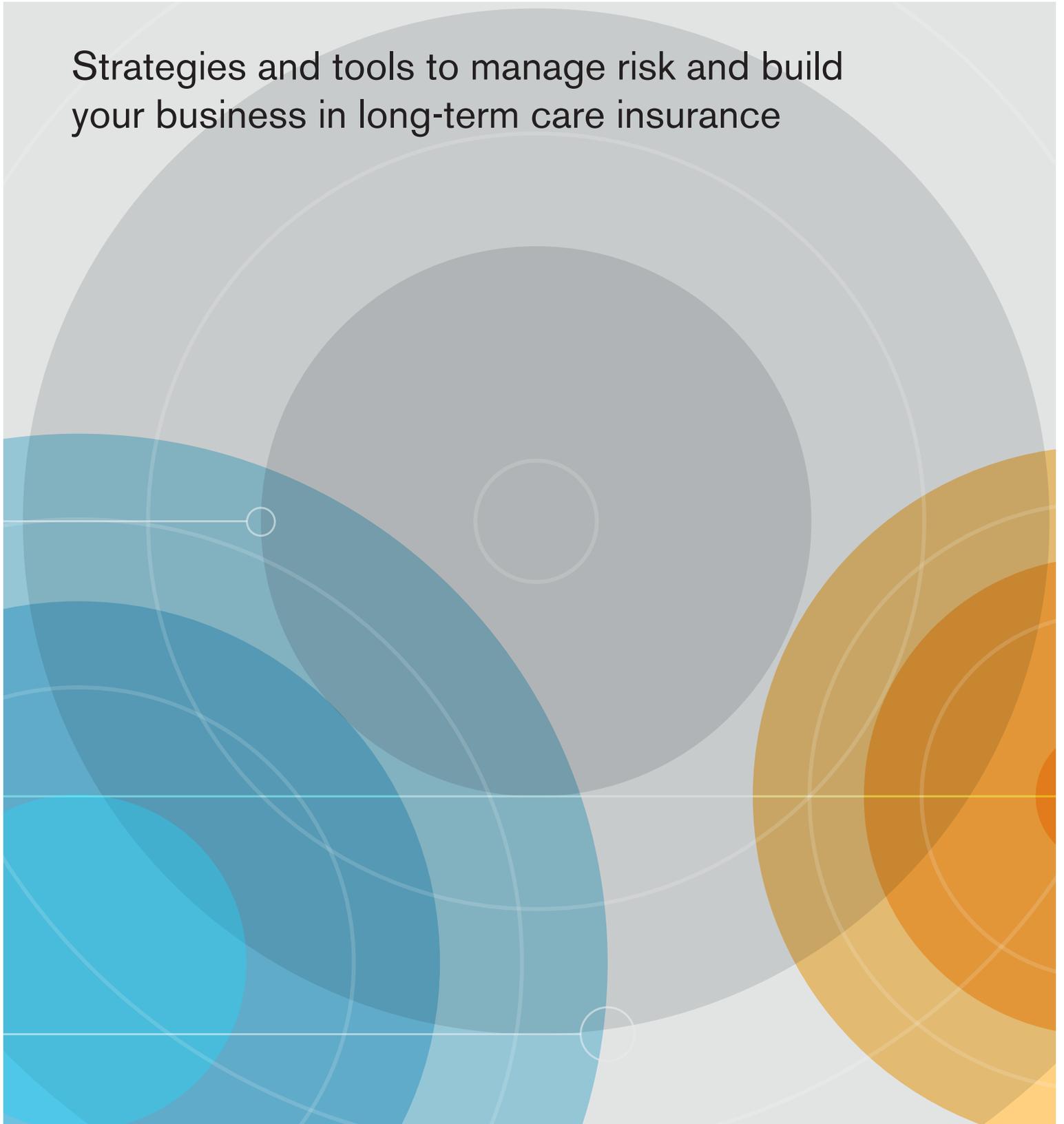




Long-term care services

# Strategies and tools to manage risk and build your business in long-term care insurance



## A commitment to long-term care

Whether you're entering new markets, developing new products, or looking for advice about pricing or financial modeling, you can count on Milliman for objective advice. The complexity and evolution of the long-term care (LTC) insurance market has led even the largest carriers to seek assistance in one or more key areas. Milliman, a firm of consultants and actuaries, has been providing this assistance since the inception of LTC. We're committed to helping you mitigate risk, increase efficiency, and improve your financial performance.

---

## Objective insight to build your business

Milliman has more actuaries specializing in LTC than any other consulting firm—and we've worked with most of the companies in the business. With several 20-year LTC veterans, we draw from a wide range of experience, offering our clients an unmatched depth and breadth of knowledge. Our understanding of the nuances of LTC has enabled us to develop a number of highly specialized tools for pricing, valuing, and administering your LTC business.

