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Long-Term Care News

The Newsletter of the Long-Term Care Insurance Section — Published by the Society of Actuaries

The AAA Practice Note in Practice – Part One

by James M. Robinson

Introduction

The soon to be released AAA practice note provides guidance to actuaries preparing LTCI rate filings under the 2000 LTCI Model Regulation certification requirements. Four examples demonstrate the five-step procedure suggested in the practice note. In this article, I present a more detailed case study for consideration at a session of the upcoming SOA spring meeting in Vancouver in June. This case study focuses on the initial rate filing for a revision to an insurer's LTCI product. While rate increases on inforce policies is also a worthy subject, time and space constraints require that we limit the scope of this particular discussion. A follow-up article (Part 2) will be provided following the meeting to summarize the discussion. You are invited to send your thoughts on the case study in advance of the meeting or in lieu of the meeting. (*Provide contact information – e-mail, fax, mailing address.*)

Moderately Adverse Experience

Section 10.B(2) of the 2000 LTCI Model Regulation requires that the actuary must provide:

"…an actuarial certification consisting of at least the following:…(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;…"

The AAA practice note outlines five steps that actuaries may follow to comply with the requirements of this certification.

1. Review product and management strategy of the company.
2. Set Initial Assumptions and Premiums.
3. Test the Margin for "Moderately Adverse Experience"
4. Review the Company and the Agreement.
5. Produce Documentation.

Four examples are employed to illustrate key aspects of each of these steps. While these examples provide useful initial guidance, they are necessarily abbreviated, especially regarding their treatment of such difficult issues as:

continued on page 4

contents

The AAA Practice Note in Practice – Part One by James M. Robinson 1

Articles Needed for the News 2

From the Editor by Bruce A. Stahl 3

LTCI Experience Analysis Using Modified Natural Reserves by William C. Weller 8

Third Annual Intercompany LTCI Conference in Las Vegas 10

Chairperson's Corner by Michael S. Abroe 12

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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 Joe Adduci, 847-706-3548, at the Society of Actuaries for help.

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Thank you for your help.

SOCIETY OF ACTUARIES

From the Editor

by Bruce A. Stahl

The actuaries who attended the third annual Long-Term Care Inter-practice Conference discussed premium rate certifications for moderately adverse experience in the sessions as well as in the hallways. The subject is obviously very important to actuaries, and this edition of the Long-Term Care Newsletter contains two articles that address it from their perspective. Yet, this very important topic affects all professional practice areas.

Marketers, underwriters, claim adjudicators, information systems, actuaries, and management have all had to face important issues related to what is considered a moderately adverse scenario. For example, some actuaries support the notion that population morbidity improvement belongs in the pricing and reserving of Long-Term Care insurance. Testing the pricing adequacy with and without the improvement produces significantly different results, unless the actuary also includes improvement in mortality coincident with the improvement in morbidity. If population improvements are part of the insured population, the claim paying processes may need to include such expectations for improvements in their benchmarks for plans of care. The underwriters may need to recognize shifts in perspectives on particular conditions. The department responsible for information systems may need to participate in identifying and establishing systematic ways to monitor the improvement. Marketers may see adjustments in the premium rates, and may consider what the particular assumptions imply for rate stability.

Long-Term Care pricing may be complicated further when insurers are able to base the claim costs on their own experience. Continuing with the example, morbidity improvement may be reasonable when morbidity experience is based on periods of relatively high lapse rates in a medically underwritten environment. The reverse is perhaps easier to understand. If claim costs are based on experience when lapses are relatively low, and an actuary were to apply that data to another block of Long-Term Care insurance where lapses were expected to be high, the actuary would likely increase the claim costs for adverse selection from those higher lapses. Yet, the actuary is likely to have difficulty identifying what the value is.

The actuary is obliged to test the sensitivity of his assumptions, particularly when the value of those assumptions is based on complex issues and sound judgment.

The editor hopes that the two technically oriented articles in this edition will help all professional practice areas as well as actuaries. Those who are not actuaries may gain insight into the complexity of pricing Long-Term Care insurance, and may also initiate steps to consider the implications of the pricing assumptions to their work. ♿

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- How does the actuary properly model the decision making process that management will actually follow in the event that adverse experience develops on the block? How binding are any statements made by today's management (relative to its propensity to increase inforce premiums) on the decisions to be made several years hence by future management teams?

