



**SOCIETY OF
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**SMALLER
INSURANCE
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Small Talk

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To join the section, SOA members and non-members can locate a membership form on the Smaller Insurance Company Section webpage at <https://www.soa.org/sections/small-insurance/>.

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Letter From the Editor

By Jonathan Pollio

When I became a small company chief actuary many years ago, I found it daunting. I felt I had to be an expert on everything as well as an important executive within the company. It was quite a challenge. Through the years, I learned to love the challenge. What I did not realize at that time is that I was not alone. There are many ways the Society of Actuaries (SOA) can help.

Another challenge of being chief actuary is coming up with new product ideas. Marketing appreciates it. So, in this issue of *Small Talk* we go over an interesting product and SOA resources.

The Staff Corner is by the Smaller Insurance Company Section staff liaison, David Schraub. Until I was elected to the SmallCo Section Council, I had never met or talked to David. Now, I wonder how I ever did without him. He has been so helpful to me in so many different aspects of the SOA. He has directed me to various resources on the website as well as being valuable in getting this newsletter out to our members. In this issue he writes on how to get rid of those pesky e-mails from the SOA. He also addresses how to get all of the useful e-mails the SOA sends out that you miss because of all those pesky ones. I found it useful and interesting.

The feature article, written by my friends Jennifer Howard and Stacy Koron at Milliman, is about voluntary products and the opportunities they represent for small companies. With so many businesses cutting back on health care coverage, supplementary products allow companies to offer some extra benefits. The supplementary products also provide protection from hazards the company may have never thought about. As an aside, supplementary products were something that piqued my interest in being a small company actuary. The company I worked for had a small block of these products. I did everything on those products: pricing, reserving and product development. It was a way to get the small company experience without the small company. As for many large companies, like that one, the products were



too small and labor intensive for the company. For the smaller company, they can be a nice profit center. The products are also great for the policyholder.

We conclude with the SmallCo Resource Corner. This one is about the table manager. It is amazing how many tables are out there for all of the various products. The table manager has helped me in acquisitions and new products as well as doing plain assumption testing for cash flow testing or GAAP reserves. I hope you will enjoy this issue as much as I did putting it together. The SOA resources as well as innovative products will help all of us do better in our jobs. ■



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Staff Corner

By David Schraub

To continue the transparency effort, this Staff Corner is about how the Society of Actuaries (SOA) schedules email blasts and how members can set up their email preferences to ensure they get the emails they need.

An email targeted to you is welcomed information. An email not targeted to you is more often not welcomed. This dichotomy is important for both the sender—the SOA—and the receiver—you—as both parties have a role to play to improve the signal-to-noise ratio.

ON THE SENDER SIDE

Let's understand how the SOA uses email to raise awareness and engage our members and friends. Keep in mind that the SOA operates in a legal environment with requirements like General Data Protection Regulation in Europe and Canadian spam law. In addition to what's legal, the SOA strives to do what's effective, and we are always refining our practices. Essentially, we hope to give our members and stakeholders the information they want at the right time.

An email targeted to you is welcomed information. An email not targeted to you is more often not welcomed.

How do we do this? For each blast email, we prepare an email pull from our database using selected criteria. Usually, the criteria include the following:

- section membership,
- primary area of practice,
- credential,
- years since designation,
- geographic area and
- past event registration.

This allows us to ensure only the relevant target audiences receive a specific email.

We are working on adapting our process further and would like to offer additional choices based on more specific preferences of frequency and interest areas.

ON THE RECEIVER SIDE

We hear frustration from members when important emails are not received or too many emails are received. The most common causes for missed email are (1) incomplete email preference choices and (2) company filter or individual automated rules moving the email to the receiver's junk folder. (Please check your spam settings.)

Yes, personal settings are key to filtering out noise and receiving the relevant emails from the SOA. Let's investigate email preferences further, then discuss how to set up your profile.

Email Preferences

After you log into your account at [SOA.org](https://www.soa.org), you can click on the link for email preferences to access the Manage Email Preferences page (Figure 1, next page).