### Data experts

Our data specialists analyze large data sets from clients and maintain proprietary databases and pricing guidelines that provide normative comparisons and serve as benchmarking tools. We've developed a set of proprietary Long-Term Care Guidelines, which provide incidence rates, continuance curves, rates of transfer between sites of care, and claim costs for a large number of product designs over the past 20 years. These guidelines incorporate both private and public sector data sources, and they are periodically updated to reflect the most comprehensive and current information available in the market.

### Powerful tools

Our financial models for new products are prepared using advanced software systems, including MG-ALFA<sup>®</sup>, which can be licensed by our clients. The latest version of our MG-ALFA application applies a first-principles approach to project claims as well as other cash-flow and balance-sheet items. We use these tools in combination with the Long-Term Care Guidelines to assist you with all aspects of your group or individual LTC products.

### Independent and unbiased

Unlike other consultancies that may be public companies or linked to brokerage or accounting firms, Milliman's independence is crucial to our role, allowing us to work with a variety of LTC administrative vendors, reinsurers, and marketers, and to give our clients the benefits of understanding and incorporating different approaches to the business.

We're committed to the LTC product line and the success of the LTC industry. We have thus dedicated significant resources for ongoing development of pricing tools, databases, and the specialized knowledge of our actuaries. When you choose Milliman LTC consulting services, you gain access to a wealth of resources, a customized solution—and the integrity and quality for which Milliman is known.

### Solutions that meet your goals

We serve you with:

- Expert actuarial assistance from knowledgeable, independent consultants
- Methodology used by a wide variety of LTC companies and administrators
- Predictive modeling techniques that provide greater statistical insight into experience that is complemented by actuarial expertise
- Data from a broad range of industry experience, for both individual and group LTC
- Sophisticated tools and systems tailored to your needs

## Services for a range of needs

Milliman actuaries assist clients in a variety of key LTC areas, just some of which are described here. Our services are customized, and we can access additional expertise and resources from within our firm to provide strategies that fit your unique challenges.

### Product development and market entry

Our wide-ranging industry experience, coupled with a vast network of contacts, makes Milliman a valuable resource to companies seeking to enter new markets. We participate in all aspects of bringing a LTC product to market, including:

- Analysis of the competitive landscape
- Development of pricing assumptions and premiums
- Compliance and filing assistance, including with the Interstate Insurance Product Regulation Compact
- Financial modeling
- Capital planning
- Assessment of distribution and administrative capabilities
- Identification and evaluation of strategic partners

Milliman consultants can assist you in the development of individual, group, or true group LTC insurance products. We help you select plan designs that will position your product competitively in your target market. And we work with you to develop new and innovative product features to differentiate you in the marketplace. Our consultants can also help you consider alternative products, such as LTC riders for life insurance, annuity policies, or hybrid disability/LTC.

Balancing financial and marketing goals, our consultants will suggest the most appropriate premium rates for your product design. We can also assess and advise on the required capital to launch and maintain a new LTC product.

We work with clients to improve their competitive position by forming partnerships, creating new distribution channels, attracting product development partners, or expanding product portfolios. In addition to identifying potential partners, we help to structure new ventures, review and negotiate marketing agreements, and conduct financial and non-financial due diligence. We can prepare requests for proposals (RFPs), analyze proposals, and recommend the best organization to meet your needs. We are completely independent of these parties and work only in your best interests.

We assist large employer groups with making LTC products available to their employees. This can include designing the products, preparing RFPs to the insurance industry, evaluating the responses, or designing and implementing their own self-funded LTC benefit programs.

In addition to our traditional group LTC products for employers, Milliman can also help you design a plan more specifically tailored for the employer market. True Group LTC plans create an LTC safety net for employees through greater employee participation. We can include plan design features such as vesting, waiting periods, employer contributions, and alternative funding approaches. Such a plan is more likely to meet employer objectives and offers an innovative approach to LTC.

### In-force management

Milliman can help you establish sound and effective risk management systems for monitoring the performance of your LTC insurance portfolio. For example, we can design and implement procedures that monitor and effectively react to deviations in key profitability drivers, such as claims experience, underwriting, demographic mix, distribution, persistency, and investment income.

We have developed tools for conducting experience studies, including studies of claim incidence, claim severity, expenses, and policy termination rates due to mortality, voluntary lapse, or benefit expiry.

These tools can help you manage your business more efficiently and improve your competitive position. And they can be used to review your program's financial results and evaluate the appropriateness of your premiums. Our consultants can assist you with analysis of morbidity experience, as well as recommend, file, and help implement renewal rating structures. We can also provide an independent analysis of an insurance company's proposed premium rates and benefit structure.

Milliman consultants have experience designing and pricing "landing spots" for clients who are planning the implementation of a rate increase. Landing spots, or strategically designed reduced benefit options, provide an alternate, lower benefit to policyholders who otherwise face a full premium rate increase.