- How is the reasonableness of a moderately adverse experience scenario determined? Is there an objective standard for such a characterization? Is the "moderate" qualifier determined by the likelihood of the scenario unfolding or does it relate to some measure of the severity of the adverse deviation without regard to its frequency?

The following hypothetical case study is intended to provide a reasonably realistic framework for a discussion of the issues facing pricing actuaries under the new certification requirements.

Case Study

With the assistance of Consulting Actuary, Connie Sultan, EverStay Insurance Company entered the LTCI market in 1998 with a qualified, comprehensive, individually underwritten product providing coverage for nursing home, assisted living and home care services subject to the usual daily and policy maximums. Unisex premium rates were filed with spousal and preferred risk discounts available to qualifying applicants. Connie prepared and signed the actuarial memorandum.

Initial pricing assumptions were typical at the time of filing in 1998.

- Sex-distinct claim costs based upon a blend of the 1985 NNHS and the 1982, 1984, 1989 and 1994 NLTCS, with some adjustments to the general population experience to reflect induced demand in an insured setting. It was assumed that 60 percent of issues would be to females.

- Simple selection factors starting at 50 percent at issue and grading to 100 percent over five policy years.

- Mortality rates equal to 83 GAM. The morbidity selection factors also apply to mortality rates.

- Voluntary lapse rates graded from 15 percent in the first policy year down to an ultimate annual lapse rate of four percent, with a modest provision in the claim costs for anti-selective lapsation.

- Interest rates graded from eight percent in the first policy year down to six percent per annum after ten years.

- Commission rates of 60 percent in the first year, 10 percent in the next nine years, and three percent thereafter.

- Other expense assumptions:
  - o Ten percent of first-year premium and 2.5 percent of renewal premiums.
  - o Five percent of incurred claims.
  - o Underwriting and issue expenses varying by issue age, averaging $250 per policy issued.
  - o $25 per policy in all years, inflated three percent per annum after issue.

- Federal income tax rate of 35 percent.

- Risk based capital equal to two percent of assets plus 15 percent of premium plus four percent of claim reserves.

- Statutory active life reserve assumptions:
  - o Pricing morbidity and selection factors.
  - o Pricing mortality.
  - o Lapse rates allowable under the old NAIC model valuation law, i.e. such that aggregate policy termination rates are equal to the lesser of 80 percent of pricing assumptions or eight percent, but no less than zero.
  - o Interest rates equal to 4.5 percent per annum.
  - o One year preliminary term expense allowance.

- Federal income tax active life reserve assumptions equal to statutory assumptions, except voluntary lapse rates equal to zero and interest rate equal to 6.6 percent per annum. Calculated FIT reserve factors are not allowed to exceed the statutory reserve factors.

- Aggregate profit objective equal to 12 percent after-tax return on invested statutory surplus (ROI) using target surplus of 200 percent of RBC. Minimum profit of six percent ROI on any single pricing cell, i.e. any policy configuration/issue age combination. Actual cell-specific ROI set iteratively to satisfy the aggregate and cell minimum requirements, while producing a competitive premium rate structure. The resulting pattern of ROI's by pricing cell resulted in anticipated subsidization of the middle issue ages at the expense of the early and later issue ages, and the subsidization of cells with inflation protection at the expense of cells with no inflation protection.

- Aggregate ROI projections based upon explicit sales assumptions by pricing cell, with an average issue age of 67.

- Preferred risk discount set at 20 percent, assuming that 40 percent of issues would qualify. Spousal discount set at 10 percent, assuming that all married issues (a percentage tabulated by issue age) would qualify. Explicit adjustments to claim costs for preferred risk or marital status were not employed. Rather, the necessary average discounted premium was computed in the prior pricing steps and undis counted premiums were obtained in the final pricing step to produce the average discounted rates under the preferred/spousal discount issue distribution assumptions.

Experience Through 2002

- Sales were slow in the first two years, but have accelerated rapidly in the last three years.