This new page (Figure 2, next page) gives you several options for choosing which emails you want to receive.

General Toggle Button

We first have a general toggle button with the following options:

- I agree to receive SOA emails [...]
- Please unsubscribe me from all SOA email lists [...]

Within the first choice, you will receive emails based on the information in your profile, such as your primary area of practice, your geographic location and so on. If you would like to receive only specific information within certain areas of interest, such as data-driven tools or business management, you can further select those topics from the list.

Section Emails

Section members have a dedicated toggle button with the following options:

- I agree to receive email from the section of which I am a member [...]
- Please unsubscribe me from all SOA section emails [...]

Figure 1
Accessing Email Preferences

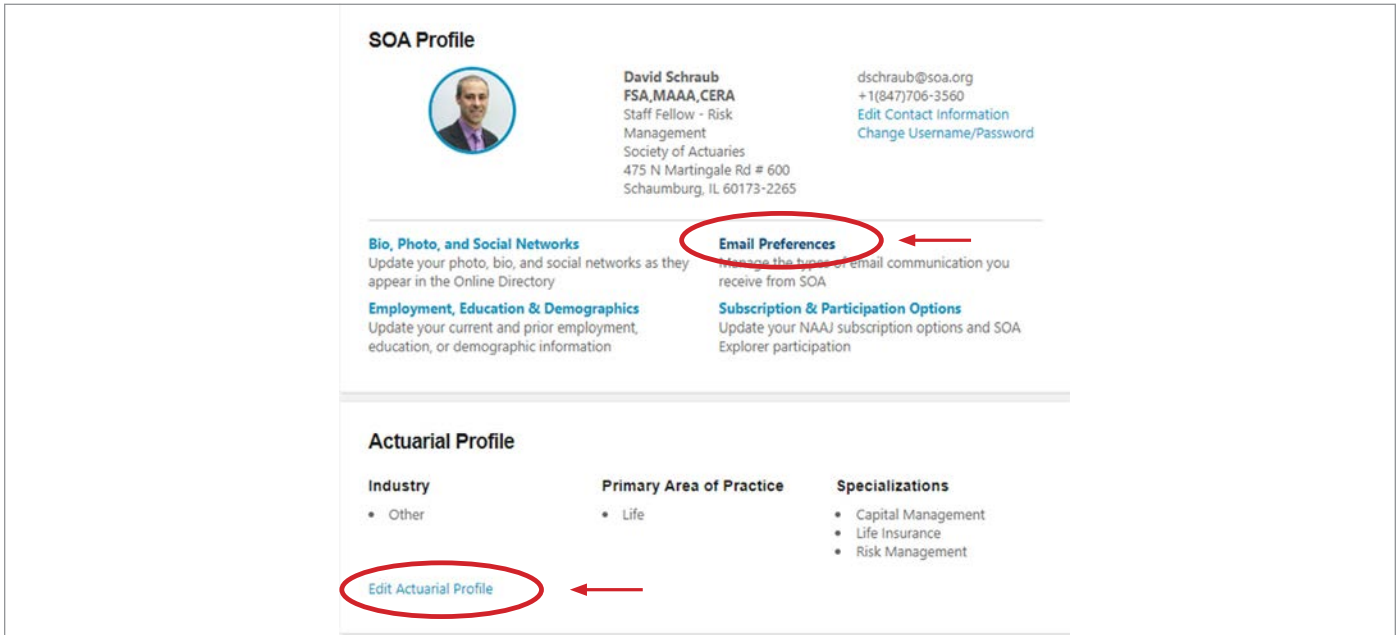
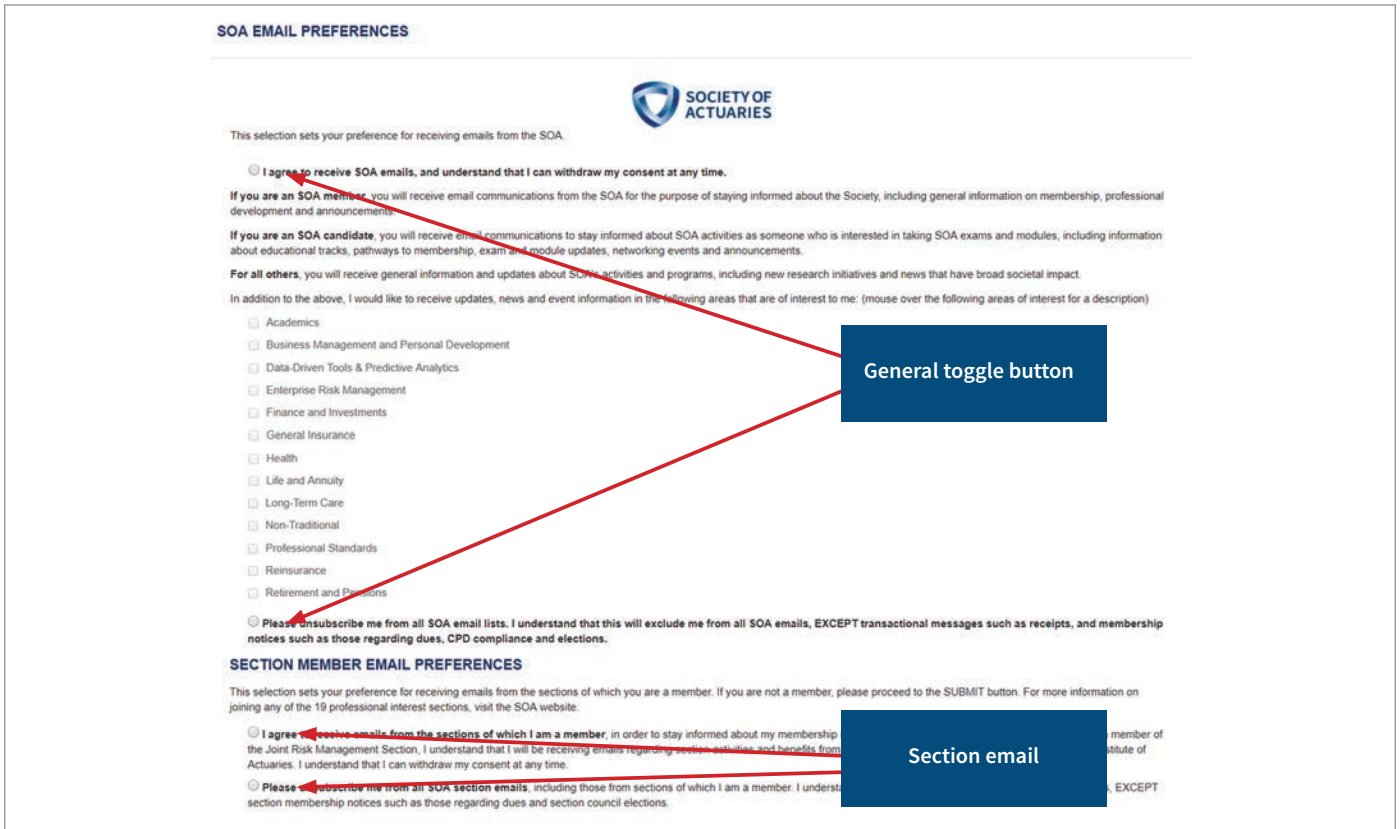


Figure 2
How to Manage Email Preferences





If you unsubscribe from the section emails, you will still receive emails that pertain to your membership in the section.

Actuarial Profile

Another way the SOA customizes the email you receive is based on your actuarial profile. To access your options, click on the link Edit Actuarial Profile at the bottom of the profile page (see Figure 1). You can update your primary area of practice, industry, any specialization and other information. As part of your actuarial profiles, your section membership and actuarial credential are listed but can't be changed there.

FREQUENTLY ASKED QUESTIONS

With that foundation set, let's conclude with some frequently asked questions.

What Should I Select If...

I am an SOA member and I receive irrelevant SOA emails.