---

## Financial analysis

Milliman consultants provide a full range of financial actuarial consulting services to our LTC clients. In addition to estimates of statutory active life reserves, GAAP reserves, and claim reserves, we can determine whether solvency and adequacy requirements are met. And we can help you to improve your own liability estimation techniques.

Milliman uses MG-ALFA and other software systems to help clients with asset-liability analysis. This includes projecting reserve accounts and balance sheets on statutory or GAAP bases. In addition, we use sophisticated software to assess the embedded value of blocks of LTC business, help you make capital planning decisions, perform cash-flow testing, and review the effect of alternative reinsurance and tax strategies

## Mergers and acquisitions

Milliman is the leading actuarial firm for insurance companies, private equity firms, sales agencies, and other parties in LTC merger and acquisition transactions. Over the past 25 years, Milliman consultants have advised buyers or sellers in the majority of LTC industry transactions. In evaluating entire companies as well as specific blocks of business, we quantify financial and identify non-financial risks, and are key contributors to the structuring of transactions in economically efficient ways.

## Operational analysis

Our LTC expertise goes beyond traditional actuarial areas. We provide analysis on many operational aspects of your existing or planned LTC program. This includes review and benchmarking of policy administration, underwriting, claims payment, and claims management standards and processes. We can also help you design such standards and processes prior to product launch.

## Provider services

Milliman consultants work with continuing care retirement communities (CCRCs) to develop appropriate rate structures for the continuum of care. We have worked with companies considering continuing care at home (CCAH) products that incorporate the principles of a CCRC but allow individuals to remain in their homes. We also review CCRCs' financial structures and analyze their reserves to ensure adequacy.

**Our wide-ranging industry experience, coupled with a vast network of contacts, makes Milliman a valuable resource to companies seeking to enter new markets.**



## Access a range of LTC tools

Drawing on our significant industry experience, we have developed an extensive range of financial tools and databases that is specific to LTC yet flexible enough to be adapted for individual clients. Our actuaries often custom-design a tool for a specific client need. Here are some of the tools currently available to you.

Milliman's Long-Term Care Guidelines (the Guidelines) provide a flexible but consistent basis for the determination of claim costs for a wide variety of LTC benefit packages. These rating structures can be used to anticipate future claim levels, evaluate past performance, and establish interrelationships between different LTC coverages. The Guidelines are based on more than \$25 billion of LTC insurance claims spanning over 29 million life-years of exposure. They include estimates of continuance tables and frequencies that vary by three sites of care, as well as adjustments to reflect variation in underwriting, marital status, benefit triggers, tax qualified versus non-tax qualified, care coordination, and geographic area.

The ability to develop a morbidity projection assumption that captures differences in care situs, degree of underwriting, and reasonable inter-relationships between policy and demographic characteristics are key advantages of using the Guidelines to project liabilities and understand experience deviations.

### MG-ALFA

Milliman actuaries use several systems for modeling LTC financial characteristics. Our systems support financial projections and perform asset-liability analysis, and can be customized to meet the unique needs of individual clients.

Our financial modeling capabilities include:

- First-principles-based projections
- Stochastic and nested stochastic projections
- Product pricing
- Corporate modeling
- Cash-flow testing
- Mortality and lapse studies
- Actual-to-expected analyses
- Reserving

Milliman's Asset Liability Financial Analysis, or MG-ALFA, is a financial analysis modeling tool that is available commercially. This user-friendly, Windows-based system dramatically accelerates the process of pricing a wide range of LTC and other insurance products.

### MG-Triton Health

The MG-Triton<sup>®</sup> Health Valuation System is a commercial serialtim, production valuation system calculating statutory, tax, and GAAP reserves (benefit reserves, maintenance expense reserves, and deferred acquisition cost assets) for base contracts and riders for long-term care, disability income (individual and group), and Medicare Supplement products. Both purchase GAAP and historical GAAP are supported. The system will also perform gross premium valuation. The dedicated MG-Triton development staff has developed the system to operate in a controlled, server environment, complete with an online technical reference manual, thus assuring that internal and external audit standards are met.

The system calculates active life and claim reserves from first-principle and factor methods. A client may specify incidence and termination rates or, alternatively, tabular claim costs may be used. For clients raising premium rates on some plans, the system offers a prospective pivot-and-lock reserving method.

MG-Triton Health, similar to the other MG-Triton valuation systems, contains three levels of reporting for greater flexibility; Audit Detail, Projection Reports, and Summary Reports, which include:

- Exhibit of contracts, summarizing the type and volume of business in force
- Statutory and tax reserve summaries, by line of business
- Change in statutory reserve
- Change in GAAP reserves, DAC asset, and VOBA asset
- Exhibits 6 and 8
- Pre-tax cash flows
- Pre-tax statutory and tax profit





Milliman consultants have the knowledge, experience, resources, and tools to help you succeed in today's competitive business environment.

Learn more  
[milliman.com/ltc](https://milliman.com/ltc)

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit [milliman.com](https://milliman.com).