



Long-Term Care News

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Long-Term Care Insurance: What are the Opportunities?

By Catherine Ho

The standalone long-term care (LTC) market has had a rough couple of years. Sales were severely impacted by the 2009 recession. While other insurance products have rebounded with the improving economy, LTC sales have remained flat. Industry instability, mainly due to issues of profitability, has caused carriers to exit this market. Of LIMRA's Individual Long-Term Care Insurance Sales Survey, 15 participating carriers have left the market since 2008.

Sales growth trends going back further show that individual LTC sales had been on a steady decline since 2003. While the shrinking number of carriers

contributed to declining sales, other factors such as invariable rate increases, unfavorable economic conditions, and the end of richer benefit products also played starring roles. Over the past decade, sales for the first half of the year have been good predictors of total sales for the year. Sales for the first half of the year show a steep decline. Even ignoring past experiences, it is hard to foresee a massive increase for the second half of the year to offset the negative twenty percent sales growth thus far. So the question is *will LTC survive?*

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Passing the Torch

By Jeremy Williams and Jim Berger

I recently saw that the Sochi Winter Olympics kicked off with the lighting of the torch ceremony. It got me thinking about my time with the council. It was about a year ago that Jay Bushey passed the torch of responsibility to me, to lead the council activities. My goal was simple—keep the momentum that my predecessors started. Now that my year is up, I will be passing that torch to Jim Berger. Before I do so, please let me reflect on some of our larger accomplishments for the past year.

One of our main goals this year was to drive discussion regarding potential improvements to the industry to ensure it remains viable. We accomplished this goal through sponsorship of the “Land this Plane” Delphi study and the National Conversation on LTC Financing. The National Conversation consisted of a group of industry experts that met regularly to develop proposals of sustainable financing system structures. The “Land this Plane” project is utilizing a Delphi study to reach “consensus” on solutions to LTC funding issues. The study is far-reaching and covers several topics ranging from insurance needs and family responsibilities to regulations and funding mechanisms. The third round of the Delphi study recently commenced and more work is being planned for 2014.

In other fronts, the council also made it a point to work more closely with regulators in an effort to expand education and identify research opportunities that help align the needs of insurers, regulators, and other stakeholders. We have established a regular communication loop with many regulators, and have invited Perry Kupferman of California to join us in our meetings as a Friend of the Council. To date, this has been a very fruitful exercise, culminating in the recently announced pricing volatility research project. The goal of this research project is to better understand the drivers of volatility in pricing LTC products and to determine ways to limit that volatility through product design, premium structures, and similar means. Expect to see more on this front in the near future.

Finally, the council continues to be very active in its core roles supporting several working groups, developing webinars and meeting sessions, and providing funding for LTC-based educational endeavors.

Before I turn it over to Jim, I want to take this opportunity to thank all of those that helped make my time on the council both rewarding and enjoyable. First, I wanted to thank the council members, SOA partners, and SOA specialists that have kept the council productive and made my job easier. Second, I would like to thank the friends of the council, particularly Steve Schoonveld, Roger Loomis, Jim Glickman, and Ron Hagelman, who have been instrumental in pushing along many of the projects noted above. Those projects would not be where they are today without their assistance. Finally, I would like to thank all of you—the members of the section—for providing ideas and keeping our cause going.

With that, I will pass the torch to Jim Berger, your new section council chair. I leave you in good hands.

To start the new term, much thanks goes to those who have lead in the past. Jeremy Williams has presided over a productive year that was set up by Jay Bushy before him. We see two council members role off with Jeremy. Siva Desai and Bob Darnell have both contributed significantly through meeting organization and project leadership.

Let's welcome new members to the council. The August election brings Vince Bodnar, Julie Flaa, and Rachel Brewster to the council.



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The coming year should be one of continuity of previous efforts. The "Land this Plane" Delphi study results were presented at the SOA Annual Meeting. The work on pricing volatility has been assigned to researchers and results are expected in time for the ILTCI conference. The LTCi experience study is being updated and is expected to be available around the end of this year.

One way that the readers of this newsletter can make a difference is through the submission of articles. We have seen a broad array of topics important to LTCi brought to these pages and this publication continues to be an important source of information to the industry and those around it.

As always, sharing at the various meetings through the year sharpens the industry and sharpens the presenters. I can say that I have learned a tremendous amount from co-presenters and from the efforts I put in while preparing my portion of a session.

Finally, please feel free to contact me if you have ideas, questions, or concerns. And if I don't know you, take the opportunity to introduce yourself to me at a meeting or by phone or email. It is a pleasure to serve in this leadership role on the council. ■



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Commission Fails to Reach Consensus on LTC-But So What?

By Beth Ludden

The LTC commission finished its report in September right on time. Many are disappointed (including commission members themselves) that the report didn't promote a funding solution. These members published a 'dissenting' report. As always the topic of long-term care provides great theatre. There is no denying that the folks who have been involved in this business for the past 20-30 years can still get in touch with the same passion and fire that we had at the outset; perhaps that is the only way that we have been able to survive the significant changes we have experienced. It is my belief that the commission should be commended for their work, if you watched any of the hearings either in-person or on-line you had to be impressed by the caliber of the witnesses and the quality of the questions.

I also believe that both reports are worth reading and thinking about for all of us in the industry. This is not a simple issue. The main commission report is more analytical and provides an accurate view of the landscape of long-term care services in the United States today. The other report begins with 'LTC stories' that tug at the heart which again is one of the reasons that so many of us find the work we do in the long-term care industry so compelling. So not only did the commission create two reports, they did it at the speed of light—particularly for Washington, DC. Given the delays in member selection it is amazing that they were able to meet the original deadline. For the most part long-term care insurers weren't vilified in the reports, something of a miracle in these times, but also were not venerated. The treatment of long-term care insurance was probably as even-handed as we could hope for, which should be cause for if not celebration, a sigh of relief. Both of the reports provide some important ideas and information that the industry should consider. Many of these ideas are things that the insurance industry has been saying for years.

Consistent across the reports is a theme that urges all of us to 'Look at long-term care services differently':

- Government programs, the primary payor of long-term care services lumps individuals less than age 65 who require long-term care services with those over the age of 65.
 - The report makes the point that the shift to receiving paid care from institutional to home and community based services has primarily benefited the under 65 group. Additionally, the under age 65 group receives most of their care from family members.
 - LTCi is primarily focused on the over age 65 group. As the industry has offered comprehensive coverage that includes facility & home & community-based care we have seen our claims shift to in-home care. Clearly those who purchase the insurance want to and are able to stay at home during their LTC events. Government programs have up until now not supported the elderly population who want to stay at home.
- Fragmented & confusing long-term care service system—no surprise here for LTC insurers, as anyone in our claims department can attest.
 - This reality as the report recounts causes people to potentially not be in the most appropriate care environment or not be able to find the most appropriate care provider.
 - LTCi has included care management services since the mid-80s with the advent of the first RWJ long-term care partnership programs. Individuals who have the insurance are evaluated by care managers and their family members can speak with a care manager as part of the insurance product.

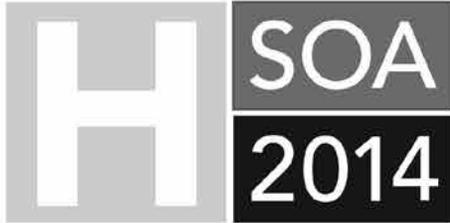


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- The LTCi industry would be willing and supportive of less fragmentation, more education for care providers, more oversight of care providers and any initiatives to standardize services and billing practices in the long-term care service industry.
- Support family caregivers—these are the people who many times are caught between generations trying to juggle all of their family responsibilities with a full-time job.
 - Certainly the care that families are able to receive via an insurance policy proceed is a gift to them but we need to help our policyholders understand that our policies provide benefits for more than the obvious facility or home care services.
 - Three of the most under-utilized benefits in our policies are caregiver training, respite care and adult day services. As the commission points out more public awareness of the whole spectrum of long-term care services is vital to solving this issue.