The email communication is tailored to you based on your SOA profile. Please check if the area of practice listed on your profile is most aligned with your current situation. On the email preference page shown in Figure 2, you can check the areas about which you wish to receive updates.

I am coordinating my firm's involvement with the SOA and I want to be in the loop; I participate in research and I want to be aware of any requests for proposals (RFP) in my field.

The best way for potential sponsors, presenters or other stakeholders to ensure they are receiving all pertinent information is to go to the SOA website and create an account. For more targeted email, please fill out your email preferences.

Alternatively, you can sign up for the relevant section and ensure this section toggle is correctly set. This is one of the main benefits of being a section member.

A third option is to sign up for a [listserv](#) relevant to you.

WHAT'S NEXT

The SOA is investigating ways to reduce the volume of email and further tailor communication to each member. We are exploring various ways to produce customized newsletters and emails to better serve members' individual needs. Stay tuned! ■



David Schraub, FSA, CERA, AQ, MAAA, is a staff actuary for the SOA. He can be contacted at dschraub@soa.org.

Supplemental Health Industry for Small Companies: Challenges and Opportunities

By Jennifer Howard and Stacy Koron

Supplemental health products have experienced consistent market growth over the years, most noticeably since the implementation of the Patient Protection and Affordable Care Act (ACA). This growth has been particularly strong for hospital indemnity, critical illness and accident products, and there has been a significant increase in the number of companies selling these products. Small companies in this market need to understand the unique challenges these products present in order to compete effectively.

RATE CHALLENGES

In developing premium rates for supplemental health products, understanding the market landscape is an important component, as is understanding the assumptions that are required in order to develop the premium rates. In fact, these items are interrelated. The assumptions to take into consideration include morbidity, underwriting selection, persistency and interest, and these assumptions often vary by market segment. Statutory requirements, which may vary by product, should also be considered.

Three areas that frequently create rate challenges for insurers in supplemental health markets are states with (1) high minimum loss ratio requirements, (2) ongoing monitoring requirements and (3) the need for rate flexibility. With regard to loss ratios, a 50 percent to 55 percent minimum loss ratio is generally acceptable and most companies price their products within this range. However, a number of states have adopted higher minimum loss ratio requirements. These requirements not only vary by state but, depending on the state, may vary by product as well. Washington state, for example, may require a loss ratio as high as 80 percent on group coverage, New Jersey requires a 75 percent minimum for certain group critical illness coverage and several states require 65 percent for some or all of these products. In these states, insurers have to determine the impacts

Small companies in the supplemental health market need to understand the unique challenges these products present in order to compete effectively.

to profitability, expenses and commissions in order to lower premium rates and justify these higher loss ratios.

Concerned that companies are not attaining these loss ratios, a growing number of states also require that insurers report and monitor their supplemental health experience and make adjustments to rates or benefits when the required loss ratio is not being met. Some states, like North Carolina and Florida, have specific regulations requiring annual rate certifications. Other states, like Colorado and Kentucky, have been implementing these requirements informally when a new product filing is submitted to the state. In either case, this ongoing monitoring and reporting can be a significant challenge for companies that do not have procedures in place to ensure that this work is handled on a routine basis.

Finally, competitive pressure is pushing insurers to be more flexible in rating than in the past. This is particularly important in the group market where takeovers make up a significant percentage of an insurer's new business. Filed rates need to be designed to account for a particular group's experience and risk, and insurers need skilled group underwriters who understand how to appropriately rate each group. In addition, carriers need to be flexible in rate structure, especially in takeover situations. Most companies have developed issue age and attained age rates for group critical illness plans. Group accident and hospital indemnity plans generally require composite rating. Unlike the group market, rate flexibility is limited in the individual market due to the filing requirements associated with filing on an individual chassis. Although flexibility may not be as important on an individual product, companies can generally have some flexibility in commissions and other expenses so long as premiums and loss ratios are not adversely impacted.

