

# Continuing Care at Home National Conference May 2016

ACTUARIAL STUDIES - MINIMIZING RISK

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# ACTUARIAL STUDY

## Definition

Actuarial science is the discipline that applies mathematical and statistical methods to assess risk.

## Purpose

- To evaluate the long-term financial feasibility of a program.
- Provides pricing determined by operational costs, anticipated need and service costs for different levels of care, projected number of new members, number of deaths and voluntary withdrawals, and defined demographic assumptions.

## KEY COMPONENTS

### **Population Projections**

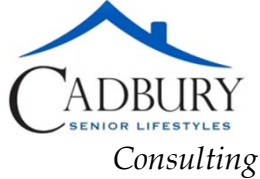
Develop demographic assumptions , which include mortality rates, morbidity rates, withdrawal rates.

### **Pricing Analysis**

Expected contract surplus/deficit for each contract and each age of a new member, membership fee and future monthly fees, and contractual liabilities (refunds, cost of care).

### **Valuation or Balance Sheet**

Used as an indicator of the adequacy of historical fee structures at the end of each calendar year.



## ACTUARIAL STUDY DEVELOPMENT

- Design your program.
- Determine financial plan options.
- Create the first year operational budget.
- Determine compensation for staffing.
- Research cost for home health services, assisted living, and nursing home care.
- Determine pricing margin.
- Define daily cap.

# UNDERWRITING

- Medical underwriting stricter than for Life Plan communities.
- Evaluates medical information as how diagnosis affects functionality, level of independence.
- Determining need for future care – evaluating someone that is not expected to need care for 4/5 years.
- Evaluates medical information through the use of assessment tools.
- Educating the sales staff.



## ACTUARIAL STUDY AS A TOOL

- Track and record utilization.
- Follow feasibility study.
- Refer to on a regular basis to compare actual experience versus assumptions and make appropriate adjustments as necessary.
- Review with actuaries on a regular basis.

## Reasonable Conservatism

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- Pricing
  - Cost of staffing, operations and services
  - Rate of membership growth
- Marketing
  - Demographic Research
  - Consumer Research
- Sales
  - Incentives
- Admissions
  - Assessment process