- The average issue age to date is 61. The average age at issue in 2002 is 57.

- While the percent of issues to females is close to 60 percent at issue age 70, the percent is approximately 50 percent at issue age 50.

- The percent of issues with inflation protection is greater than anticipated at the younger issue ages.

- The percent of issues qualifying for the spousal discount is close to original pricing assumptions. The percent qualifying for the preferred discount is nearly 65 percent, significantly greater than the 40 percent originally anticipated.

- Lapse rates by policy year have been 16 percent in the first year, seven percent in the second year, five percent in year three, and two percent in subsequent policy years. Mortality has been low and reasonably close to 83 GAM.

- Actual claim incidence to date is 71 percent of expected, based upon the original pricing assumptions.

- Claim continuance to date is greater than expected, based upon claim reserve development analyses. The small number of claims prevent the calculation of credible claim termination rates.

- Earned interest rates have fallen from eight percent to five percent over the five year period.

continued on page 6

Sales were slow in the first two years, but have accelerated rapidly in the last three years.

- With the general decline in interest rates, EverStay management has reduced its aggregate pricing objective to a 10 percent after-tax ROI. The pricing cell minimum ROI is now five percent.

- Expenses are close to original expectations, after adjustment for the actual distribution of sales by issue age.

Other LTCI Developments

- New issue premium rates for key competitors have recently increased, apparently due to similar drops in lapse and interest rates. No key competitor has yet filed for inforce premium rate increases.

- The 1999 NLTCS is available in beta form. Initial results indicate a continuation of the decline in elderly disability rates.

- Two new rounds of SOA Intercompany LTCI studies are available, one released in February 2000 and the second released in September 2002.

- Work continues on RBC and valuation standards for LTCI.

- Several of the states in which EverStay markets LTCI have adopted the 2000 NAIC LTCI Model Regulation requiring actuarial certification of premium rates for future sales and inclusion of contingent nonforfeiture benefits.

- ASOP 18 "Long-Term Care Insurance" was updated in 1999, reducing its educational emphasis and providing more specific guidance on assumption setting, establishing premium rates and managing LTCI business.

- The NAIC adopted the "Guidance Manual for Rating Aspects of the LTCI Model Regulation" to assist regulators in implementing the 2000 LTCI Model Regulations.

- The AAA released a health practice note in January 2003 to provide guidance to actuaries in interpreting and complying with the 2000 NAIC LTCI Model Regulation.

Steps Taken To Date

- Connie Sultan has been re-engaged by EverStay to file a new generation of LTCI to replace the old product for future sales. Only modest benefit changes are anticipated with the new product. The emphasis for Connie is repricing the product to take advantage of current information relating to future experience.

- Connie has reviewed EverStay's LTCI experience to date relative to the original pricing assumptions. She has also studied the new intercompany and general population data available from the 2000 and 2002 SOA LTCI reports and the 1999 NLTCS. She is familiar with the 2000 NAIC LTCI Model Regulation and the related guidance manual and practice note, but has not yet filed rates under the new regulations for any other client insurers.

- Connie has established initial assumption revisions as follows:
  - o Both EverStay and SOA intercompany experience provide some evidence claim incidence rates are lower than expected

under the original policy pricing assumptions. Nevertheless, due to the small volume of EverStay claims and the highly select nature of the EverStay and the intercompany experience, Connie has decided to make no significant adjustments to the original ultimate claim costs nor to the selection factors. The percentage of issues to females is graded from 50 percent at issue age 50 to 60 percent at issue age 70.

- o Based upon the intercompany mortality experience, Connie revises the mortality assumption downward to 75 percent of 83 GAM.

- o Ultimate lapse rate assumptions are reduced from four percent to two percent per annum based upon the modest EverStay experience in the 4th and fifth policy years.

- o The interest rate assumption is set at five percent for all policy years.

- o No changes are made to the expense assumptions, except that per-policy values are inflated five years at three percent per annum.

- o Statutory and FIT active life reserve assumptions are revised in accordance with the changes in pricing assumptions. The statutory interest rate is reduced to four percent and the FIT interest rate is reduced to five percent.

