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Bien Venue à Montréal!

by Phyllis A. Doran

The 1987 Annual Meeting held in Montréal marked the end of my year as Chairperson of the Program Committee. The meeting was a satisfactory conclusion after a year spent working on program content and the quality of speakers and their presentations.

One of the highlights of the meeting was Michael Cowell's session on AIDS. The panel included Dr. Robert Redfield who discussed the epidemiological projections and their effect on mortality and morbidity trends.

Another well attended session was a Teaching Session on "Getting to Yes." The Associate Director of the Harvard Negotiation Project at Harvard Law School walked registrants through the negotiation process. The session included discussion of measuring success in negotiation and choosing a negotiating style.

The 1988 Program Committee has studied the evaluations from these two sessions and others at that meeting in planning for the 1988 Annual Meeting in Boston.

Exhibits from reinsurance, consulting, and computer software firms again added to the educational opportunities available at the meeting in Montréal. A catalog of exhibitors with a short description of their products or services is available from the Society for a $6 prepayment fee. Send your order to: SOA, Attn. Librarian, P.O. Box 95668, Chicago, IL 60694.

Thank you to all meeting participants during the 1987 program year. Your willingness to share knowledge with fellow members of the profession is appreciated. I hope you will continue the experience in future program years.

Phyllis A. Doran is a Consulting Actuary with Milliman & Robertson, Inc. She is a member of the Board of Governors and served as the 1987 Program Committee Chairperson.

Correction Notice

Joseph J. Buff's employment information was incorrect in the December 1987 *Actuary* ("Asset/Liability Management"). He is a Consulting Actuary at Tillinghast/Towers Perrin. We sincerely regret this error.

Montreal Speakers See Expanding Role for Long-Term Care Insurance

by Dale C. Griffin

The 1987 annual meeting in Montreal included a Panel Discussion on "The Future of Long-Term Care" (LTC), sponsored by the Futurism Section. Panelists agreed that the future will bring expansion of private insurance in the LTC field. The panelists did not expect an expanded government role in financing LTC. They expected that the forecasted increase in services needed as the baby boomers age would be financed increasingly by private insurance, both group and individual. One panelist, Stanley Wallack, stated that he thought the market for LTC insurance will encourage development of dramatically new kinds of products which combine insurance and managed care.

Mr. Hal Barney, F.S.A., of Johnson and Higgins, Inc., led off the session. He helped develop the section generation of LTC products of the American Association of Retired Persons while at Prudential, and is now consulting on LTC financing. He started with demographic projections of the U.S. age distribution through the year 2035. These forecasts are critical to the future of LTC for two reasons. First is the tremendous growth which will occur in the "old old" population as the baby boomers (born in 1945-1965) age. Second, the age distribution "squares off" by 2035, leaving fewer young people to support the older people, which will make government financing of LTC politically difficult, which in turn will encourage financing through private insurance.

Mr. Barney cited the large variation by individual in the amount spent on nursing home stays as a strong reason for using insurance, especially for catastrophic costs. He said that he therefore expects to see lengthening of benefit periods. Given the elderly's growing awareness of their lack of LTC coverage, and their increasing affluence, he predicted an increasing market for LTC insurance. Employers will play a key role in this expansion of LTC insurance, even without actually financing the cost. A large percentage of employees report problems caring for elderly relatives, which he predicted will lead to steps by employers to sponsor and encourage LTC programs, including insurance. He emphasized the actuary's role in shaping the future of LTC insurance by designing sound, stable products which will reduce pressure for tighter regulation or more government involvement.

Stanley Wallack, Ph.D., with Life-Plans, Inc. and Brandeis University, an economist with a background in government and in private market managed care approaches to LTC, was the second speaker. He challenged actuaries and the insurance industry to develop products which will meet the evolving desires of the market rather than "privatizing Medicaid." He considered current products inadequate and spelled out market forces which he believed would lead to new kinds of products. His work in surveying the characteristics and desires of the elderly has led him to the conclusion that they want three separate things from LTC insurance. The emphasis on these different desires changes as the elderly grow older. "Younger" elderly are most concerned with protection of income and estates against a catastrophic nursing home stay. At all ages the elderly are concerned about staying at home rather than moving to an institution. The "old old" become increasingly concerned with access to a quality nursing home if they need one. The typical current LTC policy, which he characterized as having a 2-year nursing home benefit period, home health care only after a nursing home stay, and no assistance with access to a quality nursing home, falls short on all three preferences of the elderly. The short benefit period does not cover the financial risk. Home health services are probably not available, since a nursing home stay will probably not occur, and the policy does not help with access to a good nursing home.

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LTC Insurance Cont'd.