There are many more examples of great nuggets from these reports that demonstrate the benefits of long-term care insurance and the need for all of us to come together to develop more strategies for improving virtually all aspects of the long-term care services spectrum. LTC insurance is not available to everyone but more should be purchasing. These reports should be the start of a more collaborative effort and not another stack of paper that becomes a dust collector on our respective shelves. ■



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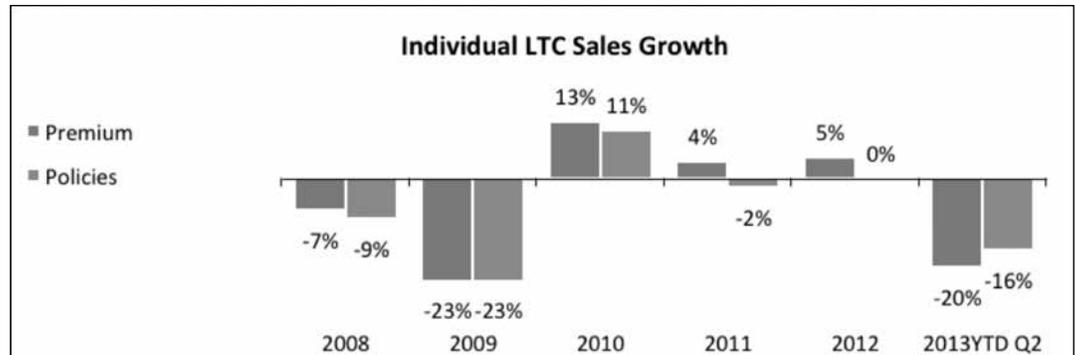
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THE NEED FOR LONG-TERM CARE

With 10,000 Baby Boomers turning 65 every day and their increasing longevity, the target market for LTC will only increase over the next decade. Government inaction to this rising problem and continued increase in LTC expenses will fuel demand. Even with fewer carriers, the need for LTC insurance will perpetuate the survival of standalone LTC.

From a consumer standpoint, the problem is cost. Many consumers underestimate the cost of LTC insurance and underestimate the cost of LTC expenses. In LIMRA's *LTCI: An Industry Subdued* (2012), 41 percent of respondents believed standalone LTC is becoming a niche product for affluent Americans. In addition, large organizations such as associations are finding it difficult to negotiate a lower cost product that provides the coverage members want. For carriers, previous attempts at offering scaled down products for the middle markets have been poorly received by producers and consumers.

We all know that needs and attitudes change over time. Just like we accept the inevitability of paying more for gas at the pump, consumers will eventually accept higher LTC premiums. At the same time, carriers must look into less expensive products, too. The question then becomes, how do you reach the right consumers with the right product?

THE DISTRIBUTION QUESTION

LTC has had its share of distribution challenges. While those who specialize in LTC feel equipped to sell there are fewer producers overall who sell standalone LTC due to the complexity of the product and licensing requirements. This means carriers need to invest in their producers, but how?

First, they need to build their distribution channel. For the first half of 2013, the career channel sold the greater portion of VUL, roughly 43 percent of new premium. And not surprisingly, due to the licensing requirements needed to sell VUL, more carriers sell through the career channel more than any other distribution channel. However, the top companies are more focused on the independent channel and sell more through it.

Next, they need to expand worksite sales. While some believe "employers won't provide this as a benefit for their employees due to cost," (LIMRA's *LTCI: An Industry Subdued*) a worksite model could prove profitable in the wake of the Affordable Care Act (ACA), particularly with employers that have switched to a defined contribution health plan. The problem with that: carriers have shied away from building the needed infrastructure to sell LTC in the worksite because of cost.

Another reason to build worksite has to do with the comeback of the employer-sponsored market. With the recession behind us and the economy picking up, companies will have the means to fund these benefits. As a result, companies can begin to offer richer benefits, such as LTC coverage, to retain key employees.

DIFFERENT PRODUCTS, SIMILAR PATTERNS

In the 1980's, individual disability (IDI) sales climbed. Economic conditions were just right and the pricing was competitive. Carriers were offering products with rich benefits and taking on larger amounts of risk while still making a good profit. By the 1990's, conditions were no longer favorable for IDI carriers. Interest rates were declining, profitability was dropping, and carriers were having bad experiences. Some carriers chose to exit the mar-

ket. Those that remained pulled back on benefits, cut out unprofitable markets, and tightened up on underwriting. The recovery has been long, but the IDI market has normalized over the past couple of years. Now, sales grow at a moderate pace with some fluctuations due to economic conditions.

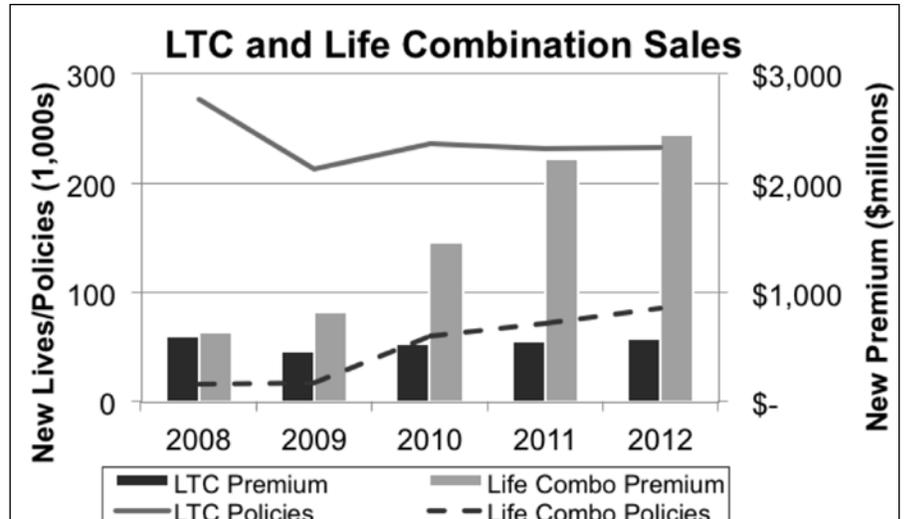
Another example is variable universal life (VUL) products. These are permanent life insurance products that provide death benefit protection with a savings component called a “cash value.” Unlike other permanent life insurance products, the policyholder makes the investment decisions for the cash value and therefore takes on full investment risk.

Sales of VUL peaked in 2000, built by perfect market conditions. It was a bull market combined with falling interest rates, making VUL product much more attractive compared to other life insurance products. Sales quickly declined in 2001 with the burst of the dot-com bubble and within three years sales were half of what they were at the peak. As with IDI and standalone LTC, carriers exited the market during that time. With fewer carriers, sales rebounded only slightly in 2007, when individual life sales peaked. Sales growth took another severe beating with the 2009 recession. Since the recession, total new premium has leveled off to roughly a quarter of the peak sales in 2000.

Is this the same trend for the LTC market? The standalone LTC market has gone through similar experiences as IDI and VUL: declining sales, carriers exiting the market, and decline in consumer demand. Much like what happened with IDI, LTC carriers have just started on the road to normalization with their recent scale back on benefits and pulling out of less profitable markets. However, the consumer view of LTC may be more comparable to the VUL market. After the dot-com bubble, pessimistic consumer views of VUL revived with each market downturn. Similarly for LTC, negative views of the industry and product surfaced after each rate increase announcement. It may be several more years before we see sales get to a more normal rate.