- o The new NAIC model valuation law is used to determine the statutory ALR lapse rate assumption. That is, the voluntary lapse rates are set to the lesser of 80 percent of the pricing voluntary lapse rates or eight percent (four percent after five years).

- o Sales distribution assumptions are updated to reflect EverStay's issue profile in the last two years.

- Connie has computed an initial set of new premium rates using the revised set of pricing assumptions and the new profit objectives (i.e., 10 percent aggregate ROI and 5 percent minimum ROI).

- The premium rate increases suggested by the initial re-pricing are quite large. While the new rates are competitive with recently revised rates of some key competitors, there are a number of insurers who have not revised their rates to date.

- The initial gross premiums are well below the renewal statutory net premiums (including a provision for renewal expenses).

- No provision for moderate adverse deviation in experience assumptions has been made.

Issues To Be Resolved (Discussed)

- What approaches might Connie consider in defining a provision for moderately adverse experience?

- Is it feasible to quantify the likelihood of certain experience deviations?

- Is it necessary to quantify the likelihood of certain experience deviations?

- Is "moderately adverse" intended to be an indication of the likelihood of the deviation? If so, what frequency is considered moderate?

- Alternatively, does "moderately adverse" relate only to the propensity of management to seek a rate increase if such a deviation should unfold in the future? If so, how can this propensity be reasonably ascertained by Connie as a consulting actuary?

- How should the provision be documented?

I hope that this article will stimulate discussion of these and other issues, ultimately leading to useful guidance for pricing actuaries and suggestions for appropriate refinements in the regulatory structure. ♿

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LTCI Experience Analysis Using Modified Natural Reserves

by William C. Weller

The 2000 NAIC LTCI Model Regulation establishes a new basis for developing premium rates (see Section 10 of the Model), coordinating rating assumptions with reserve assumptions (see 10.B.(2)(d)) and in the event of a rate increase request, the ability to document differences in actual and assumed experience (see 20.B.(3)(c) of the Model).

This paper notes that typical conservatism in valuation reserves may not provide the best framework to accumulate margins for moderately adverse experience or to analyze experience as it develops. The use of natural reserves, based on best estimate assumptions and separate margin accumulation, may provide a better approach. This approach may also be useful in meeting the requirement to compare gross premiums to net valuation premiums for renewal years.

Problems with Using Valuation Reserves

Valuation reserves are based on a set of assumptions that are to include margins equal to or greater than those in pricing. These margins are created by using an interest rate lower than pricing, assuming lower lapse/mortality rates and/or higher morbidity costs. This set of assumptions will determine a set of valuation net premiums—one for the first year and another for all renewal years if the generally accepted reserve method is used. The reserve is then determined prospectively applying the assumptions and net premiums to future periods. As these future periods become current and then past years, the margins are no longer contained in the calculations. This release will not generally be timed to match the release of the risk of premium increases.

Modified Natural Reserves

"Modified" means that the reserve is zilmerized by allowing the first year gross premium to reflect first year claim costs and margins with the balance going to offset first year expenses (both acquisition and administrative expenses). The gross premium for renewal years is split into four parts:

$$GP = P^{bB} + P^{bM} + P^{bE} + P^{bR}$$

where:

- P^{b} means that the assumptions are "best estimate,"
- P^{bB} is the level premium for benefits excluding the first year,
- P^{bM} is the level premium for margins excluding the first year,
- P^{bE} is the level premium for renewal expenses, and
- P^{bR} is the level premium to cover risk and return of acquisition costs not included in the portion of the first year premium for these costs.

We will assume that the last two do not create a reserve while the first two clearly do.

The reserve created by the first, while calculated on a prospective basis, can also be determined by the formula:

$[(V^{bB})_{t\ 1}$ X $(1+i)]$ X $(p_t + w_t) + [P^{bB}\quad CC_t]$ X $(1+i)^{1/2}$ X $p_t = (V^{bB})_t$ X p_t

The reserve created by the second can be determined by the formula:

$[(V^{bM})_{t\ 1}$ X $(1+i)]$ X $(p_t + w_t) + [P^{bM}\ ]$ X $(1+i)^{1/2}$ X $p_t = (V^{bM})_t$ X p_t

All values are based on best estimate assumptions used in pricing. $(V^{bB})_t$ will increase then decrease to zero as CCt increases. As wt increases towards 1, $(V^{bB})_t$ approaches infinity and becomes inappropriate. It seems to the writer that the relationship of $(V^{bM})_t$ to the highest value of $(V^{bB})_t$ should be applied to all later years, possibly with some small additional conservatism.