VOLATILE REGULATORY ENVIRONMENT

Since enactment of the ACA, states have been concerned with stabilizing their medical insurance markets. This concern has led to increased scrutiny and regulation of supplemental health insurance products in states that worry these products will be marketed as substitutes for medical insurance or that consumers will be confused about their coverage. It can be a struggle for insurers to keep up with these regulations and, when needed,



respond to changes in law by revising existing products or procedures. In the past year, for example, Idaho has issued guidance that, among other things, limits hospital indemnity coverage to confinement benefits only; they recommend that “carriers review against this guidance both existing policies and any policies that will be filed with the Department.” Other states have taken action to limit the benefits in supplemental health products, sometimes by law, regulation or other published guidance, sometimes through an unpublished department position based on a new interpretation of state law.

In addition to the challenges state law provides, insurers need to understand federal law and regulation to ensure that supplemental health products continue to qualify as excepted benefits and, if sold to consumers who have health savings accounts (HSAs), are HSA compatible. There has been less regulatory action in this area, but insurers continue to struggle to ensure that their interpretations of the federal guidance are correct and consistent with competitors and evolving types of care. For example, currently, there is some discussion about HSA compatibility of observation unit stays. Such stays can last several days, even without admissions, and regulations and guidance from the U.S. Department of the Treasury are unclear about whether or not they could be HSA-compatible benefits.

Dealing with this regulatory volatility can be a particular challenge for small companies, which may not have enough staff to dedicate someone to monitoring these changes and revising forms, rates and marketing materials in response. Trade associations and other third parties frequently provide materials related to regulatory changes.

PRODUCT FLEXIBILITY

One way that insurers can deal with regulatory volatility is by having significant flexibility in their product designs. This flexibility is also helpful to keep up with an increasingly competitive market, with new benefits and plan features that are constantly evolving. For individual products, it may mean offering certain benefits as riders, so they can be more easily amended or removed from the product if regulatory changes are needed. For group products, it generally means significant variability embedded in the contract and, as noted, in the rates.

The fact that all of this variability is allowed, and filed in the contracts, does not mean that it should always be offered. Allowing individual insureds or even group policyholders to elect each specific benefit or feature of a plan may introduce additional anti-selection. Further, administering significant variability can be difficult and result in errors if plans have to be manually created. Most companies in the supplemental benefit market have a limited number of standard plan designs, but allow broader variability to gain access to specific markets or for takeover situations where they need to match an existing plan. Often, the amount of flexibility offered will depend on the size and opportunity of the case in the group market.

DISTRIBUTION

Consumers generally understand the need for life insurance, health insurance and disability income insurance; however, they typically do not understand the need for critical illness, accident or hospital indemnity insurance. As a result, insurers in the supplemental health market must have distribution partners that understand the value of these products and are motivated to communicate this value to consumers. For those carriers that utilize an agent distribution system, producers may have a particular area of focus, and do not have the expertise

to understand these supplemental health products. Additionally, producers may not want to make the effort to prioritize or learn about these new products. This has been a particular challenge for smaller carriers entering the supplemental health market, as these carriers often have a distribution channel that is resistant to change. Such carriers may need to seek out alternative marketing opportunities, such as contracting with broker groups that have the knowledge and understanding of supplemental markets.

COMPETITIVE ADVANTAGE

With an increase in the number of carriers competing in the supplemental health space, smaller companies are also challenged to find ways to stand out. Often, smaller companies lack the name recognition that companies with larger market share have. Faced with this challenge, smaller carriers are working to provide better customer service and education to consumers. This includes a focus on premium payment methods and claims processing.

In addition, small carriers entering this market can leverage their reputation with core products. For example, a carrier that specializes in disability insurance may cross-sell a suite of supplemental health products with a current disability insurance offering, as these supplemental health products can assist with additional costs that disability insurance or major medical insurance does not cover. A small carrier with a solid presence in a niche market has the ability to develop products designed for that market. Such a market focus can lead to some innovative product designs or marketing approaches.