COMBINATION PRODUCTS

Another parallel between LTC and VUL is the availability of substitute products. Unlike IDI, where there is no close substitute, a consumer looking for coverage has alternatives when it comes to LTC and VUL. For the most part the substitutes provide similar, but not exactly the same benefits to



consumers. In the case of VUL, indexed universal life (IUL) products have gained significant market share in the past five years with a portion of the market share coming from potential VUL buyers. While it’s not an investment product, IUL policies allow the policyholder to share in stock market gains while the insurer takes the brunt of the investment risk. IUL products have a cap and floor on returns. Most floors are zero or higher, protecting policyholders from the loss of their principal when the market crashes but at the cost of reduced gains when the market soars.

The substitutes for standalone LTC are combination products. Both life and annuity combination products have been around for decades. The annuity combination market has grown steadily over the past few years, but very few carriers have entered and stayed in this market.

Life combination products have gained traction with double digit growth over the last four years. Part of the growth can be attributed to new carriers entering the market. Over the past five years, at least seven carriers have entered this market and a few more are expected in the coming months. The most prevalent products are the acceleration riders, where the death benefit is accelerated for LTC or chronic care needs. While these products can provide LTC benefits, the majority are still sold for life insurance needs.

For sales focused on the LTC benefits of life combination products, the main sales pitch has been the “use it or lose it” argument against standalone LTC.

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Table 1: Average premium and benefit for LTC and Life Combination products.

	Average Annualized Premium	Average Monthly Benefit/Life Death Benefit	Total Max LTC Benefit
Standalone LTC	\$2,400	\$5,000	\$420,000*
Life Combo – Extension of Benefits	\$6,950**	\$109,000	\$327,000**
Life Combo – Acceleration	\$6,600	\$326,000	\$326,000

*Average LTC Benefit based on \$5,000 monthly benefit for 7 years.

**Annualized premium is 10% of single premium. Max LTC benefit assumed to be 3 times death benefit.

LIMRA’s past survey results have shown that the concept of life combination products resonate more with consumers. But once costs are figured in, it’s a different story.

Table 1 compares the average annualized premium and benefit amounts for standalone LTC and life combination products based on LIMRA’s 2011 ILTCI Sales Survey & Supplement and 2012 Life Combination Survey. Standalone LTC, by far, provides the cheapest LTC coverage.

The cost difference brings to mind the slogan “buy term and invest the difference” from popular financial advisors on TV. Like term insurance, standalone LTC gives the buyer coverage. With term insurance, however, the majority of people who buy it do not expect to die. The difference with standalone LTC buyers is that a high number of them do expect to use the LTC benefits. For these consumers, a scaled down standalone LTC product may prove successful when paired with a smaller life combination product.

CONCLUSION

Growth in standalone LTC is declining, but the overall LTC market is still growing. The LTC market is in reality many different markets offering targeted products based on consumers’ needs. Even though sales of life combination products have soared in recent years, most people are still purchasing standalone LTC. Consumers looking for the most cost effective LTC coverage are still better off with standalone LTC.

In order to be successful, carriers need to invest in their producers and their distribution channels. The education of producers should center on LTC solutions rather than one specific product. In some cases, due to age or health reasons, a buyer may not qualify for standalone LTC, leaving life combination products as their only option. While life combination products may have been initially designed for a more affluent market, many carriers offer the acceleration riders on smaller, lower premium policies that are more affordable to the middle class. ■

Interview with Néfissa Sator—Part One

By Etienne Dupourque

While working in the U.S. long-term care insurance market for several years, I have followed the French long-term care insurance environment, which seems healthier than here. One question that puzzles me is how an advanced social security environment, France, allows a thriving private long term care insurance market, while in an advanced market oriented environment, the United States, the market struggles. I am fortunate have the assistance of Néfissa Sator, who recently relocated to New York City from Paris and has been an active participant in the actuarial development of the French market. In a series of articles in *Long-Term Care News* we will attempt to shed some light on a very different system with shared goals: profit, or at least solvency, for the insurance players; and security, or at least solvency, for the insured. In the process, we will cover solvency 2, principle based reserving, products, the relationship of government benefits and private insurance products, and enterprise risk management.

Q: Néfissa, how did you become an actuary and can you briefly describe the French actuarial organization?

A: After a master of fundamental mathematics at the Université Pierre et Marie Curie in Paris, I studied actuarial sciences at the Institut de Statistique de l'Université Pierre-et-Marie-Curie (ISUP) and received my actuarial diploma.

Generally it takes five years after high school to become an associate actuary: two years of accelerated mathematical studies and three years of actuarial studies to pass all the exams, do a couple of internships, write a final actuarial paper, and successfully present it to a board of examiners.

There are a few schools and universities which offer actuarial programs and grant an actuarial diploma in major French cities (Paris, Lyon, Brest, Strasbourg).

After receiving my actuarial degree, I started as an associate member of the French actuarial organization, Institut des Actuaire (IA) while working with an actuarial firm. Three years later, I became a qualified member of IA. In addition to three years of practice, a candidate needs



a qualified member sponsorship to become a fully qualified member of IA.

The Institut des Actuaire represents and organizes the French actuarial profession since 1893 and currently includes about 3,000 members. It certifies the actuarial universities and programs which may grant actuarial diplomas. It sets guidelines, professional standards and ethic codes, organizes training, conferences, research, working groups, and publishes actuarial literature.

The Institut des Actuaire participates in building standard mortality tables with the government (Institut National de la Statistique et des Études Économiques, INSEE). There are no national morbidity tables, which depend on the type of contracts and the insured population. Actuaries use morbidity tables set by a group that gathers various statistics from different insurers (Bureau Commun des Assurances Collectives, not connected with the Institute) or set by companies with credible experience to build their own tables.

In 2011, the Institut participated in the national debate about a partnership on LTC insurance contracts between the government and the insurers and made recommendations for reserving and risk monitoring, the impact of solvency 2 capital calculations, and portability of contracts from an insurer to another. I lead the portability workshop.



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Q: You worked with the insurance company AG2R-La Mondiale. In the mid 1980s AG2R was one of the first French insurance companies to offer long-term care insurance. Can you describe its experience?

A: Yes, in 1985 the insurance group AG2R launched the first LTCI contract in France: SAFIR, which means Financial Security and Autonomy for Retirees. It is insured by its non-life insurance subsidiary PRIMA.

The development of the product started with requests from retired policyholders (the historical activity of the group AG2R is retirement funds) because it was a cost that was not covered by any kind of insurance or public program. Retirees were struggling under the cost of the care they needed for themselves or for their spouse to stay home or in specialized nursing facilities.

Without any knowledge of the risk, AG2R created the first definition of LTC. The risk classification, known as *dépendance*, was mainly based on administrative conditions such as being in hospital for long stays and it was priced using Canadian statistics, the closest data that matched the type of benefits in SAFIR contracts (lump sum and annuities) and the type of the insured population. This was before the national long-term care insurance program, Allocation Personnalisée d'Autonomie, took effect in 2002.

SAFIR was heavily reinsured. Reinsurance, almost totally coinsurance, played a major role in the development of the French LTC market. It wasn't rare to share between 75 percent and 90 percent of the risk with one or more reinsurers.

PRIMA was a big success, it was selling around 20,000 contracts per year, while AG2R had two million of retirees in force.

Pursuant to a 1998 regulatory audit, steep upward financial provisions were announced with an immediate requirement to increase reserves up to seven fold. But how was it possible to measure precisely the level of the reserves needed for the next 50 years with such a scant experience of the risk?

Negotiations began with the regulators to establish a minimum required increase of the reserves on one hand and put in place a strict monitoring of the risk and extensive internal and external reporting on the other hand, to ensure that the level of the reserves were frequently adjusting

with the evolution of the experience and the risk. It was the beginning of the construction of the PRIMA LTC experience and its regular monitoring. Now, PRIMA has the most mature portfolio and the experience of the risk at older ages.

