute for remaining in the home and relying on formal home care services. Other



claimants in ALF faced the alternative of NH care. Either way, it appears that in the presence of comprehensive insurance coverage, one can expect greater use of lower intensity and more home-like institutional settings such as ALF. This presents opportunities to a sub-set of policyholders who would otherwise face more costly NH care.

Given the rapidly changing landscape of the service delivery network, insurers will need to continue to emphasize flexibility in their products. Along with such flexibility, however, is the need to keep consumers informed about the relationship between benefit levels and future service costs. This is particularly true for those accessing costly NH services. Here, policy benefits cover a smaller fraction of the costs than in either the home or ALF setting.

While the presence of insurance will certainly alter service utilization patterns, few individuals seem to be drawn more quickly to seek institutional alternatives just because they have insurance. What the insurance does allow is the ability for disabled individuals to access a variety of services in alternative settings and to do so in a way that leaves these people very satisfied with their coverage.

Jessica Miller, MS, senior research assistant, and Marc Cohen, PhD, vice president, both are employed at LifePlans, Inc.

***Don Charsky, FSA, MAAA, is president of LifePlans Inc. in Waltham, MA. He can be reached at* dcharsky@lifeplansinc.com.**

Footnotes

1) Living with a family is defined as living with a spouse, adult children, or other relative.

2) To be included in the comparison sample, the privately insured and non-privately insured had to meet a minimum disability threshold of at least two of six ADL limitations or be cognitively impaired.

A Review of Proposed Changes to the NAIC's Model Regulations for LTC Insurance

by Allan Kanner, Esq.[1]

Introduction

On August 17, 2000, the National Association of Insurance Commissioners (NAIC) approved a new Long-Term Care Insurance Model Regulation to address the problem of rate stability. This effort attempts to respond to abuses such as were uncovered in the *Hanson v. Acceleration Life Insurance Company*[1] lawsuit, in which rates were increased over 700% in a few short years. As is well known, what happened in the Hanson case is not a one-time event, and there are other unsuitable long-term-care insurance (LTCI) policies in the marketplace.[2]

The proposed NAIC changes are a mixed bag, but ultimately they are highly problematic. The good news is that the NAIC has recognized that its earlier laissez-faire approach to pricing LTCI allowed for abuses and that certain regulatory standards and procedures are needed to protect consumers (especially in frequent situations where internal voluntary controls are not scrupulously applied). Beyond that, the proposed regulations are highly problematic.

First, they are a work in progress. *Second*, they fail to adequately address rate instability. *Third*, they do not ensure substantive disclosures. And *last*, they neglect to address marketing abuses.

A. A Work in Progress

The NAIC's proposals are only a work in progress, lacking even a guidance manual, which remains to be drafted. This fact reflects an unfortunate rush to produce rate stabilization rules in time for a Congressional hearing.[3] This has resulted in ambiguity surrounding how the regulations will be interpreted and enforced. This raises questions about their likely impact, if implemented and written nationwide.

For example, § 9.B (2) now requires "[a]n explanation of potential future premium rate revisions, and the policyholder's or certificate-holder's option in the event of a premium rate revision." This could be a good rule to ensure that consumers make informed choices, but a great deal depends on how it is ultimately interpreted and enforced.

Also, § 9.B. (5)(a) now requires "information regarding each premium rate increase on this policy form or similar policy forms over the past ten (10) years for this state or any other state..."[4] Again, this rule only goes to information about past rate increases and not other, perhaps more pertinent, information regarding the known and quantifiable risk of future rate instability for the particular insurance product. Its usefulness again depends on how the rule is interpreted and enforced.

§ 9.B. (5)(c) appears to create an undesirable disclosure loophole for "blocks of business acquired from other nonaffiliated insurers."[5]

This work in progress also leaves much to be answered surrounding enforcement. It is true that NAIC proposals are joint efforts to improve LTCI, and are not meant to cover every scenario. In fact, the drafter notes, p.18 of the LTCI Model Regulation, that advocates are looking to the various state statutes, such as unfair trade practices, to punish persistent practices of inadequate premium filings. But some worry that this may undermine stricter state regulations where they exist.

B. Fail to Adequately Address Rate Instability

The NAIC proposal is unlikely "to guarantee rate stability and level premiums over the life of a policy," as its authors claim. Only two things will "guarantee" rate stability: the use of sound actuarial data and objective limits on rate increases. Neither of these are mandated by the NAIC. In addition,

the new regulations do not address commission rates and the approval of rate increases. The NAIC's idea of pooling bad blocks of business with non-closed blocks also leaves many questions unanswered.

1. No mandatory adoption of sound actuarial data

Rate stability undeniably depends on a sound actuarial foundation. To my knowledge no one takes the position that there is enough good data today to accurately price LTCI. However, the NAIC seems to acknowledge this point indirectly by acknowledging a distinction between types of rate increases.

Specifically, a distinction is drawn between regular "rate increases" and "exceptional increases" § 4.A; § 20. The distinction seems to turn on the cause of the increase. Exceptional increases are linked to new legal requirements, § 4.A.(1)(a), and new actuarial data, § 4.A.(1)(b).

Such increases seem superficially fair, if explained initially to the purchaser and limited to truly unforeseeable developments. However, there is no requirement that these changed circumstances be truly unforeseeable to the actuary. This problem is exacerbated by the fact, noted above, that the insurer is not expressly obligated to identify for the customer known or foreseeable risk factors that could lead to future rate increases.

In addition, the exceptional increase allowed may still be greater than the new facts or law warrant. § 20.C.(1) ("Exceptional increases shall provide that seventy percent (70%) of the present value of projected additional premiums from the exceptional increase will be returned to policyholders in benefits"). Yet there need be no showing of thirty percent extra administrative cost associated with that foreseeable or unforeseeable increase (over and above the existing administrative expenses priced into the original premium).

A sound actuarial foundation is only meaningful if proper underwriting practices consistent with that foundation are adhered to. Remarkably, the NAIC does not seek to improve underwriting problems or even address their abuses. There should be standard underwriting criteria. There should be basic guidelines to be followed, such as requiring attending physician statements (APS) on anyone 75 or over. Right now, companies have a free reign over when to request APS on someone. There should be some *standardized guidelines* to follow. If these criteria are not followed, the company does not get to use this loss in their loss ratio analysis.