Note that the sum of $(V^{bB})_t$ and $(V^{bM})_t$ (with the adjustment for the limitation recommended) can be compared to the valuation reserve used by the appointed actuary which includes implied or specific margins in the reserve assumptions.

The sum of the above reserves, based on best estimates, can be directly compared to a fund development of actual experience on a source of differences basis. The fund would be determined by the formula:

$[(\mathbf{F}^a)_{t\ 1}$ X $(1+\mathbf{i}_t)]$ X $(1 + \mathbf{w}_t) + [GP\quad P^{bE}\quad P^{bR}\quad \mathbf{IC}_t]$ X $(1+\mathbf{i}_t)^{1/2}$ X $\mathbf{p}_t = (\mathbf{F}^a)_t$ X $\mathbf{p}_t$

where $\mathbf{IC}_t$ is incurred claims

Bold values are actual experience. The assumed portions of the gross premium for expenses and risk/return in the original pricing are not adjusted in this formula. It is possible that a company may wish to reflect differences in these values in the "fund" as well as the more normal interest, persistency and benefits.

Experience Analysis

The experience analysis can look at the results for each year or focus on the cumulative results of the following segments of developing experience. While the formulas above are written in policy year terms, it may be best to adjust them to calendar year values. This reduces the time needed for experience periods to close.

Interest – comparing the above formulas using the values which contain the "i" and the "$\mathbf{i}_t$" will show the yearly effect of interest margin or adverse experience:

$[(\mathbf{F}^a)\mathbf{t}\ \ \mathbf{1}$ X $\mathbf{i}_t]$ X $(\mathbf{p}_t + \mathbf{w}_t) + [GP\quad PbE\quad PbR\quad \mathbf{IC}_t]$ X $(\mathbf{i}_t)^{1/2}$ X $\mathbf{p}_t$ less the sum of

$[(V^{bB})_{t-1}$ X $i]$ X $(p_t + w_t) + [P^{bB}\quad CC_t]$ X $(i)^{1/2}$ X p_t and
$[(V^{bM})_{t-1}$ X $i]$ X $(p_t + w_t) + [P^{bB}\ ]$ X $(i)^{1/2}$ X p_t

Persistency – comparing the above formulas for reserves released by terminations will show the yearly effects. Comparing the end-of-year fund and reserves will show the adequacy of the values for the persisting population. If yearly amounts of reserves released are inadequate, it probably means that new assumptions for future, higher persistency should be considered.

$[(\mathbf{Fa})_{\mathbf{t-1}}$ X $(1+\mathbf{i}_t)]$ X w_t less the sum of
$[(V^{bB})_{t-1}$ X $(1+i)]$ X $w_t + [(V^{bM})_{t\ 1}$ X $(1+i)]$ X w_t

Benefits – comparing the above formulas for benefit values:

$\{\mathbf{IC}_t$ X $(1+\mathbf{i}_t)^{1/2}\}$less than $\{CC_t$ X $(1+i)^{1/2}\}$

The analysis of these component results can be used to address any deficiencies in the operations at the earliest time. Addressing them early should allow future margins to be maintained without the need for rate increases.

Adequacy of Margins – Since actual results will not equal best estimate assumptions in each year even if the cumulative results are consistent, it is also good to analyze the cumulative differences using the three formulas above with the cumulative margin reserve $(V^{bM})_t$. In addition, the impact of a continuation of past experience into the future on the developing values of reserve components and fund components would seem to be an appropriate way to prepare for the potential filing of a rate increase request.

Excess Margins – It is likely under the new pricing approach required by the 2000 NAIC Model, that some policy forms will have continuing favorable experience—i.e. better than best estimate. Should

continued on page 11

It was in response to concerns that as society is changing, financial security systems and programs do not always respond rapidly to them.