Several repercussions followed this critical event: for the in force, marketing of the current product stopped, the portfolio was managed very strictly in collaboration with the claim department, a slower indexed rate increase was established and spread over the duration of the contracts (10 years were needed to bring the portfolio to a viable level). It was critical to manage the portfolio in a very progressive way to avoid massive lapsation of the policies and a risk of reputation degradation. AG2R did not want to break its close relation with its retiree policyholders.

A new LTC product was designed with a stricter definition of risk, a premium increase of more than 30 percent, and extensive work with medical underwriting, and claim management was done.

All of this had a negative impact on distribution channels which were apprehensive about client relation problems. Sales started to decrease.

In 2004, PRIMA upgraded its long-term care product line by creating a contract that combines LTC benefits and savings that brought sales at a higher level.

Regulatory monitoring stopped in 2004, but a new audit started in 2007. This time the focus was mostly on contractual terms and policyholders' rights (communication, policy administration, policyholder requests, and revalorization of policy values).

This AG2R experience had an important impact on the French LTC market, it changed the behaviors of LTC insurers and reinsurers and it accelerated the sophistication of the management of this risk. No insurer or reinsurer has left this market. Now 5.5 million people are covered by individual and group LTCI contracts by over 20 insurance companies, which ranks the French market as the second LTCI market after the United States. The new challenge companies are facing is the decline in interest rates over a long period of time which has an important impact on reserve levels. ■

Interview with Néfissa Sator—Part Two

by Etienne Dupourque

Interviewer's notes: This is the second of several interviews with Néfissa Sator, a long-term care actuary, about the approaches that the French take toward protecting against the long-term care risk. The next planned article will explore pricing.

For clarity, following are brief explanations of several specific terms in this interview.

- 1) 'Bancassurance' refers to the combination of banking and insurance activities. A popular insurance distribution system is the marketing of insurance products through a bank. Insurance and banking activities can be part of the same financial service group, but are subject to distinct regulations and monitoring requirements, they are two distinct corporate and legal entities with strict contractual rules of their insurance operations.
- 2) Government's postal services started in the 15th century in France. Between 1921 and 1991 postal services were part of a government communication monopoly: Postes, télégraphes et téléphones (PTT). While the current postal service, La Poste, provides a wide array of services, it is no longer a monopoly.
- 3) French insurance companies are regulated through three codes: Assurance, Mutualité and Sécurité Sociale. The actuarial aspects of the codes, such as reserves, all conform to the Assurance code.
- 4) Prévoyance is a branch of personal insurance, exclusive of property: life, annuity, accidental death and disability, disability, medical, dental, long term care, mortgage, burial. It usually complements Social Security benefits (Sécurité Sociale).

Q: Néfissa, after your experience within AG2R La Mondiale you worked with La Banque Postale Prévoyance (LBPP), a major player on the French LTCI market. What is La Banque Postale Prévoyance and why is the postal services in the insurance business?

A: La Banque Postale Prévoyance (LBPP) is a bancassurance regulated by the Assurance code.

LBPP's ownership is evenly split between La Banque Postale, the oldest French financial service organization, and Caisse Nationale de Prévoyance (CNP), the largest life insurance company in France.

LBPP's business model is very interesting, it is based on the respective strengths of its shareholders: distribution is handled by La Banque Postale which has the largest physical network in France through its post office branches. Insurance operations, such as administration, asset management, underwriting, are implemented by CNP. LBPP is the primary insurer.

LBPP's in-house teams focus on the development of strategic planning through its actuarial functions, Asset Liability Management, and Enterprise Risk Management. It also handles the marketing plan, legal activities, and closely monitors outsourced activities.

Created in 1988, LBPP started its activities with mortgage insurance. It then entered the life and disability market. Prévoyance is now its main activity. Thirteen years after its entry in the Prévoyance market, LBPP is one of its top carrier.

LBPP's values are closely linked to those of its two shareholders, in particular La Banque Postale which distributes LBPP's insurance products. The portfolio covers the major individual risks and is adequately priced: LBPP specializes in products which are accessible to the post office's customers who are mostly lower and middle class.

Q: Is the postal service owned by the government?

A: La Banque Postale, the oldest financial service entity in France with savings accounts and postal money orders which had their origin with the post office, received its banking status Jan. 1, 2006 and now lends to individuals and enterprises.

It is entirely owned by La Poste, the postal service organization which is 3/4 owned by the state and 1/4 by La Caisse des Dépôts et Consignations (CDC), a public thrift institution



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whose mission is to foster France's economic growth and stability. CDC is part of the legislative branch and controls 40 percent of CNP, the co-owner of LBPP.

La Banque Postale's government ties give it an important social role which has an impact on the products which it sells and distributes. This is why LBPP developed first a portfolio of products covering catastrophic risks, like death, disability, and long-term care.

La Banque Postale is present in every post office, that is, everywhere in France. This allows it a close proximity to its 10.5 million clients.

Q: What are the distribution channels?

A: La Poste offers not only mail services, but financial services and is even a cell phone operator. It also provides email services. With 17,000 offices, it has the largest outlet network in France.

The post office outlets are very modern with areas designed and dedicated to the bank staffed with salaried sales agent and advisors organized by specialties such as insurance and mortgages; and by customer segments such as high income, middle/low income, or corporate.

Sales agents make contacts with the customers, analyze their needs and then orient them to specialized advisors.

The physical network is not the only mode of distribution of La Banque Postale, which is multi channel. In addition to the offices located everywhere in France, even in rural areas, the bank makes a large proportion of its sales through direct marketing such as mail, telemar-

keting and the internet. It is possible to go from one mode to another without losing the information already provided.

Q: How long has LBPP sold long-term care insurance? What is the importance of LTCI to the total insurance portfolio?

A: LBPP launched its first long-term care insurance contract mid 2004.

Today it manages over 150,000 inforce policies, which represent more than 12 percent of individual long-term care policies in the marketplace, or 4th overall. The number of policies inforce grows annually at about a 13 percent rate with little variation, or 17,000 to 20,000 new policies in 2012. It represents 30 percent of national new sales and LBPP is now the leader in the individual long-term care insurance sales.

Long-term care is the second largest line in LBPP's Prévoyance portfolio for reserves held and third based on premium income. The claim exposure is substantial: almost five times the reserves, i.e., present value of future benefits = 4 x present value of future premiums.

At many older ages, the portfolio is not yet mature: claims incurred are still low. Estimated upward future liabilities are being funded through reserve adjustments, which explains its high level.

Reserves are very sensitive to investment market conditions and the experience of the policies. Reserve levels depend on policy claim experience and policy duration, but also on the rate of return of the underlying assets, and on

the interest rate of government backed bonds. Under the current low interest rate environment, reserves have increased close to 15 percent annually while premiums have increased about 10 percent.

New policies have higher premium rates due to the lower level of interest rates and the experience of the portfolio. Premiums and benefits of many existing policies also are increased by about 1 percent to 2 percent annually because the guarantee is indexed to the cost of living or the cost of LTC services.

Premiums of the current portfolio can be adjusted also to the experience and the interest rates. There is no regulatory limitation to increase premiums on inforce policies, but a reputation risk exists for the company as well as the risk of massive lapsation if the increase is too high.

Q: What is the proportion of individual to group insurance?

A: LBPP issues only individual policies. Coverage is elective with medical underwriting. Each policyholder selects the level of coverage. Average monthly coverage is \$650 per month (based on €1 = \$1.30) for full dependency, and 60 percent of that amount, or about \$400 a month, for partial dependency. An average lump sum of \$4,000 is added to the first monthly payment. Benefit payments are not based on the cost of long-term care expenses: practically all policies are on a cash basis, not on a reimbursement basis. Monthly payments are triggered by dependency levels at the beginning of the claim period. Payments are lifetime but contingent on the demonstration of the continuation of disabled status. Multiple assistance services are also offered with the insurance contract.

Individual contracts are on a guaranteed issue basis which requires an insurer to continue coverage without consideration of the condition of an individual premium paying insured, and benefit levels are relatively high.

