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ASOPs and Unfair Discrimination

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Actuarial Standards of Practice (ASOPs) provide principles in broad terms to leave liberal leeway for actuaries operating under those standards. In contrast, The Code of Professional Conduct requires, “An Actuary shall not provide Actuarial Services for any Principal if the Actuary has reason to believe that such services may be used to violate or evade the Law.” Each actuary is individually responsible for all services provided—regardless of the “flow of traffic,” ignorance of the law is no excuse.

When the law addresses classes of risks, it is talking about the risk of loss to the insured, not the carrier. Risk classes must be developed indifferent to the carrier’s costs and commissions. Actuaries must be able to defend risk classes according to the risk of the insured’s loss, based upon statistical evidence and sound actuarial judgment.

Sales, marketing and underwriting folks aren’t bound by—and often aren’t aware of—actuarial standards. Actuaries often provide services for them and naturally want to give the best service possible. That sometimes means not giving them everything they want.

I recently discussed marital discounts with the actuary from a large LTC insurer who signed the rate demonstration. His company wanted to only discount a married person’s individual policy if the spouse also bought a policy. When I asked why the insurer didn’t simply issue joint policies with a two-person rate, his response was interesting.

He said the carrier sold joint policies in the past, but agents complained that they would rather sell individual policies. He reported they could more easily sell to the wife, and then solicit her help in persuading her husband that they could both get a discount if the husband would buy one. This ploy is reflective of Eden’s snake, who got Eve



to bite the apple first, then had her talk Adam into sharing her fate.

Actuaries who claim that the married two-policy stats are sufficient to justify higher rates for one-policy marrieds may make marketers merry, but might overlook major flaws in that argument. Some have opined that the non-buying spouse is likely a poorer risk. This conflicts with the time-honored and experience-supported principle of anti-selection.

Those who buy are more likely to anticipate higher claims, not less. Further, it would be virtually impossible to demonstrate that the nonbuyers are worse risks, as nobody gathers statistics on the uninsured spouses. Actuaries should be suspicious of serpentine suppositions that support sales instead of ASOPs and Professional Conduct. ■



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