Actuarial certifications are already used with new filings and rate increase filings, and most reputable actuaries would follow their profession's existing actuarial standards of practice, which provide in substance that no hidden rate increases are planned. This leaves us in essentially the same position. Some actuaries will sign off on bad policies.

State regulatory ability to adopt appropriate regulations, monitor compliance with those regulations and police fraud is likewise tempered by their responsibility to see that insurance companies remain solvent enough to pay all claims. Too often the company that knowingly or negligently engaged in low-ball pricing points to prospective financial problems of its own creation as the justification for future rate increases.

Unfortunately, state regulators do a bad job of worrying about solvency at the time of initial filing (as opposed to waiting until it is too late and a rate increase is being sought).

2. No objective limits concerning rate increases

Rate stability can also be achieved by firm limits on rate increases. This, in effect, would mean that the insurer would have to cover the risk of its actuarial mistakes from its own capital. The NAIC ignores absolute rules. For example, there should be a ban on rate increases for the first five years and an absolute limit on rate increases in excess of some percent.

There should be some control over how soon a company can ask for their first rate increase. There should be a period of required stabilized rates, such as five years. Then, if any rate increases are needed, they should be limited in amount, and they should also be guaranteed for at least two to three years before asking for another rate increase. There should also be a penalty for asking for too many rate increases.

Why not set firm and absolute limits on rate increases? Clearly price matters. Certain public benefits, such as tax deductions, could be limited to policies from companies willing to accept such limits, which will certainly give those companies a competitive advantage over non-price-restricted policies.

"There should be some control over how soon a company can ask for their first rate increase. There should be a period of required stabilized rates, such as five years."

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A Review of Proposed Changes to the NAIC's Model Regulations for LTC Insurance

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3. What about commission rates?

Also, what about commission rates? Why not limit the amount of the first year commission to no more than double that of the renewal commission (i.e., if the renewal commission is only 15%, then the commission for the first year should be no more than 30%)? This would allow for more money to be put into reserves at the beginning of the policy and may result in less frequent requests for rate increases.

Also, a company should not be rewarded with rate increases when they hand out large first year commissions while predicting high initial lapse rates.

4. Poor standards regarding the approval of rate increases

Section 20 on Premium Rate Schedule Increases makes some good points, but it does not go far enough. Automatic rate increases ought to be eliminated — the loss ratio concept as currently used does more harm than good.

Also, companies should not be rewarded with extracting profits from rate increases when the rate increase is due to poor underwriting.

Regulators are rarely able to discern that a policy is priced too low (as opposed to being priced too high). More troubling, most states allow automatic (or "deemer") rate increases whenever the company's loss ratio exceeds a certain percentage, commonly 60%, meaning that more than 60 cents of every premium dollar are going to pay benefits.[6] This makes meaningful regulation of rate increases virtually impossible.[7]

The NAIC should recommend that all rate increases shall be approved — no deemers or notice allowed. If a company is not certain that it will get a rate increase, it is less likely to underprice.

It is true that the old loss ratio concept is no longer necessarily a part of the initial price setting process, although it continues to be utilized for rate increases. Some had thought this tended to lead to a lower initial price separate and apart from competitive market forces. This view misses three points.

First, the pressure on initial price due to competition is real. *Second*, as indicated, utilization data is not standardized. *Third*, the problem is that low-ball pricing and rate instability are often accomplished by other non-ratio deceits, such as unrealistic lapse rate assumptions and bad underwriting.

This loss ratio change does little, then, to improve the status quo. Although, strictly speaking, elimination of the loss ratio requirement does allow companies of good faith to set more conservative initial premiums, this ignores the fact that conservative companies in the past repeatedly managed to develop good policies, despite this rule. The loss ratio rule is not the problem and did not cause the fraud; it simply failed to help regulators stop or identify poorly priced policies. Moreover, for companies desiring to get market share by underpricing competitors, this change creates no deterrent.

The limits on expense allowances and profits on rate increases do continue to use the loss ratio concepts, and are a move in the right direction. However, it is not clear why a company that has priced a policy too low (in the case of a non-exceptional increase) should receive any portion of the additional premiums for commission and profit. The first priority should be to stabilize the block of business by identifying some combination of rate increases and/or capital contributions by the insurer to achieve that end; otherwise, a cycle of increases is started.

Forcing a company to dig into its own pocket, instead of the pockets of the elderly who relied on, and paid for, the company's expertise, would provide an even more powerful incentive for companies to charge an adequate initial premium.

Companies already have powerful economic incentives to administer well. In my experience, bad claims practices do not cause increased premiums. Instead, bad underwriting leads to foreseeable claims by people who never should have been in the group in the first place. Currently, most states require the company to honor the claim of someone who did not hide their medical condition at the time of sale. I have seen market conduct exams dealing with the problem of mass denial of claims. This should not change, but the tenor of the NAIC proposal suggests the contrary.

What is troubling is when a company engages in "post-claims underwriting" which now arguably appears to be tacitly approved by the NAIC, or tries to pass the added costs of these claims to the other insureds in the form of rate increases. A company should bear

the economic risk of bad underwriting and bad administration, since the customer has already paid the company for these services in his or her premium.

5. Pooling bad business blocks with non-closed blocks leaves questions unanswered

The idea of taking a bad block of business and pooling it with a non-closed block of business is generally a good idea, although arguments about the triggering events for action could delay its implementation. However, there are some other open questions.

First, do the significant number of policyholders who let their policies lapse get an opportunity to opt in, or is that benefit limited to those policyholders who have continued to pay the increasing premium? *Second*, what rate is to be charged for that new policy? *Third*, who bears the financial risk that the more stable current policy may be destabilized by this change?

The idea of banning "bad" companies from the marketplace has been rejected in numerous other contexts. However, this sort of corporate death penalty will likely suffer from the same enforcement problems that we currently see with lesser sanctions. Most states already have the power to stop approving new insurance products from a bad company or to take the license of a bad company that does not play by the rules.