Depending on the group contract, coverage is yearly renewable, cancelable, or lasts only during the salaried worker's employment with the insurance contract's owner. To continue coverage upon leaving the organization, the covered individual must usually continue payment of a

premium which is no longer based on the mutualization of the risk of the group. The ex-employer no longer pays a large portion of the premium, if any. Underwriting may not be required if conversion occurs within three to six months.

Among the largest group insurance contracts are the ones from AXA which in 2008 launched a contract with defined benefits and services.

OCIRP (Organisme Commun des Institutions de Rente et de Prévoyance), offers an indexed product where premiums are based on a point system whose values it calculates. OCIRP is a Prévoyance group insurance conglomerate which covers over 6 million people through over a million covered companies and organizations. It is the designated insurer of several liberal professions such as lawyers.

CNP manages a large group contract for two million teachers through the health mutual organization of the national education union, MGEN (Mutuelle Générale de l'Éducation Nationale).

Other large insurers such as AG2R issue group contracts. Group insurance is not a significant part of AG2R's long-term care portfolio. The outstanding feature of the AG2R group contract is that it pre funds premiums while the employee is active. At retirement, the individual policy is paid up. This type of contracts is expensive, premiums being higher since they are funded during a shorter period. In general this kind of group contracts has lower benefit levels. The certificate-holder can supplement his or her coverage through an individual contract, with the subsequent benefits incorporating the group and individual policies to avoid multiple payments.

The difference between the insurance coverage of group contracts and individual contracts can be seen through the reserves held: they are much lower for group insurance than for individual insurance, this is true as well for premiums and benefits.

The total long-term care insurance market under individual contracts and group contracts covers more than five million people, of these less than two millions are covered through individual contracts (source: FFSA, Fédération Française des Sociétés d'Assurances). ■

Incentivizing Desired Behavior in Long-Term Care Policies

by Sivakumar Desai



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In a European country, the local government pooled all the fines from speeding motorists and offered it as a prize to the motorist with no speeding violations (usually selected through lottery as there will be many who didn't violate any speeding laws). This innovative way to control speeding led to a large decrease in speeding violations over time in that county by effectively changing motorist's behavior. The example above shows that incentivizing desired behavior may be more effective in controlling bad behavior than just punishing bad behavior.

The Auto Insurance companies have used this approach in setting premiums for some time. Auto insurance companies have been offering discounts for things like not having traffic violations and for being accident free for the last few years. More recently they are encouraging desired behavior from people by offering accident forgiveness programs. Ideas like the "Snapshot®" discount and the "vanishing deductible" initiative are some of the other ways auto insurance companies tried to encourage insured's desired driving habits.

Long-term care (LTC) insurance covers services in a facility or in one's home for insured that cannot perform routine activities of daily living (ADL) such as bathing, dressing, toileting, maintaining continence, transferring and eating. The main fo-

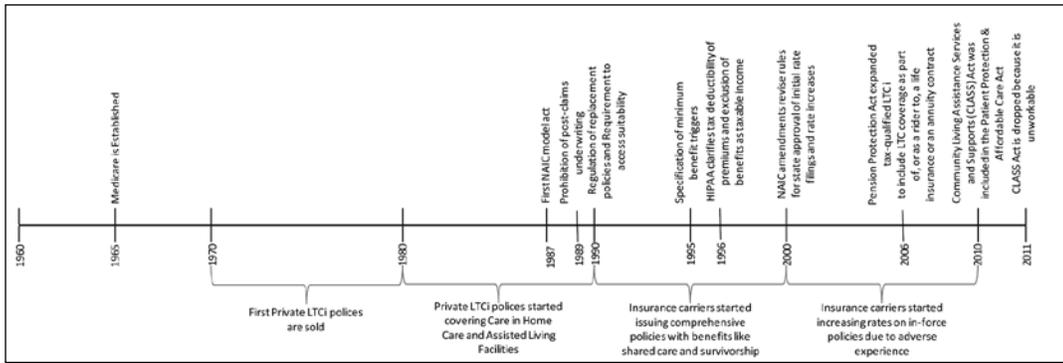
cus of this product had been to make the coverage more marketable and to educate the public about the need for this insurance. Because of this, there hasn't been a lot of focus on changing the product design such that it offers incentives for desired insured behavior. By incentivizing insured for desired behavior, LTC insurers may be able to better align the interests of both insured and that of the insurance companies thereby carefully pricing and reducing some of the risks in the product. Table 1 compares insured behavioral incentives between LTC insurance, health insurance and auto insurance. All three insurance coverage in Table 1 have some degree to which the insured shares in the cost of the benefit plan. Medical plans usually control utilization, costs and risk to the insurers by using wellness discounts, deductibles, co-pays and co-insurance. Most LTC plans have elimination periods (which are similar to a deductible), but don't have wellness discounts, co-pays and co-insurance.

Usually there is a perception that the level of control that the insured has with auto insurance and many major medical claims, may not be the same with an LTC claim. While this may be true for some cognitive claims there are significant amount of LTC claims, where insured have some level of control if not the same level as with auto and many major medical claims.

Table 1

Behavioral Incentives	Long Term Care Insurance	Health Insurance	Auto Insurance
Incentives to prevent early claims due to Anti-Selection	×	×	✓
Incentives to Use Preferred Providers	×	✓	✓
Incentives to Stay Healthy or for Good Behavior	×	✓	✓
Co-Insurance on Benefits	×	✓	×
Negotiated Rates with providers	×	✓	✓

Figure 1



LONG-TERM CARE INSURANCE PRODUCT

The first LTC policies ever issued covered care in a nursing home only after staying in a hospital as per Medicare requirements. As the product matured and awareness of the product grew, LTC insurance policies started to cover care in the insured’s home or in an assisted living facility (ALF). The product in its current form offers multiple options for how long the services are covered and how long an insured needs to wait in order to receive the services. Other benefits such as return of premium and non-forfeiture benefit are added to the policies to make this product more appealing to insureds that had concerns about not utilizing the benefits before they lapsed or died. Figure 1 shows the evolution of private LTC insurance.

The main driving point behind the changes to the LTC insurance product design over time is to make the product more marketable by giving the insured “more bang for their buck.” These changes may have added more risk to the product and created opportunity for irrational utilization of benefits. However, one of the things that was overlooked while making the product more marketable is reducing the risk in the product by incentivizing desired behavior of the insured, which might have improved the claims experience of some of the insurers. By incentivizing desired insured behavior, the LTC insurance carriers can mitigate the inherent risks in the product. The following LTC insurance product design changes may help insurers in incentivizing the desired behavior of insured thereby reducing the risk and improving affordability of the product.

USING CO-INSURANCE TO INCENTIVIZE DESIRED INSURED BEHAVIOR

Most LTC plans currently don’t have co-insurance. However, this feature could be added to the LTC

policies as a way to incentivize desired behavior. Co-insurance feature can be designed such that the LTC coverage not only help insured in their time of need but also mitigate some of the risks in private LTC insurance. The redesigned benefit may reduce the anti-selection risk in LTC insurance policies thereby reducing the chance for adverse claims experience.

For example, current LTC insurance product design could be modified so that there is a co-insurance on benefits and this should depend on how long an insured is in-force without claiming. The benefit can start off with co-insurance for insured that go on claim prior to being in-force for at least five years. After the policy stays in-force for five years, there would be no co-insurance on benefits for an additional three months on claim for each additional year in-force. For example if an insured went on claim for the first time after nine years in-force then there would be no co-insurance on benefits for the first year the policy is on claim. If the insured recovers after three months on claim then the co-insurance waiver benefit for remaining nine months would accumulate for additional three months on claim for each additional year in-force. The increasing benefit ensures that there won’t be an increase in incidence once the waiting period is over. The above mentioned co-insurance design can reduce the anti-selection in an LTC insurance product by incentivizing the insured not to claim in the first few years in-force.