Dr. Wallack's view of the kind of product that the increasingly aware and affluent elderly buyer will want is a product which is comprehensive and linked to a local delivery system. He stated a challenge for actuaries to incorporate insurance and managed care into the same product. For example, the insurer could start paying a disability benefit when a well defined, objective "disability" occurs, but pay the money to a provider, which manages the care. Some examples of arrangements which accomplish the integration of managed care and access to a nursing home are the social HMO (SHMO), an HMO offering a LTC product, life care at home (LCAH), and continuing care retirement communities (CCRCs). In the case of the SHMO, the Medicare program functions as the insurer. LCAH is a new concept developed to meet the specific needs of financial protection, home residence; and access. CCRCs are the fastest growing component of LTC, and appeal most to the 75-80 year olds, who are most concerned about access. Because of the changing preferences by age he predicted the market will seek products which allow movement over time from managed care with home residence to CCRCs.

The final speaker was Mr. Dennis DeWitt, Executive Director of the Health and Human Services Task Force on LTC Policies. The Task Force was created by Congress for the purpose of developing policy recommendations for encouraging the private insurance of LTC. Its report was released on September 21, 1987, and includes recommendations on education of the public, regulation, employment-based LTC insurance, tax policies, and use of retirement funds to buy LTC coverage. Mr. DeWitt argued that restraint on taxation and spending will continue even after President Reagan leaves office because Congress will be a largely conservative body, concerned with deficits. He pointed to the growing affluence of the elderly as a reason why federal programs will not be set up to cover LTC expenses. He referred to Brookings Institute studies of the number of elderly who can afford LTC policies (26-45% depending on assumptions) and argued that while the government will be concerned about LTC, it will encourage private approaches rather than step in with a social insurance program. Seven of the key Task Force recommendations follow. If they are accepted and implemented, they could have a large impact on the future of LTC:

1. Inform consumers that Medicare, Medigap, and acute health care insurance do not cover LTC.
2. Encourage states to adopt the National Association of Insurance Commissioners' LTC insurance model set.
3. Promote the availability of LTC insurance through employment.
4. Develop LTC insurance financing through vested pension funds.
5. Use federal and state tax codes to encourage the purchase of LTC.
6. Encourage new approaches to determine eligibility for LTC insurance benefits.
7. Encourage greater cooperation in the collection and sharing of LTC data.

Before the panelists were recruited, several actuaries from the Futurism Section wrote scenarios of the future of LTC in the year 2010. Two of the scenarios mirrored the panelists' views of an increased role for private insurance of LTC. One scenario envisioned the problems of the aged worsening without government or private solutions developing. It is a sobering contrast, and one which reminds us that scenarios and views on the future can clarify our choices about the future. All of the panelists challenged us as actuaries to take an active role in shaping the future of long-term care.

Dale C. Griffin is a Consulting Actuary with Ann Arbor Actuaries, Inc. in Ann Arbor, Michigan. He was the moderator for Panel Discussion 14 entitled "The Future of Long-Term Care," at the 1987 annual meeting.

Book Review

Hans U. Gerber, *Lebensversicherungsmathematik, pp. 120, published for the Vereinigung Schweizerischer Versicherungsmathematiker by Springer-Verlag, 1986.*

Summary of Review by Cecil J. Nesbitt

This well-written and attractively published book has been influenced by computer developments and by the younger generation's knowledge of probability theory. These factors have led to a probabilistic approach to actuarial models and formulas and to the relegation of commutation functions to a brief Appendix. In 120 pages, the book covers many of the main concepts presented in the Society's textbook, *Actuarial Mathematics*, and in addition, devotes a chapter to interest theory and to the estimation of basic probabilities. The book is directed to younger readers who take pleasure in applied mathematics and who wish an introduction to life insurance mathematics. A well-organized and elegant introduction awaits their reading.

The text is written in German, but with its many formulas in the international language of mathematics, and with some dictionary assistance, it is not difficult to follow. To actuarial students with lively curiosity it can be both a supplement and an aid to *Actuarial Mathematics*; to practitioners, it can be a useful reference for following up some points they may come up against in applying actuarial mathematics; to educators it can provide a modern introduction to basic actuarial mathematics.

The text appears remarkably error-free. The reviewer has noted only two, a transposition of signs in formula (7.15) of Chapter 1 and a misplaced index in the formula in Section 5.3.4:

$$P_{x:\overset{1}{\overline{n}|}}\ \ddot{a}_{x+n}$$

There is no discussion of actuarial accumulated values, or of retrospective formulas for reserves. Under present circumstances, these may be of less importance.

There are a number of enlightening interpretations of formulas, and from time to time numerical examples to illustrate the mathematical theory. There are no exercises, so this is not a textbook in the more usual format. But teachers and students will find the book to be an excellent stimulus for their own understanding of life insurance mathematics. Both pleasure and information await the interested reader.

Cecil J. Nesbitt is Professor Emeritus in the Department of Mathematics at the University of Michigan. He is a co-author of the new *Actuarial Mathematics* textbook.

(Ed. note: The complete version of this review will be published in the TSA.*)*