C. Fail to Ensure Substantive Disclosures

The NAIC's proposals surrounding disclosure also fall short, as are discussed in these sections.

First, the timing of disclosures should be earlier than is currently man-dated by the NAIC. *Second*, disclosures also need to be made more clear, as many consumers of LTCI are elderly citizens. *Third*, companies should also project what the chance is that rates will go up, instead of just acknowledging that a rate hike is possible. *Fourth*, the regulations' current stance on rate increase history disclosure is too vague. *Fifth*, companies should have to disclose why they are increasing rates.

1. The timing of disclosure is too late

The timing of disclosure is less than adequate if it first comes in the policy, as opposed to the application and advertising material. § 8.A (limited to "policies"); § 9. For example, § 9.B. requires only that "an insurer shall provide all of the information listed in this section to the applicant no later than at the time of delivery of the policy or certificate." A better rule would put this information and the idea of risk of rate instability up front in the solicitation phase.

In addition, I would also require insurance companies in their billing statements and in their renewal letters to provide meaningful notice of future anticipated rate increases and problems. Currently, regulators are often told that a proposed rate increase is not enough (and that more may be needed), but consumers are not. This is highly relevant to the decision to buy or renew. More important, many policies are sold in one push, and the block is closed before the rate increases begin.

2. There is no emphasis on the unambiguity of disclosures

Little is being done to ensure that consumers have substantive knowledge as opposed to getting a form disclosure. What consumer really understands the difference between coverage that is "guaranteed renewable" or "noncancelable"? § 8.A.(1). The explanatory language following this should also state that the policy is guaranteed renewable if you are able or willing to pay premiums which the company may/will increase. In addition, systemic marketing abuses such as pressure sales are ignored.

Some proposals are just plain silly. Section 9.B.1-4 requires "An explanatory of potential future premium rate revisions, and the policyholder's or certificateholder's option in the event of a premium rate revision." The only revisions worth worrying about are "increases." Why not call it what it is, a premium rate *increase?* A rate "revision" can be interpreted to mean a rate decrease, too, and we know that is highly unlikely.

3. No disclosure of the chance that there will be a rate increase

Disclosure must be substantively meaningful. Boilerplate language that premiums "may" go up does little to provide meaningful information to the consumer (or independent agent) about the possible range of rate increases and the attendant risk factors. By the same token, limiting the use of some deceptive terms does little to increase consumer understanding.[8]

The signed acknowledgment of potential rate increases without a disclosure of risk factors is less than worthless.[9]

First, is the risk 1% or 50% that rates "may" go up? Is this truly informed? Does the customer know the company lacks adequate utilization data, or that this policy might perform very differently from other policies? *Second*, this would enable a company that was selling experimental coverage to say the customer's consent (as opposed to its intent and undisclosed knowledge at the time of sale) is the only issue and should bar any recovery. *Third*, it shifts blame to agents who can honestly tell the client that this is just legal boilerplate or something similar.

(continued on page 12)

A Review of Proposed Changes to the NAIC's Model Regulations for LTC Insurance

continued from page 11

Fourth, and most important, it begs the question of corporate responsibility.

A better way of reaching this sort of result would be something like this:

I UNDERSTAND THAT MY (MONTHLY/QUARTERLY/ ANNUAL) PAYMENT FOR THIS POLICY IS $_____. YOU UNDERSTAND THAT I CAN ONLY AFFORD (OR I AM ONLY WILLING TO PAY) $____ PER MONTH FOR MY LONG-TERM-CARE INSURANCE. I UNDERSTAND THAT MY RATES WILL NOT BE RAISED BEYOND THAT AMOUNT.

This sort of statement will alert the conscientious company to the limited ability of the customer to pay for future discovered shortcomings in the insurance company's current actuarial analysis.

4. The current standards for rate increase history disclosure are too vague

Section 9.B.5.a provides that information regarding each premium rate increase on this policy form or similar policy forms over the past 10 years for this state or any other state be disclosed. This is very narrow.

In my opinion, a better disclosure would relate to all rate increases, by the issuing company and companies it has acquired or divested, on all prior and current LTCI policies. These and other disclosures should appear on the application. This is more meaningful than disclosures about the risk of rate increases on the contract (as some states require) and/or suitability worksheets (often filled out by agents). There are no substitutes for better information and clearer warning than on the initial application regarding (i) the risk of future rate increases, (ii) the history of rate increases, and (iii) the company's experience with LTCI.

In addition to the three things listed that are to be included in this information, there should be a requirement that makes the company indicate what other LTCI forms the company has in force where the block of business has been closed.[10] If they keep closing blocks and opening new ones (with new forms) a pattern can be recognized. Also, whenever a block of business is closed, the company should be required to notify present policyholders and give them the option to convert to a new policy or drop their policy if they want to.

"Customers are not told the reasons that a company can increase rates.... They are also not told that there is no limit to the amount the premium for the policy can be increased. In most cases, the insurance company's request for increase is approved automatically."

5. Companies ought to disclose why they can and are increasing rates

Customers are not told the reasons that a company can increase rates (if underwriting is poor, if policy was underpriced, if block mismanaged, if actuarial analysis is faulty). They are also not told that there is no limit to the amount the premium for the policy can be increased. (In most cases, the insurance company's request for increase is approved automatically upon the showing of a loss equal to a certain percent.) This is harsh, but isn't that the point?

Also, at the time of renewal, the true reasons for rate increase should be disclosed. The company should also be required to state whether they are contributing any of their own funds to lessen the increase.

D. Fail to Address Marketing Abuses

The emphasis on disclosures misses the point that pressure sales tactics may be occurring and would likely override formalistic disclosures. The relatively high initial lapse rates of between 30-40 percent on some of those policies prior to any rate increase suggests pressure sales tactics are occurring in some cases. Training of agents and setting standards for marketing is always important. But ask yourself this: why do companies put self-serving and exculpatory language on insurance contracts that expressly disavows any responsibility for what was said by the agent during the sales process?[11]

Moreover, why should companies who entice agents with high commissions and promises of "easy

underwriting" be allowed later (when a customer complains about pressure sales) to disavow any legal responsibility for those agents or complicate a straightforward case with such attempts at a legal defense?