In addition to the above, the co-insurance design could be coupled with the care coordination benefit, which provides payments for the services of a professional care coordinator. The care coordinator assesses the insured’s condition and the support available from family members, formulates a plan of care and then assists in the implementation of that plan. If the claimant recovers before the expected time of recovery in the plan of care and stays

CONTINUED ON PAGE 18

inforce without claiming for an additional year then the waived co-insurance benefit can be restored to the level it was before the insured went on claim. By giving an incentive to the claimant to recover quickly, this change in benefit design can reduce the chance that the insured is staying on claim longer than what was expected in the plan of care thereby reducing the severity of the claims.

CHANGING PRODUCT DESIGN TO MAKE BENEFIT INFLATION AN INCENTIVE

The benefit inflation option in LTC policies allows insured to keep up with inflation in services provided overtime. At present the option automatically inflates the benefits every year regardless of whether they are on claim or whether their health status deteriorated. The automatic inflation of benefits every year could incentivize the insured to stay on claim longer because the insured could avoid paying premiums if they have waiver of premium benefit and may have accumulated enough benefits to stay on claim longer than if the insured haven't accepted the inflation benefit option.

This benefit inflation option could be designed such that it properly aligns the incentives of both insured and insurers. For example, the benefit design could be modified such that the inflation of benefits should occur automatically every three years instead of every year and the inflation should occur only if the insured had stayed claim free in the last three years and the benefits should not inflate while the insured is on claim. This inflation benefit

should only apply if the insured is less than 65 years old. After the insured age is 65, the inflation option should work with the wellness discount mentioned below. The inflation option should only be offered to insured that stayed healthy as evidenced from the latest physical examination from their doctors. This incentivizes the insured by increasing their benefits for remaining claim free. This change in benefit inflation option may reduce the incidence of claims by incentivizing them to claim later and to maintain a healthy life style.

WELLNESS DISCOUNTS INSTEAD OF PREFERRED DISCOUNT FOR LIFE AT POLICY ISSUE

Some of the LTC insurance policies currently marketed offer discounts for insured with preferred health. The preferred discount reduces the premium for the life of the policy but the preferred underwriting used for the discount will wear off within a few years after issue. With the current preferred discount there is no incentive in the policy for the insured to maintain his or her preferred health status over time after the policy is issued.

The interests of both insurers and insured may be better aligned by having wellness discounts instead of preferred discounts for life. For example, this could be achieved by having the insured prove their desired health every two years to continue getting this discount. In order to reduce the costs associated with underwriting the policy every two





USING PREFERRED PROVIDER NETWORKS TO REDUCE COSTS

There is currently a big difference between current LTC and medical plans in the degree to which the provider of care shares the cost of the benefit plan. Almost all medical plans use some kind of preferred provider network to reduce costs. There is no LTC plan that has such a provision built into it. Since there is no preferred provider network for LTC services, there is big difference between the quality and cost of LTC services in these service providers and this could create some inefficiency in the system. A preferred provider network that is similar to the one in most medical plans may be used by LTC insurance providers to reduce cost of claims. Insurers may use the network to better assess the conditions of claimants and better control the costs associated with those claims. This may also help insurers to set some uniform standards for providers thereby increasing efficiency and reducing the cost of LTC services. The network can also help insureds with questions about coverage and what kind of care is best suited for their situations, which can reduce the complexity of the product. The network can also help direct insured to the facility that is right for them by giving details to them about those facilities. This may incentivize providers to provide quality services at a reasonable price, in other words the preferred provider network may make the providers of care more efficient.

years, the insured could use the most recent physical examination from their doctor to prove that they have maintained a healthy lifestyle. Using this information the insurer can determine whether the insured is eligible for wellness discount or not. The maintenance cost associated with getting the medical information of every insured every two years may limit the amount of wellness discount offered to insureds. However, with improvements in technology, the cost associated with getting medical information may decrease significantly resulting in a wellness discount that is very close to if not exactly equal to the preferred discount currently offered to insured. The wellness discount can also be used with the care coordination benefit mentioned above to reduce the risk of claimants staying on claim longer than expected. If the claimant recovers before the expected time of recovery in the plan of care specified by the care coordinator, the insured can continue to get the wellness discount as before he or she went on claim.

A wellness discount can help change insured behavior by encouraging insureds to maintain a healthy lifestyle throughout the time the policy is in force rather than just at the time of policy issue. It may also entice the insured on claim to recover more quickly than expected by allowing the insured to get the discount if he or she recovers quickly.

CONCLUSION

For a long time the primary focus of private LTC insurance companies has been to educate the public about the need for private LTC insurance and to make the product more acceptable to a wider population. To this end there have been numerous changes to the product design to make this product more acceptable to general population. However, one of the things that may have been overlooked in those product design changes is the need for alignment of insured and insurance company's interests, which is to make coverage more affordable and to reduce adverse selection. Incentivizing desired behavior from insureds can not only make LTC insurance policies less expensive but also help insureds make better health choices, which can help them stay healthy for a longer time. These incentives may also reduce some of the inherent risks in a LTC policy and may help in increasing the sales of private LTC insurance. ■

The Actuarial Argument for Gender-Distinct LTC Rates

By Dawn Helwig

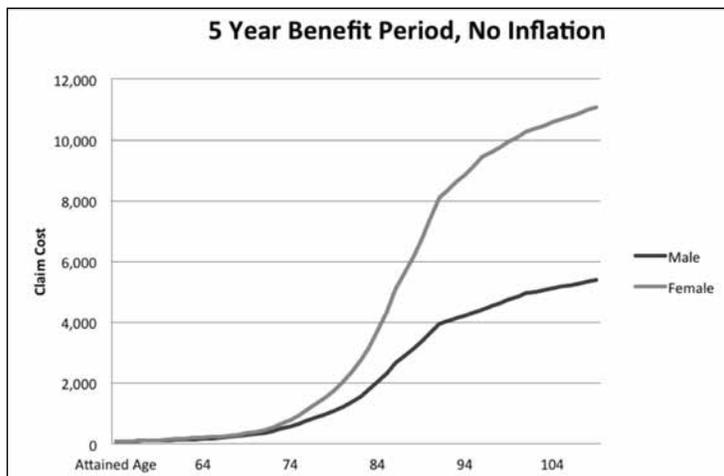


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Long-term care (LTC) insurance has traditionally been sold using unisex rates, in spite of the fact that females have significantly higher morbidity than males do. All of that changed in 2012, when Genworth introduced the first LTC policy with gender-distinct rates. Since then, several other companies (John Hancock, Mutual of Omaha, Transamerica and LifeSecure) have followed suit, and others are either considering it or in the process of developing new rates.

The practice of charging gender distinct rates has been challenged in proposed regulations (generally unsuccessfully) by a handful of states, and the National Women's Law Center has recently filed a complaint against gender-distinct rates in the U.S. Office of Civil Rights. The basis of the Law Center complaint is that gender-distinct rates violate Section 1557 of the Patient Protection and Affordable Care Act, which disallows discrimination under any program which is receiving federal financial assistance. They state that, for LTC insurance, the "financial assistance" being received is participation in federal Partnership programs.

Regardless of how you personally feel about the introduction of gender-distinct rates for LTC insurance, there is clear actuarial justification and rationale for separate rates for males and females.



Source: Milliman 2011 *Long-Term Care Cost Guidelines*

ACTUARIAL BASIS FOR GENDER-DISTINCT RATES

Many factors affect the determination of LTC insurance premiums and resulting LTC insurance profit results, including the insured's age, health history (and the effectiveness of underwriting in discovering that history), marital status, benefits purchased, geographical area and gender. Many of these factors are already used to separate premiums, including issue age, marital status, and underwriting class, since the claim experience differences are statistically significant. The fact that long-term care policies have historically not used gender to set separate premiums for males and females has resulted in the introduction of some risk when the distribution of business by gender does not match pricing expectations.

