

EXAMINATION

3 April 2006 (am)

Subject SA1 — Health and Care Specialist Applications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. *Enter all the candidate and examination details as requested on the front of your answer booklet.*
2. *You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
4. *Mark allocations are shown in brackets.*
5. *Attempt both questions, beginning your answer to each question on a separate sheet.*
6. *Candidates should show calculations where this is appropriate.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet, with any additional sheets firmly attached, and this question paper.

In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator.

- 1 A UK company (Positive Pickles — PP) has recently completed a takeover of another company manufacturing similar but not identical products (Fantastic Spices — FS). The combined company will trade as Positive Fantastic Pickles (PFP). There are currently two separate health benefit arrangements for employees. Both schemes are non-contributory and insured. The details are as follows:

	<i>Positive Pickles scheme</i>	<i>Fantastic Spices scheme</i>
Members	1,500	2,500
PMI scheme	Members and dependants Full coverage for acute conditions No excess	No scheme
Hospital cash scheme	No scheme	Typical scheme in UK market 50% excess with low benefit limits
Critical illness benefits	No scheme	2 times scheme salary
Income protection	50% of scheme salary 26 week deferred period Expiry age — 65 th birthday No increases to benefits in payment	No scheme
Scheme salary	Total taxable earnings in previous tax year	Basic salary at 1 January
Long term care benefits	No scheme	Care home fees paid for member, spouse, parents and children

The combined company has decided to merge its health benefit arrangements for employees. It is proposed that all members of the Fantastic Spices scheme will be transferred to the Positive Pickles scheme and receive the Positive Pickles scheme benefits.

- (i) Discuss the advantages and disadvantages to the employer of merging the employee health benefit schemes. [6]
- (ii) Discuss the advantages and disadvantages to a member in the Fantastic Spices scheme of merging the employee health benefit schemes. [3]

It has been agreed that the insurers of the current PMI, Hospital cash, IP, CI and LTC schemes may quote for the merged PMI and IP schemes for Positive Fantastic Pickles at renewal.

- (iii) Discuss the areas which insurers should consider in providing:
 - (a) a generic pricing basis for group IP and group PMI products
 - (b) a scheme specific quotation for the merged PMI and IP schemes for Positive Fantastic Pickles at renewal [15]

- (iv) The Finance Director of Positive Fantastic Pickles has chosen one insurer as the party with which to proceed. However, he feels that the quoted cost is too high. Discuss how the benefit terms and conditions might be amended in order to reduce the premiums payable for:
 - (a) the income protection benefits
 - (b) the PMI benefits

[6]

It has been suggested that current members of the Fantastic Spices scheme will have the choice of remaining in the scheme or transferring to the Positive Pickles scheme.

- (v) Outline how general medical issues might affect the medical underwriting requirements that Fantastic Spices scheme members being transferred to the Positive Pickles scheme might be asked to provide. [4]

It has been suggested that the PMI and IP schemes could be “self-insured” by the company.

- (vi) Explain what is meant by ‘self-insured’ in this context and how it can be achieved. [4]
- (vii) Discuss what insurance and other business risks the company may be taking on as a result of self insuring and how the company might seek to reduce these risks. [13]

[Total 51]

2 You are the actuary for a large life office, offering both group and individual healthcare products. You have been approached by an intermediary regarding a potential product. This product would be sold to parents to provide cover for school fees on incapacity of either one of the parents or the child attending a private school. Schools fees vary by school but on average are around £9,000 p.a.

- (i) Discuss the key issues in determining whether you would wish to develop this product. [12]
- (ii) Describe the investigations that you would undertake in developing this product and to determine a suitable price for this product. [24]
- (iii) Outline the areas of experience of this potential new product which could be monitored after sales had commenced. [5]

Rather than providing cover on incapacity, it has been suggested that the product should focus providing cover on critical illness type events.

- (iv) Discuss the advantages and disadvantages of such an approach to each of the parties involved. [8]

[Total 49]

END OF PAPER