Failure to deal with such problems, combined with the proposed § 9.C, will increase the legal protections of fraudulent marketers. In this and other ways, the proposed regulations actually make matters worse.

E. Conclusion

The NAIC regulations are a concession that the traditional approach to regulation in the LTCI insurance industry has failed to protect our nation's elderly from fraud and abuse. In that sense, they are a step in the right direction.

However, they are only a step at best (and likely only the illusion of a step). They will fail to achieve the substantive changes needed to prevent the tragedy that occurred in Hanson, and continues to occur in other cases.

Much more is needed in the areas of rate stability, substantial disclosure, and marketing regulation if LTCI insurance is going to achieve its purpose of taking care of those who had the foresight to purchase it.

Allan Kanner (B.A., University of Pennsylvania; J.D., Harvard Law School) is a member of Allan Kanner & Associates, P.C. with offices in New Orleans, LA, and an Adjunct Professor of Law at Tulane Law School, since 1990. Some of these points were raised in testimony before the Special Committee on Aging, U.S. Senate (Sept. 13, 2000). He can be reached at **a.kanner@kanner-law.com.**

Footnotes

1) Civ. No. A3:97-152 (D.N.D.)

2) My comments are not intended to disparage all LTC insurers, but only those few that have systematically preyed on the elderly. Nevertheless, the problem is not limited to a few fly-by-night companies, and the problem persists today.

3) Jim Connolly, *LTC Rate Model Adopted by NAIC,* NATIONAL UNDERWRITER (8/21/2000):

NAIC President and Kansas Commissioner Kathleen Sebelius said that the adoption of the model was important not only to strengthen state insurance regulation, but also to ensure that regulators can fully participate in Congressional hearings on tax qualified long-term-care policies scheduled to take place next month.

4) This exception is ostensibly justified to prevent insurers from being discouraged from buying bad blocks of business. Fair enough. However, consumers still need to be protected, and there has to be a plan to fix the problem — rate increases or capital contributions or rewriting the block — and this should be disclosed at the earliest possible time to the consumers who may buy the policy and the insureds who are renewing their policies.

5) The 60-40 "loss ratio" concept is a well recognized life insurance regulatory device that appears to have been improperly transposed in the LTCI area. E.g., Gary Corliss, The State of LTCI, D&H ADVISOR (Jan./Feb. 1997), "LTCI is a new coverage. Traditional logic suggests that reserves and capital/surplus requirements should be greater for LTCI than for other more traditional insurance products," E.g., Gary Corliss, The State of Long Term Care Insurance: 1998, supra, "State regulators started way behind everyone else and tried to alter their regulations and practices to fit into a new reality."

Nevertheless, insurance companies attempt to avoid civil liability by hiding behind regulatory rate approval or inaction. The vehicle for this excuse is an improper attempt to move the filed rate doctrine into the insurance context.

6) Allan Kanner, *The Filed Rate Doctrine and Insurance Fraud Litigation,* 76 North Dakota Law Review 1 (2000).

7) E.g., § 6.A.4 (limiting the use of the phrase "level premium" in brochures, policies, and actuarial memoranda to situations in which the insurer has no right to change, or ask for changes, in premium).

8) Section 9.C. provides that an applicant shall sign an acknowledgment at the time of application. . . .that the insurer made the disclosure required under subsection B(1) and (5).

9) Disclosures of buying blocks with intent to raise premiums should be disclosed. Customers should be told if block is closed.

10) Companies are prohibited from using agents with records of violations.

Changes in Employer Market Impact Group for Long-Term-Care Insurance Marketing

by John O'Leary

Dynamic change is happening at workplaces across the nation, and it is already dramatically impacting the marketplace for group insurance—how it is being offered, installed and administered.

This change is occurring as employers struggle to meet the demands of Wall Street for improved earnings, greater efficiency, and sharpened corporate focus. And it represents significant challenges for marketers of group long-term-care insurance (LTCI), already a difficult selling proposition for many. At the same time, this change represents opportunity for those companies who can understand and react appropriately to it.

The changes can be categorized into three broad trends:

1) A greater emphasis by employers on core competencies, along with a reduction in emphasis on "non-core" functions. Once considered central to the mission of a successful company, employee benefits are now being viewed as "non-core" by many employers. More and more employers are outsourcing some or all of their employee benefits functions. And increasingly, companies are following models like Cisco Systems who are using an externally managed Internet Portal provider to offer workplace benefits to their employees.

2) The redefined relationship between employers and employees. Perhaps the best way to categorize that relationship today is "arms length." The "supportive paternalism" that once categorized companies like IBM has been replaced with an employee self-service approach. Employees are expected to choose and manage their own benefits with a minimum of help from their employer. The employer role with regard to benefits is less a gatekeeper, advocate, and endorser and more of an access provider.

3) The dramatic emergence of Internet technology and its application as a benefits management tool for employers and employees. More and more companies are providing desktop access to the Internet for their employees. The Internet is on the verge of becoming the most viable way to communicate with employees because of its advantages in cost, interactive capability and, most important, its ability to enable transactions when and where employees want them.

A recent Forrester Research study indicates just how fast the Internet is taking hold. The study suggests that by 2002, 86% of employers will be using the Internet in some way to help manage their benefit programs, and that nearly 4 in 10 will be using the Internet to actually purchase and install employee benefits. Beyond that, the study points out the emergence, in the near future, of "e-desktop marketplaces" for employees. There, employees will be able to access choices for their traditional em-ployee benefits, as well as additional services — including financial and legal counseling, concierge services, travel

services, discounts on books and CDs, and much more.

The key question: How are these trends going to impact the market for employer-sponsored LTCI and how should the industry respond?

The current state of the market for employer-sponsored LTCI is certainly very encouraging. Passage of the bill authorizing group LTCI for over 15 million federal employees and their families, pending legislation which would provide an above-the-line credit for LTCI premiums, and continued explosive market growth are all very positive signs. Beyond that, employees have long indicated a preference for purchasing LTCI at the workplace.