LTC claims experience does vary significantly between males and females. The chart below demonstrates the difference between male and female claim costs by attained age.

If these separate sex distinct claim costs were fully used in pricing policies, female premiums could be as much as 15 to 30 percent higher than premiums developed using unisex assumptions, and male premiums would be correspondingly lower. Contributing to these premium differentials is the fact that female mortality is also lower than male mortality, resulting in more females living to the advanced ages where the morbidity difference is greater. The chart on page 21 shows the comparison of male and female premiums for someone issued at age 57 to current unisex premiums, assuming the claim costs above, separate for inflationary and non-inflationary policies.

Given the large difference in the "theoretically correct" premiums between males and females, it could be stated that, under a unisex rate structure, males are being over-charged for their benefits, while females are being under-charged.

This large differential in gender claim costs can lead to a distribution risk in a policy with unisex rates, if the actual percentage of policies sold to females is higher than what was anticipated in pricing. For example, if a policy was priced by an insurance company to yield a 15 percent internal rate of return with an assumption that 57 percent of policies issued are to females, and if the actual percent of females issued turns out to be 65 percent, the company's internal rate of return would drop to around 12 percent.

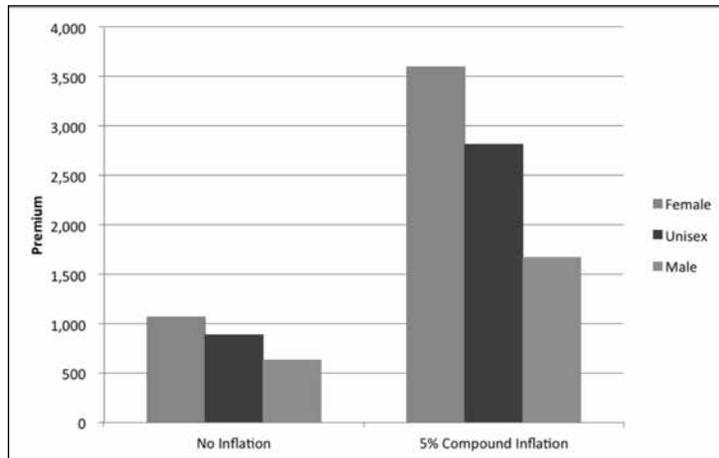
LTC policies have been subject to large increases in premiums in recent years. While much of this increase has been due to factors such as low lapse rates and low interest rates, some of the increase is due to anti-selection from people who purchase the policies and have higher risk profiles than what was assumed in pricing. The percent of females purchasing the policies, compared to what was assumed in pricing, is one of those risk factors. Allowing gender-distinct rates provides companies with one way to mitigate that risk.

A basic principle of sound actuarial pricing was stated in "Individual Health Insurance" (edited by Francis T. O'Grady, 1988, Society of Actuaries), which stated, "A critical element of gross premium structure [for individual health insurance]...is the recognition of features representing statistically significant claim cost variations." One such feature is gender. Other insurance products, such as auto insurance and life insurance, also have statistically significant claim cost variations between males and females and use gender-based rates. LTC similarly has significant differences in male and female claim costs.

PRACTICAL CONSIDERATIONS

In today's market, deciding whether or not to charge gender-distinct rates will be dependent on competitive considerations, which may vary somewhat depending on whether a company is selling through brokers or through captive agents. A brokerage sales force will have greater ability to move male applicants to companies with the new gender-based rates and to keep females in companies that still have unisex rates. This could result in companies with unisex rates having blocks of business that have an increasing percentage of female insureds.

Sales in the multi-life market are not able to use gender-distinct rates, due to discrimination requirements contained in Title VII of the Civil Rights Act of 1964. This means that companies who want to continue selling in the multi-life market will need



to continue having a set of unisex rates available. Having a set of unisex rates for use in the multi-life market and a set of gender-distinct rates for use in the individual market could present some dilemmas for agents and companies on how to present rates to groups (especially in the employer carve-out market).

For a company who has decided to implement gender-distinct rates, some decisions will need to be made regarding whether the full differential which can be justified actuarially should be reflected, or whether some subsidy between male and female rates should be maintained.

An additional decision which will need to be made is whether to use gender-distinct rates for married couples. I.e., do you charge married couples unisex rates, with the marital discount reflected, or do you charge each spouse their appropriate gender-distinct rate, with the marital discount reflected? While the combined rate for the married couple at issue could be the same between the two methods, the key difference comes when one spouse either dies or lapses their policy. Under the first method, the remaining spouse would continue with the unisex rate, while under the second method, a surviving female spouse (for example) would have the higher gender-distinct rate with the spouse discount. In considering which of these two methods to use, a company needs to consider possible issues of anti-selection on lapsation which could occur.

Subject to results of regulatory challenges, it appears that gender-distinct LTC rates are here to stay. From an actuarial standpoint, this makes sense and appears to be a good thing. From a market standpoint, however, the effects remain to be seen. ■

What Is the Professional Development Committee and What's in It for You?

By Beth Grice, Terry Long and Judy Powills



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The Professional Development Committee's Top 10 Facts:

10. Otherwise known as the PDC, the Professional Development Committee is an SOA board of directors appointed committee.
9. The PDC was formed in 2009.
8. The PDC has overall responsibility for managing the development of the professional development (PD) curriculum (the content, method of delivery and resources provided to facilitate learning) reflecting the SOA's competency framework.
7. The PDC is charged with providing the highest quality learning experiences.
6. The PDC ensures that the PD program is focused on both current and forward-looking technical and non-technical content (state of the art).
5. The PDC ensures that the PD program makes use of instructional technologies to assure timeliness of, and broad access to (globally accessible), relevant and engaging programming.
4. The PDC fosters career-long learning.
3. The PDC is charged with ensuring that the SOA's PD program meets the needs of the profession and is aligned with the SOA strategic plan.
2. The PDC represents the SOA's constituencies including Canadian and international.

AND NO. 1 ...

The PDC represents you and your PD needs!

Approximately 75 percent of content developed for, and delivered to, SOA members comes from you—the sections! The sections and volunteers play vital roles in the planning, development and delivery of the SOA PD program. 2014 looks to be an exciting year for section-sponsored PD offerings—section plans reflect an array of offerings targeted to member needs—meeting sessions, seminars, webcasts, podcasts and more. Congratulations to the sections!

If 75 percent of content comes from the sections, where does the rest of the SOA's PD programming come from? The SOA partners with other organizations, actuarial and non-actuarial. The SOA also enters into strategic alliances with other organizations. The PDC is responsible for considering these strategic alliances. For example, if an organization



is interested in delivering a seminar, it is required to submit a strategic alliance form to the PDC. The PDC has the responsibility and authority to evaluate the proposals and make a decision as to the appropriateness of the relationship. The PDC also looks to SOA staff to set goals in support of the PDC's initiatives to develop and deliver quality curriculum to meet members' PD needs and support lifelong learning. Remember that the prequalification curriculum with new additions is available to the PD audience, too.

Learning technologies are rapidly changing. The PDC evaluates and makes recommendations for the adoption of new technologies to apply to PD programs—the best in webcasting, virtual sessions and podcasting. And, our e-Learning portfolio continues to expand, offering more for members' technical and non-technical knowledge and skill development.

In addition to overseeing the PD program for members, the PDC sets priorities on an annual basis to provide a comprehensive, progressive curriculum to meet upcoming needs. 2014 priorities include building/enhancing PD offerings for pension actuaries and actuaries internationally, offering more in the areas of business analytics and general insurance, conducting market research to better understand member needs and gaps, and letting you know about offerings and tools available. Did you know, for example, that you can purchase a group of business and communication skills e-courses from BizLibrary: <http://www.soa.org/bizlibrary/>? Do you know about Tools for Actuaries: <http://toolsforactuaries.org/>? Check it out to find tools relevant to your development including books, e-books and training opportunities.