Third Annual Intercompany LTCI Conference held in Las Vegas

The Third Annual Intercompany LTCI Conference was held at the Las Vegas Hilton from January 26-29, 2003. From all accounts, the conference was once again an overwhelming success, with attendance up 40 percent and the 47 breakout sessions receiving rave reviews.

The conference began with a super bowl party. Although we had arranged for over 100 additional attendees (above the 250 who preregistered), tickets for the party quickly sold out. Even those who were rooting for Oakland appeared to have a great time.

Then on Monday, the first day of the conference, each attendee had the chance to choose three breakout sessions (from the eighteen offered). Lunch featured keynote speaker Ellen Eichelbaum, who delivered a very entertaining speech on the art of communication. Finally, the exhibit hall opening reception provided three hours of networking among 50 exhibitors.

Tuesday featured the opportunity to pick three more breakout sessions to attend interspersed between six more hours of networking opportunities in the exhibit hall during breakfast, lunch and the closing reception. On Wednesday, attendees had the opportunity to choose their final two breakout sessions.

Unlike many conferences, nearly half the attendees made it all way through both morning sessions and had the opportunity to win one of the 26 exciting prizes offered during the networking prize luncheon.

The chairperson of each educational track has provided a brief description of the highlights of their breakout sessions below.

ACTUARIAL TRACK: by Amy Pahl

The actuarial track sessions included a spectrum of topics ranging from how actuaries might better communicate with colleagues in underwriting and claims, to timely valuation practices for limited pay policies and rate increases. However, a common theme across sessions was a focus on ways to improve sound actuarial practices based on advancing industry insight and experience. Meaty session content and plentiful networking opportunity once again made the conference an event not to miss.

CLAIMS TRACK: by Noreen Guanci

The claims track sessions spanned topics ranging from the introductory "Claims 101" to "Top Ten Claims Diagnosis" which presented an in-depth study of medical diagnosis that claims departments currently see. The group subtrack session was devoted to "Wellness, Rehabilitation and Returning to Work" with a focus on the group product and the unique challenges and opportunities it presents. "Aging and Disability" summarized recent issues with morbidity and disability. "Regulatory, Actuarial and Claims Management Dynamics" was an open forum dedicated to the discussion of policy constraints relating to claims operation issues. "Care Delivery Options" provided an overview of the wide range of community and facility care delivery options and locations and regulatory challenges associated with these. "Fraud in LTCI" reviewed current trends with fraud case studies and options for investigation. "HIPAA Issues" presented an overview of Administrative

Simplification, Privacy of Health Information and Data Security.

COMPLIANCE TRACK: by Kathy Hamby

Using a variety of presentation styles, the compliance track provided practical approaches to the processes that long term care insurance laws and regulations dictate. The track called on professionals from compliance, law, sales, actuarial, and marketing to share their expertise, either as a regulator or an industry representative. Weaving the thread of compliance through the fabric of long term care insurance, these professionals gave relevant information on topics as varied as advertising review, suitable sales and market conduct examinations. The track also took a look at new marketing approaches, as well as how law and regulations develop and the need for both industry and regulators to be proactive. Finally, compliance 101 addressed the basics for those new to long term care insurance.

MANAGEMENT TRACK: by Peter Goldstein

The goal of the management track was to introduce attendees to a variety of topics involving management of the LTC business. Several sessions focused on building and managing this business including mergers and acquisitions, growing profitably and a management 101 basics course. The presenters were all industry leaders and senior executives of long term care companies. The management track also examined consumer protection and how it has evolved with the product. International long-term care and the federal program were also discussed in detail. Lastly, a unique "talk show" format took a look at "What Went Wrong!" Executives from three companies discussed in rare candor strategies that failed, and why.

MARKETING TRACK: by Claude Thau

The Marketing Track hosted 11 sessions covering a wide array of topics. The speakers, who covered a broad spectrum of viewpoints, included experts from insurers, field marketing, consultants, TPAs, service providers and regulators. Pre-conference preparations, such as conducting an agent survey and collecting LTCI materials that encourage generational discussions about LTC, enhanced several of the sessions. Each presentation is available on the SOA Web site and should prove interesting to both those from within and outside of the Marketing Track.