Unfortunately, however, that optimism can be deceiving. LTCI has yet to become a high priority issue for *employers*. The above referenced Forrester study indicates that the rising cost of health insurance continues to dominate employer attention. And, given the trends toward outsourcing benefits,

and a more "arms length" employer/employee relationship, it is unlikely that employers will move LTCI higher on their benefits priority ladder. In fact, if anything, a more "hands off" approach for LTCI would seem more likely, given the limited availability of benefits resources in the new "non-core" environment.

That presents particular problems for LTCI, given that proactive employer support and endorsement has been shown to be one of the most important determinants of successful group LTCI programs. So, without a high level of support and endorsement, how will LTCI fare at the workplace?

The trend toward more Internet use also poses challenges. The educational and interactive nature of the Internet is a strong fit with the need to educate people about LTCI. However, the challenge is how to position an already difficult-to-understand benefit so it not only stands out, but appeals to employees in this emerging "e- desktop" environment.

While the answers are far from clear, here are some approaches worth consideration:

- **"Simpler is better" marketing** Industry marketing to date has been overly complicated, in part because of the perceived need of competitors to emphasize a plethora of product features over product benefits. A greater emphasis on understanding and explaining the consumer benefits of owning a LTCI policy in simple consumer language will be a requirement to compete in the emerging employer marketplace.

- **"Sell itself" product designs** In the battle for discretionary employee dollars, benefit dollars are going to be in open competition, not just with other benefits, but with other services available to the employee. The industry needs to come up with product offerings that are compelling enough to literally "sell themselves" without a lot of explanation. The need for these product designs is there, and it will be growing. It just hasn't been tapped yet.

- **Compelling "dollars and sense" arguments** For anyone who has faced a long-term-care situation with a family member or friend, the rationale for product purchase is obvious. But for the many millions more who either haven't been in that situation, or who are struggling with other financial priorities like their children's education, LTCI is anything but a "no brainer." Whether through more creative product design, improved tax treatment, better marketing, or all three, a more compelling financial case for the product needs to be made. The success of voluntary retirement plans like 401k's is a good starting place.

The employer market represents the greatest opportunity to efficiently expand LTCI coverage in the market today. But accessing that opportunity will require understanding and creativity across a host of marketing and product design issues.

***John O'Leary is a consultant in long-term-care insurance, specializing in marketing, product development, and use of the Internet. He can be reached at* cjmjoleary@cs.com.**

"The trend toward more Internet use also poses challenges. The educational and interactive nature of the Internet is a strong fit with the need to educate people about LTCI. However, the challenge is how to position an already difficult-to-understand benefit so it not only stands out, but appeals to employees in this emerging 'e-desktop' environment."

Actuarial Certification: A Reason for Pondering

by Bartley L. Munson

Background

Bartley Munson, FSA, MAAA, chaired the Long-Term Care Insurance (LTCI) Task Force of the Actuarial Standards Board (ASB) during the creation and eventual adoption, in 1991, of Actuarial Standards of Practice (ASOP) No. 18 by the ASB. It was substantially revised and re-adopted in January 1999. The statements made here are strictly his and do not necessarily represent the ASB.

Two Relevant Documents

There is reason for actuaries pricing long-term care insurance (LTCI) to pause and carefully consider the actuarial certification required by the recently adopted National Association of Insurance Commissioners (NAIC) LTCI Model Regulation. At the very least, the actuary should give it very careful attention before so certifying.

The actuarial profession's Actuarial Standard of Practice No. 18 (ASOP No. 18): Long Term Care Insurance addresses the actuary's pricing behavior for LTCI. It needs to be considered in its own right and also in light of the NAIC's new Model.

Both documents might seem reasonable. Their goals are laudable. However, the subject is troubling.

Many advocates, both professional and regulatory, have an increasing desire for "reliance on the actuary." How this reliance develops surely is of keen interest for LTCI.

Any gap, inconsistency or inadequacy between the two documents cited herein should be resolved. Any weaknesses in either or both of the documents should be corrected.

Consider what seems to have caused that concern and what the practicing LTCI actuary may ponder as possible solutions.

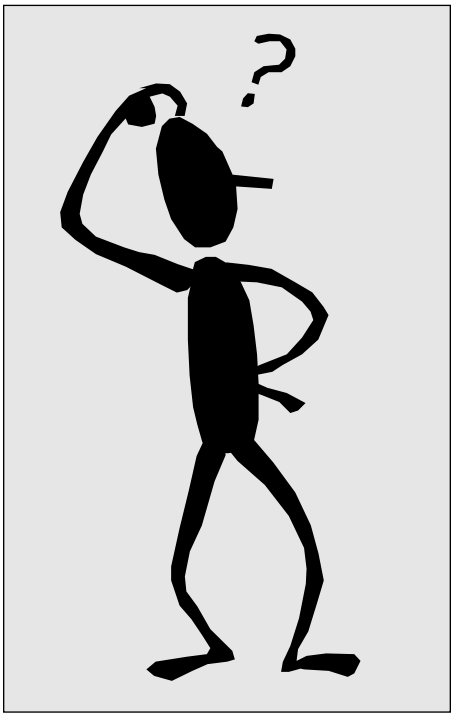
ASOP No.18

This ASOP was adopted by the ASB in January 1999. Nothing gave the LTCI Task Force more challenges in finding acceptable wording then to articulate that the actuary should adequately price the product. There was no question that requirement was paramount. How to state it and be comfortable and clear, yet legally accepted, wasn't so easy.

Being guaranteed renewable, premiums on in-force policies can be increased (with regulatory approval). However, the desire, properly, was to prohibit what became known as "planned hidden future premium increases."

