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2003 Intercompany LTCI Conference –
Actuarial Track Highlights

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

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

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

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

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

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

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

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

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