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Q&A With an Experienced Insurance Professional New to Long-Term Care

An Interview With Sean Pena

Sean Pena, FSA, MAAA, is a senior consulting actuary for LTCG.

When did you join the long-term care world and what was your background prior to joining?

I joined LTCG very recently, in April 2019. Prior to joining, I spent the past 12 years of my career in life insurance. For the first five years of my career, I worked at a small life insurance company with a European parent company. The department was very small so I had my hands in everything there, including cash flow testing, statutory and International Financial Reporting Standards (IFRS) reporting and embedded value. I switched over to life insurance and annuity consulting the past seven years of my career. I worked on a variety of projects including life insurance pricing, valuation, reserve financing transactions, in-force management actions and litigation, and asset and liability financial projection modeling.

What led you to make the switch from life insurance to LTC? What have been some of the challenges of this transition?

It was a difficult decision. I spent 12 years building my life product expertise, great relationships and my reputation. I was exploring new positions that would allow me to take on new challenges and opportunities in my career. I initially thought that it was a bad move to throw away my life insurance experience to switch to the LTC world. However, I was fortunate enough to work with most of the LTCG team while at my prior job and built strong personal and professional relationships. This connection helped me to put aside these concerns and take a more in-depth look at making the move.

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After researching and speaking with those in the LTC industry, I came to the realization that I would be enhancing my actuarial knowledge and skills, not starting over. Assessing LTC risks and quantifying LTC business requires the same core skill set as life insurance, while also challenging myself with learning new LTC concepts. My experiences so far have proven this to be true.

Building financial projection models requires the same skill set across life and LTC products, including the same software programs and coding techniques. I am also presented with the new challenge of coding unique LTC product features and assumptions, such as first principles multi-state models for both traditional and combo products. I've really enjoyed the process of analyzing the results of the extensive number of liability paths that occur with claim recoveries and transfers. It's been very interesting understanding how these paths are affected by various product features (e.g., restoration of benefits) or assumption sensitivities, and thinking about how to best communicate the results of these risks.

My experience developing analysis and support for life insurance in-force management actions, on universal life (UL) cost of insurance (COI) rates or yearly renewable term (YRT) reinsurance rates translates very well to LTC premium rate increase actions. Despite the different parties involved (lawyers and arbitrators vs. regulators), all of these decisions create a tricky balancing act of managing various competing interests, ensuring solvency and applying contractual terms. It has been interesting working under a more prescribed process (i.e., rate stabilization acts).

The lack of a cash value on LTC products, unlike UL, has led to a very interesting dynamic of how to protect policyholders. This created a need for innovative and fair nonforfeiture options for policyholders in lieu of a rate increase. The process of quantifying how much certain product features are worth (e.g., how valuable is a reduction in benefit inflation options) has provided me with valuable insight into how the value of a long-term care insurance (LTCI) policy varies drastically by plan, company and pricing era.

Setting morbidity assumptions requires the same actuarial judgment and logical thinking that I have established through life insurance experience studies over my career. I have some past experience with disability products and appreciate the additional layer of complexity from morbidity assumption components. I look forward to the added challenge of observing, quantifying and rationalizing how certain product features affect these assumptions.

Valuation models, prescribed laws on statutory reserving, asset adequacy testing, GAAP FAS 60[1] and targeted improvements are very similar across traditional life and LTC products. Additionally, I look forward to helping with the interpretation and implementation of AG51,[2] as well as leveraging my VM20[3] experience to roll out principle-based reserves (PBR) for LTC combo products.

What thoughts do you have on the current challenges of the existing standalone LTCI market?

The challenges within the LTC industry create an abundance of opportunities to develop new and improved products. My decision to join the LTC industry at this point in my career is because I am confident this is not a shrinking industry, but one that is in need of change and offers exciting challenges. I look forward to helping direct writers make more marketable and sustainable LTC products with stronger guaranteed benefits to policyholders. The most obvious fit for me is helping with the development of hybrid life and annuity products.

It gives a lot of meaning to my work to have the opportunity to help shape long-term care public policy and public opinion, and develop innovative products. I've experienced family members who have struggled with the ability to get the long-term care they deserved so I am aware first hand of the need for LTCI.

The actuarial profession is small as it is and the LTC world is much smaller, which has its pros and cons for establishing yourself in the industry. I was in one school district my entire life so I don't know the feeling of being new, but I suppose it feels a bit like being a transfer student. Hopefully this article is a good introduction, so stop me at the next Intercompany Long Term Care Insurance Conference Association Inc. (ILTCI) or SOA conference and say hi to the new kid. ■

ENDNOTES

1 Financial Accounting Standards Board. 1982. Statement of Financial Accounting Standards No. 60: Accounting and Reporting by Insurance Enterprises.

2 National Association of Insurance Commissioners. Actuarial Guideline 51: The Application of Asset Adequacy Testing to Long-Term Insurance Reserves. Last updated April 18, 2019.

3 National Association of Insurance Commissioners. VM-20: Requirements for Principle-Based Reserves for Life Products. *Valuation Manual*. Updated Jan. 1, 2018.