This prohibition was addressed in the initial ASOP No.18 adopted in 1991. Relevant words then adopted:

> *"Experience developing in ways significantly different from that assumed in pricing may legitimately require future changes in premium scales; but in setting premiums initially, the actuary should not rely on that possibility to use assumptions which are unduly optimistic. Neither should the assumptions be pessimistic, yielding excessive premiums. Nor in any event should the actuary establish pricing assumptions with planned hidden future premium increases in mind. If premiums*



> *are described as level, guaranteed renewable, and applicable for the lifetime of the insured — as is typically the case — the actuary should use assumptions consistent with that description."*

The text on premium rate recommendations was vigorously reviewed as part of the overall update of the entire document. The revised ASOP No. 18, adopted in 1999 and current today, has these relevant words:

> *3.3 Premium Rate Recommendations. In developing such recommendations, the actuary should not use assumptions that are unreasonably optimistic. If a premium rate schedule is described by the actuary as applicable for the lifetime of the insured, the actuary should use assumptions that are consistent with that description and that have a reasonable probability of being achieved. In particular, the actuary should not rely on anticipated future premium rate increases to justify the selection of unreasonably optimistic*

assumptions when recommending premium rates. On the other hand, the actuary should not use assumptions that are unreasonably pessimistic. It may be appropriate, however, to include provision for adverse deviation in assumptions.

The wording is clear. It requires the actuary to responsibly price LTCI.

Enter the NAIC Model

The development of the many significant revisions to the NAIC LTCI Model Regulation, adopted in August last year, are well documented. The regulators desired to replace the NAIC Model that required a 60% loss ratio with revised and new provisions that, instead, placed many requirements on the insurance company and on the actuary. The goal was to produce premium rates in the industry that would be more stable and reliable.

Those changes included: removal of loss ratio requirements for new business; introducing higher loss ratios for increased premiums on inforce policies; adding considerable monitoring and reporting of experience; increased consumer disclosure; and written certification by the actuary.

The reasons for making these, and other, changes won't be chronicled here. Nor will this article speculate as to how successful those new provisions will be. (There is room for debate!)

Rather, we focus on Section 10 of the new Model Regulation, which says, in part:

"B. An insurer shall provide… to the commissioner…"(2) An actuarial certification consisting of at least the following: "(a) A statement that the initial premium rate schedule is sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated."

There are many other elements required in the actuarial certification noted here. There is no question but that there is a whole new world of requirements for the LTCI actuary! But we focus here on only this one paragraph.

Challenging Words, Indeed

There are no clear or useful definitions of what is meant by "…moderately adverse experience…," as required by the certification. There are none in ASOPs for other product lines and certainly not for LTCI. To the best of my knowledge, there is no definition nor explanation to which the actuary might point.

Yet that phrase clearly is meant to help produce premium rates that the actuary can certify will be sustainable "…over the life of the form with no future premium increases anticipated…."

I suggest that may not be certifiable, without producing unacceptably high (uncompetitive) premium rates in today's marketplace.

As evidence of the elusive nature of those three words ("…moderately adverse experience…"), one might seek other actuarial practice standards. The closest we come is instructive.

ASOP No. 22: Statements of Opinion Based on Asset Adequacy by Actuaries for Life and Health Insurers is the new title for an ASOP exposed September 2000, with comment deadline of March 31, 2001. The profession's documents it would replace have no relevant definitions and have been in place since July 1990 (ASOP No. 14) and October 1993 (Actuarial Compliance Guideline No. 4). The current exposure draft of the proposed adoption of ASOP No. 22 introduces a phrase very similar to the NAIC's quoted above and, for the first time, proffers a definition. From the ASOP No. 22 current draft:

"2.14 Moderately Adverse Conditions. These are conditions that include one or more unfavorable, but not extreme, events that have a reasonable probability of occurring during the testing period."

Perhaps this definition will survive when this ASOP No. 22 eventually is adopted. Perhaps that will be what the actuary should consider when adopting, or testing, LTCI pricing that "…is sufficient to cover anticipated costs under moderately adverse experience…."

Nowhere else is there known guidance for what the actuary is to use on this direct matter. Nor am I sure this is a phrase that should or can be fully defined; perhaps it defies specific, operable definition.

"I suggest that may not be certifiable, without producing unacceptably high (uncompetitive) premium rates in today's marketplace."

Where Does This Leave The Actuary?

The actuary may well be left in a dilemma. If he prices LTCI that meets the NAIC-required actuarial

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Actuarial Certification: A Reason For Pondering

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certification, and so certifies, he likely produces premium rates that are not at all competitive with otherwise reasonably similar policies in the marketplace.

If he produces reasonably competitive premium rates, he likely can't certify there is room in those rates for "moderately adverse experience." Or he can't do so honestly. Or he must be prepared to defend his premium rates, the testing he has done, and argue about the meaning of those words in this context.

In any event, the actuary must well document what he did and be prepared to defend his actions, including the certification.

NAIC Status

Of course, the Model Regulation (any model reg) becomes effective only after a state adopts it. It should be noted that all parties — industry, regulators, consumer groups — vowed their intent to help see adoption, wherever possible, of the new LTCI Model Regulation adopted by the NAIC. It is reported that progress is being made in that regard.

Further, one should not dodge the Model Reg's applicability by avoiding states where that applies. Even where it doesn't apply yet, informally regulators may "require" or attempt to require that it be adopted. And lack of uniformity across states is expensive, troublesome, and meant to be avoided.

Thus, the actuary must ponder the Model. De facto, it is operable.

The NAIC is making slow progress in drafting, exposing, and eventually adopting the "Guidance Manual for Rating Aspects of the Long-Term Care Insurance Model Regulation" (Guidance Manual). A companion to the LTCI Model Regulation, it is to explain and expand upon the model. Among other things, it is to attempt to answer questions that arose during the model reg's development.

As this is written (February 28, 2001), the most recent exposure draft of the Guidance Manual was released November 11, 2000. It has several pieces labeled "To be developed." More will be coming, including the following two meetings:

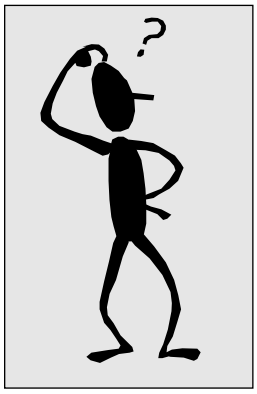
- A session at the March 24 – 28 NAIC Spring meeting in Nashville will address the then-current draft.

- A two-day NAIC seminar on "Long-Term Care Rate Adequacy Actuarial Issues" is scheduled for April 4 – 5 in Atlanta.

What Should Be Done?