However, companies do not need to be innovative to be successful. Many small carriers struggle with limited staff and

resources, which make it impossible to make rapid product changes and innovations. These companies have found success by letting larger carriers test the market. By taking a “sit back and watch” approach as the larger carriers either succeed or fail, smaller companies can consider the lessons learned and structure their product development approaches accordingly.

CONCLUSION

All companies in the supplemental health market face unique challenges, but small companies have many challenges that larger carriers may not face. To overcome these challenges, those working with small companies need to be creative, as a one-size-fits-all approach often will not work. The strategic plan and product offerings must be developed based on the company’s background and focus, which in itself could introduce unique opportunities. With the increased demand for supplemental health products, carriers are continuing to develop new and innovative products, and small companies are large contributors in this exciting time! ■



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SmallCo Resource Corner

By Jonathan Pollio

Your colleagues in the marketing department have just come up with a great product that they know will be the next big thing. Now the pressure is on. You have all the numbers, but you cannot figure out which tables to use to value this next great product. Maybe it looks like guaranteed issue (GI) but it has a method of selection such as “actively at work” or it is being marketed to this very active, healthy group. Conversely, maybe it is from a website for clumsy people who are looking for accelerated death benefit (ADB) coverage. Which mortality table should you use to price this “next great product”?

One resource at your disposal is the collection of tables in the table manager on the Society of Actuaries (SOA) website. The table manager has dozens of options for consideration. Each table can be downloaded in various formats, including Excel, and includes a brief explanation of the table to help you make the best selection.

For our example, you might want to use the population mortality tables or the 2017 guaranteed issue table. You could also look at both and compare. Maybe you decide to use one of the Commissioners’ Standard Ordinary (CSO) tables. With the table manager you can find the 1980, 2001 or 2017 CSO tables, loaded or unloaded, smoker or nonsmoker or by gender.

Now let’s say your friends in marketing have told you they want to sell this next great product in a foreign country. The table manager can give you a population table of a specific country for you to compare with U.S. population tables. Realize, however, that the table manager will not have all countries or situations you may want to consider. For example, some of the African countries are missing.

Each table in the table manager can be downloaded in various formats, including Excel, and includes a brief explanation of the table.



Because you have many mortality choices in the table manager, you can also use a hybrid of tables. Maybe the underwriting looks better than you think and you can use select factors.

The table manager also can be divided into group and individual tables in case the opportunity is using group underwriting. Usually marketing will tell you both and it is important to understand the differences in the product.

All of these possibilities are available to you through the table manager.

I have also used the table manager when valuing a company or a block of business. Companies sometimes use tables I typically don’t use. The table manager allows me to compare tables in case the acquiring company’s actuary would use a percentage of 2001CSO and I was thinking a different percentage of 2017CSO. It gives me the opportunity to get an approximation of how much the results should differ. Before I began using the GI table, I often used a percentage of a CSO table for GI business. Using the table manager, I was able to see how approximations matched what the GI experience study had shown. It has also helped me to compare the mortality or morbidity of the company to differing tables to try to get the right experience in my company valuation.

The table manager has helped me outside of mortality as well. I remember looking at a company with a large amount of disability business. I remembered the table manager includes some disability tables and I did some comparisons. Interestingly, the stat and pricing assumptions were very different on this block. I was able to compare the two tables and see how redundant the

reserves were. In addition, the disability termination and disability recovery tables I found in the table manager have helped me value the disabled life reserves. The table manager also has some claim costs for any medical experience should you need those tables.

So, how can you get to this valuable resource? Go to [SOA.org](https://www.soa.org), click “Tools and Resources,” and select Mortality and Other Rate Tables from the dropdown menu.

The table manager has been a great resource for me. I hope you will find it to be a great resource for you in the future. ■



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ReFocus Conference

March 1–4 | Las Vegas, NV

Life & Annuity Symposium

May 4–5 | Saint Louis, MO

Health Meeting

June 8–10 | Chicago, IL

Valuation Actuary Symposium

Aug. 31–Sept. 1 | New Orleans, LA

Annual Meeting & Exhibit

Oct. 25–28 | Seattle, WA



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