



AMERICAN ACADEMY *of* ACTUARIES

August 18, 2005

To: Julia Philips, Chair, Accident and Health Working Group (AHWG) of the NAIC
Life and Health Actuarial Task Force

Mike Boerner, Chair, Long-Term Care Reserves Subgroup of the NAIC Accident
and Health Working Group (AHWG)

From: Mr. Warren R. Jones, Chair, American Academy of Actuaries'¹ Subgroup on LTC
Experience Forms

Dear Ms. Philips,

Prior to the June NAIC meeting, the American Academy of Actuaries' (Academy) Subgroup on LTC Experience Forms submitted proposed changes to replace the existing Forms A, B and C with new Forms 1, 2 and 3. These new forms provide information on (i) actual versus expected experience of the critical assumptions of morbidity and persistency, (ii) the actual development of funds from the level premiums versus the reserves held, and (iii) the development of the claim reserve over the extended period of years that LTC benefits typically involve. These changes were proposed in our letter of May 20, 2005.

The proposal was discussed during the AHWG meeting in Boston and on a subsequent conference call. The Academy was asked to address several issues or provide changes to meet certain expectation of the AHWG members. Those changes were:

1. Include specifics in the instructions addressing what coverage types are to be included when reporting in the proposed forms. The second paragraph of the attached instructions provides our recommended approach – include only coverage subject to the rating rules of the NAIC Model. We note that this excludes certain coverages that were reported in Part 3 of the existing Form A per paragraph 13 of the current instructions. We do not believe that the recommended forms are appropriate for other coverage that includes some option to receive

¹ The American Academy of Actuaries is the public policy organization for actuaries of all specialties within the United States. The Academy is nonpartisan and assists the public policy process through the presentation of clear, objective analysis, and serves as the public information organization for the profession. The Academy regularly prepares testimony for Congress, provides information to federal officials and congressional staff, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also supports the development and enforcement of actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

- minor LTC benefits. Retaining some information about these other coverages may need additional forms.
2. The instructions specify that waiver and spousal-based premium waiver are to be included as claims and the reserves, net premiums and claim costs are to incorporate these costs. In many situations, premiums are not waived but the policy is paid-up. These two approaches will create different patterns of premium income, reserves and claim costs. Paragraph 7 of the instructions addresses this issue, which was not covered in the prior letter.
 3. We have not completed the instruction relating to what is to be reported as Individual versus Group in the new forms. Paragraph 11 of the current instructions requires that “policy forms be grouped by individual, group direct response, and other group.” This does not seem consistent with the desire expressed by regulators during a conference call. We believe that the group business that meets the definition of “group” in the NAIC Model Act, Section 6.E. (1), (2) or (3) should be reported as Group, but business that only meets the definition in Section 6.E.(4) should be reported with Individual. Since this is a significant change from the current reporting split, we request confirmation that the AHWG agrees with our recommendation or provides further direction.
 4. We have corrected several items in Form 1:
 - a. The forms will split reporting by Institutional, Non-institutional and Comprehensive to match the NAIC Model language;
 - b. The heading for Part 3, column 3 was corrected;
 - c. The instructions for *Column 2 – Incurred Claims* was revised to show different formula for when $T=0$ and when $T>0$ to avoid doubling claims.
 5. We have corrected one item in Form 2:
 - a. The factor p_{n+t-1}^E was deleted as inappropriate for the block of business (it would be correct if looking at a single policy).
 6. We have revised Form 3 in several ways:
 - a. The form shows eight years of experience (rather than five) as requested by the AHWG;
 - b. The instructions note that negative values may be the appropriate result for transferred business. The example which includes negative values was not revised;
 - c. The instructions at the bottom of Part 4 were revised to show a different formula when $T=0$ and when $T>0$.

We want to thank Mark Peavy for his thorough review of our proposed forms and instructions.

We appreciate the opportunity to provide these numerical examples for the proposed experience forms and look forward to your thoughts. If there are any questions

regarding these documents, I invite you to contact GERALYN Trujillo, staff liaison to the subgroup, at (202) 785-6924 or trujillo@actuary.org.

Very truly yours,

Warren R. Jones
Chair, Subgroup on Experience Forms
State LTC Task Force
American Academy of Actuaries

CC: Mark Peavy
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