If the actuary finds himself on the horns of a dilemma, what might be done? Suggestions are easier to make than resolve.

Change the Model Regulation? It's not clear how that should be worded. Furthermore, it would be sure to be a long, protracted process. The current one isn't completed yet, if one includes the guidance manual; and adoption of the model regulation by states has barely started.



Reopen ASOP No. 18? Again, it's not clear to what end. What would it say differently from what it contains?

Expect that the actuary adopt premium rates that are too high to permit a company to compete? In time, that could be a self-correcting solution, but not without serious implications.

Define "moderately adverse experience" in a clear and acceptable way? Not likely, given the long history of no useful definition — nor any that is likely. It's not clear to pursuit of an acceptable definition is possible, or useful.

The actuary might cover his work by defining for himself what he meant by those words in his certification and by documenting that in his work. Is that doable? Comforting to the actuary?

Price LTCI with non-supportable, reasonably aggressive assumptions that very well may not support level premiums for life? The actuary who does so should monitor the financial results of the LTCI enterprise and be willing to accept very low financial rates of return. The actuary should also prepare his defense for the premium rates he's adopting.

What do you believe should be done? Indeed, anything?

Suggested answers to the above questions, or your own questions and thoughts, are needed. All you send me will be shared in the next newsletter, with only any necessary edits, including any requests for anonymity.

LTCI Insurers Conference — Miami, Florida

by Jim Glickman

The First Annual Intercompany LTCI Insurers Conference was held at the Hyatt Regency in Miami, Florida, January 21-23, 2001. This conference, sponsored by the Long-Term Care Insurance (LTCI) Section of the Society of Actuaries and co-sponsored by more than fifteen other organizations, featured five specialty tracks focused exclusively on LTCI issues. Each of these five tracks — Actuarial, Claims, Compliance/ Government Relations, Marketing, and Underwriting — provided seven separate interdisciplinary breakout sessions.

The more than four hundred attendees were virtually unanimous in their comments about the conference having met its three stated goals:

1) To provide an in-depth focus on key areas of product development and administration designed specifically for LTCI insurers, to provide the latest and most advanced information impacting the LTCI industry.

2) To provide substantial networking opportunities for all attendees to learn from one another, both within each attendee's area of specialization as well as on an interdisciplinary basis.

3) To provide an exhibit hall networking opportunity for LTCI insurers to meet with those organizations that provide valuable services to the LTCI industry.

The meeting began on Sunday afternoon with a short general session discussing the conference goals, followed by the first set of breakout sessions (one for each of the five tracks). This was followed by the opening reception in the exhibit hall. Finally, the day ended with three hours of networking at the magnificent hospitality suites, sponsored by John Hancock, SIA Marketing, and Conseco.

A view of one of the many beautiful golfing greens that the conference attendees enjoyed.

Monday began with a much appreciated hot breakfast in the exhibit hall, followed by three more sets of breakout sessions. There was more networking in the exhibit hall for lunch and the afternoon reception. Once again, the evening featured more themed hospitality suites, with Milliman and Robertson, John Hancock, and CHCS. John Hancock featured a guest celebrity, knuckleball pitcher Phil Niekro, signing baseballs for a line of fans stretching all the way out into the hallway.

CHCS had perhaps the most unique hospitality suite. They created the illusion for each participant of an old age infirmity, such as smeared glasses to imitate cataracts. Then in true Florida style, they tried their luck at completing a punch card voter ballot, with the correct answers based on a delayed word recall test.

Tuesday again featured a hot breakfast networking session followed by the next two sets of breakout sessions. Then followed a formal luncheon with inspirational keynote speaker Bill Robinson, former president of the Fortis Long-Term Care division, describing the wonderful service the LTCI industry is performing for society. The afternoon featured the final set of breakout sessions, a wrap-up general session discussing the highlights of all 35 breakout sessions, and a last minute special session with the Office of Personnel Management to discuss the new Federal Employees LTCI program.

The participants' written evaluations indicated that this conference was one of the best Society of Actuaries events ever held. Planning is already underway for the Second Annual Intercompany LTCI Insurers Conference, to be held in January or February with a location to be announced shortly. If you want to be on the mailing list for information about this conference, you can e-mail a request to Jim Glickman at: *JimGlickman@LifeCare* or to Barb Choyke at *BChoyke@soa.org*.

LTCI Sessions at the Chicago SOA Annual Meeting

Editor's Note: The program and this brief report were put together by Greg Gurlik, SOA LTCI Council member responsible for this portion of the Annual Meeting.

Your Long Term Care Insurance (LTCI) Section arranged the fullest slate of LTCI sessions to date, at the SOA Annual Meeting in Chicago last October. The LTCI Section partnered with four other sections and the American Academy of Actuaries (AAA) to present nine sessions and a LTCI Section breakfast. Four formats provided attendees ample opportunity to participate in the discussions. Hopefully, you were there to learn and share your ideas.

If you couldn't make it to the Annual Meeting, or if you were there but need a little refreshing, here's a summary of the sessions.

Session 10PD – Valuation and Financial Reporting of LTCI

Mark Litow moderated this session, with Bill Bigelow and Peggy Hauser. Trends in developing experience are making some actuaries rethink approaches to standard valuation tables for LTCI. Challenges in financial reporting were also discussed.

Session 25PD – LTCI State and Federal Regulatory Update

Bill Carroll moderated this session, with Wendy Pellow, Ray Nelson, and Winthrop Cashdollar. The NAIC has recently adopted LTCI Model Regulation amendments regarding rating practices and consumer disclosures. Details of these amendments and their impact on actuarial filings were discussed. This session also provided an overview of the LTCI program for Federal employees and other Federal initiatives to encourage the private LTCI marketplace.

Session 52PD – Internet Marketing of Needs-Based Products

Greg Gurlik moderated this session, with Diana Scott and Jym Barnes. Marketing products with more complicated product designs and sales processes over the Internet create some unique challenges. The speakers discussed product design, Web site design, and technological approaches to address those challenges.