The PDC is a resource for you. Current PDC members representing the sections are:

- Beth Grice (PDC chair)—Health and Long-term Care Insurance Sections and liaison to the Health Meeting: bgrice@humana.com

- Peter Hayes—Pension and Social Insurance Sections: phayes@eckler.ca
- Donald Krouse—Investment and Joint Risk Management Sections and liaison to the Investment Symposium and ERM Symposium: dkrouse@aegonusa.com
- Terry Long (PDC vice chair)—Product Development, Financial Reporting, Marketing & Distribution, Reinsurance, Smaller Insurance Company, and Taxation Sections and liaison to the Life & Annuity Symposium and Valuation Actuary Symposium: tlong@lewisellis.com
- Kevin Pledge—Actuary of the Future, Education & Research, Entrepreneurial Actuaries, Forecasting & Futurism, International, Management & Personal Development and Technology Sections and 2014 Annual Meeting Chairperson: kevinpledge@gmail.com.

The other PDC members are Jennie McGinnis (board partner), Lorne Schinbein (Education Executive Group curriculum chair), Genghui Wu (international constituency), Mike Boot (SOA managing director—Sections & Practice Advancement) and Judy Powills (SOA senior director of Curriculum and Content Development). PDC members are also assigned to board-appointed teams including the Issues Advisory Committee, the International Committee and the Transfer Knowledge Team.

The PDC wishes to thank the sections for their contributions. Feel free to call upon us as your sounding boards for your ideas about PD content and delivery! ■



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Blackboards

By Ron Hagelman



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Solutions and Private
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Once upon a time I taught school. My classrooms were dominated by the presence of massive blackboards. Each day they were filled to capacity with my attempt to bring order from chaos. Each evening they were completely erased and supplied with adequate chalk to make sure my next morning's attempt to organize, clarify, illuminate, elucidate and provide structure could begin all over again. God, I love a "fresh start." I miss that blackboard and the hope of new beginnings.

Maybe that is why I have been so proud and enthusiastic concerning my participation in the Society of Actuaries Long Term Care Section Council sponsored "Future of Long Term Care" Think Tank. I have had the privilege of working with this group of dedicated experts since its inception and recently serving as co-chair. This is an eclectic and committed group of actuaries, regulators, reinsurers, and company executives with a smattering of marketing types. We have been working together as common stakeholders in the quest to determine achievable solutions to the on-going LTCI conundrum. I was able to contribute and help encourage participation in the recently completed Delphi research study, "Land This Plane." The yearlong

project was sponsored by the Long Term Care and the Forecasting and Futurism sections of the SOA. The Delphi method research project required three extensive rounds of consensus building open ended questioning. The survey was completed and initially reported at the SOA Annual Meeting in October 2013. It has now been completed for publication with the expert help of John O'Leary.

Our goal was to establish comprehensive parameters for a global solution to a problem that to date has defied all attempts both public and private at amelioration. The readers of this column clearly understand the potential fiscal catastrophe looming in our immediate future. There is no mystery for us that the failure to plan and save ahead for retirement and the intrinsic cost of custodial care represents one of the greatest challenges to our country's financial and emotional well-being. The lack of a Gestalt approach (Google/Wikipedia homework assignment) to what may be America's largest "Unfunded Liability" cries out for a new beginning and a fresh approach!

The survey was not designed to again identify rote answers old or new. It was meant to help create a workable lesson plan with an emphasis on delineat-





ing all the moving parts of a new, creative, energized, and potentially achievable direction forward.

The survey begins with an emphatic declaration. There was overwhelming support for the need to completely overhaul the long term care financing system (86 percent). Perhaps even more significant was the fact that although only 20 percent of the expert's surveyed were company or marketing types, 100 percent of all assembled experts agreed that private insurance was a necessary component of a successful future system. The obvious bottom line is that the current hodge-podge of jurisdictions and care resources is ineffective, inefficient and grossly insufficient. A newly reformed, revitalized care protection and delivery system should prioritize the use of available resources at all levels—individual, family and public.

The time has also come for the insurance industry and our caring friends in the public sector to declare a new day of cooperation and mutual purpose. We must all recognize that only together, each working at what we are best equipped to accomplish, can we hope to succeed. There will always be a private market for wealthier consumers who wish to leverage their risk with insurance and at the opposite end of the spectrum our commitment to provide for those truly in need must remain a cultural imperative of American economic justice. Where we have failed and must direct our most urgent attention

both public and private is the vast and shockingly unprepared Middle America.

The survey overwhelmingly supported the painfully obvious—the government and the insurance industry must take a much more active role! Consumer education in the form of “A National Consumer Awareness Campaign” must be sponsored and funded on a national priority basis. Tax incentives, as unpopular as they may be in difficult economic times, must be promoted and established from cafeteria plan inclusion to direct tax credits. Partnership plans must be more flexible and inviting. We need to create incentives to embrace a personalized “roadmap” for all Americans to help guide them to plan and care ahead.

What may be controversial to some of my more conservative friends is the surprising support for a “social” insurance component. Now pay close attention class: “social insurance is not socialism.” Social insurance simply guarantees sufficient participation and therefore prevents excessive adverse selection which not surprisingly allows insurance to actually work. Participation must be enhanced and encouraged by incentive and/or penalties. Some basic protection must be seriously delineated. For almost 20 years now I have taken my clients gently by the hand and led them to the edge of the precipice and had them look down into the swirling mists of risk below. Far too many stepped back unimpressed or unconvinced to take action. That is no longer acceptable behavior and will no longer work with the potential LTC risk standing before us. The most logical approach would be a Medicare like benefit established through payroll deduction with a corollary private supplement insurance market. Corollary product suggestions were also made that could contribute to greater participation including a high deductible plan and the creation of a separate tax qualified savings account specifically for LTC similar to a stand-alone HSA or IRA.

There was virtual universal agreement (86 percent) that the qualification loop holes and inadequate emphasis on HCBS by Medicaid requires enforcement of appropriate standards of equity and expanded support for non- institutional settings. This is in fact a mandatory requirement of any real attempt at reform. It was pointed out (79 percent) that there are still large impediments to product development that

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require revision and remain present in the NAIC LTC Model Regulation and Model ACT. Smaller, simplified, and much more benefit flexible products are needed. Furthermore it was recognized that existing individual tax qualified savings in the form of 401(k), 403(b), and IRA's must be made available for use on LTC expenses. American's have over \$10 trillion ready and available in these accounts.

In addition there was also a number of creative new market product designs and risk structure enhancements identified by the research. It was suggested there is a need for a national reinsurance program with both public and private participation that could help limit exposure and manage excessive risk. A stand-alone Universal LTC policy with a tax preferred savings account resurfaced as a suggestion. A "Mutual LTC" policy was also suggested where benefits and risks could be shared between consumer and company and in the process help guarantee support for many more Americans.

And finally it concurrence with my own personal perspective it was agreed (67 percent) that the long-term care "problem" should be a mainstream financial planning requirement. I have often sug-

gested that limited sales results may be directly related to a limited number of agents trying to help solve the risk problem. I have actually heard it recently suggested that the LTC risk should stand before the life risk. (I agree.) Participation in the solution should not be optional for consumers or insurance professionals.

This exhaustive collection of converging opinions was again only a beginning, a concerted and sincere effort to "Land the Plane". There is much work to be done. More quantitative research, more evaluation of the economic impact of the suggestions present in the research and a rededication on all our parts to learn anew and try again. It is time to beat the old chalk out of those erasers and meet these new assignments with a familiar rhyme: "Good morning to you, good morning to you, we're all in our places with bright shiny faces."

Other than that I have no opinion on the subject. ■

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