UNDERWRITING TRACK: by Maureen Lillis

The underwriting track provided up-to-date information on risk management practices that can be applied to daily processing. Yet, the underwriter remains challenged to protect the risk pool as the result of recent changes in product design, advances in medical research and the expansion to multiple rating classes. This is further complicated by the need to provide the agent with the necessary tools to complete appropriate field underwriting. The sessions were designed to provide both education and interaction from participants. The quality of the speakers included industry experts knowledgeable on topics such as product administration, marketing strategies, psychiatric impact, group processing and the prevalence of cognitive conditions in the management of long-term care.

LTCI Experience Analysis Using Modified Natural Resources • from page 9

the Fund retain these excess margins? Should they be allowed to be reported as profit (over and above the profit portion of PbR)? Should a portion (or all) be retained to offset the need for rate increases on other policy forms? If so, for how long?

Release of Expected Margins or Retained Excess Margins – As noted in the first analysis of (VbM)t it is suggested that this reserve be capped as a percentage of $(V^{bB})_t$. When the reserve is so capped, the same questions about excess margins must be addressed. In addition, since the capping suggests that the future risk is limited, should there be a termination dividend?

This paper suggests a method to analyze developing experience of LTCI policy forms. The approach seems consistent with the desire to establish margins for moderately adverse experience and to relate original assumptions with actual experience when requesting a rate increase. It also notes a number of areas where additional questions are raised. The answers are most likely to be different depending upon the assumptions with regards to the sources and use of margins in the pricing work of the actuary (see the Academy of Actuaries draft practice note Section III.1.).

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Chairperson's Corner

by Michael Abroe

Because this is my first Chairperson's Corner article, I feel compelled to write about the state of the long term care insurance industry (LTCI) and what role the reader of this article can play in shaping its future. I believe we have a vibrant, exciting, growing industry. However, like other insurance lines, there are issues to deal with.

For years LTCI has been considered an Industry in its infancy. LTCI is beyond that characterization. While not a mature Industry, LTCI has at a minimum reached adolescence. The Industry has learned several lesions from its growth from infancy to adolescence. First, lapse rates have decreased, to levels lower than anyone envisioned a few years ago. Second, insurers better understand the implications of underwriting, especially the effects of cognitive screening.

Like any parent with an adolescent child, an Insurer is concerned about adolescent behavior and what the future will bring. Mostly there are questions still to be answered. Will there be morbidity and mortality improvements? Will there be drugs to eliminate or reduce the effects of Alzheimer's? Will these drugs also result in increased costs of chronic care? Will trained caregivers and appropriate institutional settings be available to claimants.

Will private long term care insurance "grow up" to be an essential product providing benefits to all members of Society? Will there continue to be changes in the insurance product? Will new and better insuring vehicles be developed? The NAIC has promulgated a new rate stabilization Model Law to address rate increases. Will current pricing structures morph into some form of non-can? Will non-forfeiture benefits become more popular due to low lapse rates?

How much capital and surplus will be needed to support LTCI? This last question is a key to the future likelihood of many companies remaining in the industry. Current Risk Based Capital requirements are under review by the Academy of Actuaries. Recommendations to the NAIC are forthcoming. The NAIC has formed a working group to investigate changes in the Model Law for minimum reserve requirements. How should the Model Law reflect actual lapses, mortality, and morbidity? Should there be a feedback loop to compare emerging experience against reserving assumptions? Should reserve formulas be modified to reflect differences between actual and assumed? Should there be an unlocking mechanism? The NAIC is looking to the SOA and AAA to provide guidance.

What help should the parent give? What can the parent do to point the child in the right direction? The answer is easy. Become more active—volunteer. The Long Term Section has been a proactive Section. We are looking for volunteers to run for the Section Council. The Section Council has established research as a top priority. We are looking for volunteers to participate in research and education committees. Likewise, the Academy of Actuaries needs volunteers. If you want your voice heard, volunteer. ♿

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