Session 76WS – Pricing New LTCI Benefits

Loida Abraham, Wes DeNering, Greg Gurlik, Dawn Helwig, Yang Ho, and Jake Lucas facilitated discussions in two workshops. Attendees selected three to four topics from an extensive list to discuss in detail. Challenges and opportunities with limited pay plans, underwriting rate classifications, assisted living facilities, and spousal/two-person discounts topped the list.

Session 96IF – Controversial Issues in LTCI

Jim Glickman moderated this session, with Tom Foley, Tim Hale, and John Timmerberg. A talk show session format allowed extensive audience participation in discussions regarding aggressive pricing, rate stabilization initiatives, and non-cancelable products, among other topics.

Session 114OF – Risk Tolerance in LTCI and Reinsurance

Amy Pahl moderated this session, with Andy Castillo, Mike Farley, and Buddy Maughn. Speakers

presented risk analysis approaches from both the insurer and the reinsurer perspectives. Reinsurance solutions were evaluated on their ability to meet varying objectives of the direct writer.

Session 137OF – Actuarial Professionalism in LTCI Filings

Dawn Helwig moderated this session, with Jim Berger and Lauren Bloom. Recent amendments to the NAIC Model Regulation regarding rating practices and consumer disclosures were discussed in detail, as were sections of the draft guidance manual being developed for use by state regulators in reviewing LTCI filings. Actuarial Standards Board Standards of Practice were also reviewed, with an emphasis on their application to the new actuarial certification requirements.

Session 138OF – The LTCI Market for Traditional Life and Annuity Carriers

Al Schmitz moderated this session, with Bill Bigelow, Loida Abraham, and Peggy Hauser. Speakers reviewed the unique characteristics of LTCI, how other life and annuity carriers have entered the LTCI market, and the advantages and disadvantages of developing and marketing LTCI combination products.

Session 148PD – CCRC Opportunities and Provider Joint Ventures

Gary Brace moderated this session, with Judith Black and Jill Krueger. Speakers reviewed provider industry trends and discussed HMO approaches to LTC needs, with an emphasis on geriatric care management and outcomes management.

If you would like more information on these sessions, transcripts of many of these sessions will be available in *The Record* at the SOA Web site in the near future.

I'd like to thank the LTCI Section Council and all of the presenters for their hard work in putting together a quality program.

If you have a topic or would like to participate in an upcoming SOA meeting, please contact any LTCI Section Council member.

Editor's Note

by Bartley L. Munson

The SOA's LTCI Section is in good shape. It's young. Indeed, because of that, it is growing and vibrant. It is only moving toward a mature status, and maybe we shouldn't want it to be there. It's on its feet, solidly, and looking for more to come.

That's true of the Section. It's also true of the newsletter so many of you have helped us launch.

Consider this issue. It has many interesting articles by many different authors and from various industry and professional backgrounds. Their content brings us knowledge about several aspects of LTCI and our related environment.

In many ways, this issue of the newsletter challenges us to think about these articles. We hope you'll respond to the invitation to let us hear from you — about these contributions or others you wish to make.

Please continue to share your contributions to future issues of this newsletter. Some of you are encouraged to volunteer. For others you will respond to requests. I know several are in process. However they get here, bring them. The newsletter and, to a considerable extent, the Section and our LTCI profession will be only as good as you make it.

Many of you have been part of an active, hard working, contributing group. You have been quite free to share — to share your knowledge, to provide your experiences that can help illuminate our LTCI world, to guide the Section and its Council. You share a sincere and active interest in making us better at it. With everyone's help, it will indeed be even better.

There is so much happening in LTCI these days and so much more foretold — we should be perfectly

able, and willing, to respond to the opportunities.

Do give the Council and its new editor, Bruce Stahl (e-mail address *BASActuary@cs.com*), the kind of support you've given to date in the newsletter's formative stage.

The preferred route to reach me is through e-mail (*bartmunson@itol.com*). I can also be contacted by fax (920) 743-9255 or by mailing to my address (Bart Munson, Munson & Associates, 1034 Memorial Drive, Sturgeon Bay, WI 54235).

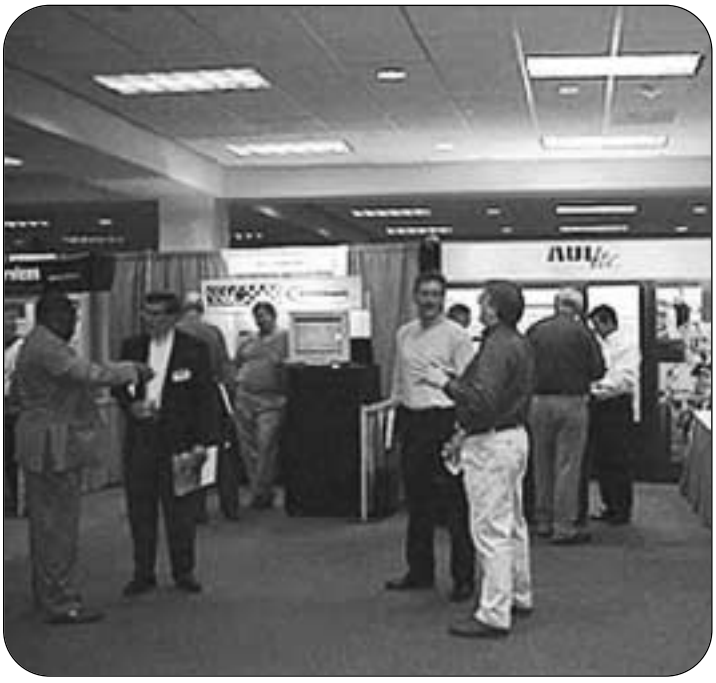
The First Annual Intercompany LTCI Conference a Success in Miami!

One of many breakout sessions

SCENES FROM . . .

Luncheon speaker Bill Robinson

Some of the Conference Program Committee members meeting for lunch



Attendees enjoying the conference exhibits

Loida Abraham, currently LTCI Section chairperson, presenting Jim Glickman a plaque in appreciation of his service as the first chairperson of the SOA LTCI Section

475 N. Martingale Road, Suite #800
Schaumburg, IL 60173
Phone: 847-706-3500
Fax: 847-706-3599
Web site: *www.soa.org*