



AMERICAN ACADEMY *of* ACTUARIES

February 22, 2010

Mr. Steven Ostlund
Chairperson, Accident and Health Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2662

Dear Mr. Ostlund

As chair of the Society of Actuaries' (SOA) Valuation Committee and the American Academy of Actuaries'¹ State LTC Task Force, and on their behalf, I am pleased that the Accident & Health Working Group has requested information regarding our joint project to develop and recommend valuation morbidity tables for long-term care insurance (LTC). The timing is appropriate for a serious investigation of a morbidity table for long-term care because a significant amount of claims data is becoming available for policies with comprehensive coverage. These policies represent a majority of those policies that have been issued and this will likely continue for the foreseeable future.

Because an independent inter-company survey would be quite laborious, the company studies conducted by the SOA LTC Experience Committee are a logical choice of data source for our purpose. As such, we are confined by the specific set of data from these studies. The latest study was done in 2005. Medical Information Bureau (MIB) is the vendor that is responsible for data safeguarding and data scrubbing. The data set available will consist of cumulative data from all past surveys of all reported policies. Please note that the Academy will not be directly collecting any data from companies in connection with this project, but rather will rely on MIB for obtaining data, data safeguarding, and data scrubbing.

The development of the morbidity table is a continuous process. Because of the anticipated tremendous growth in claims in the next five to ten years, future tables will be vast improvements over this initial effort. Furthermore, limitations on the current available data will be removed once we participate in specifying the desirable data elements for future surveys.

¹ The American Academy of Actuaries is a professional association of over 16,000 members, whose mission is to serve public policymakers by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For the present, we are proposing a modest structure that we believe is workable. The morbidity tables will consist of:

1. Comprehensive Coverage
 - a. Incidence rates for facility stay
 - b. Incidence rates for home health care
 - c. Claim termination rates for facility stay
 - d. Claim termination rates for home health care
2. Nursing Home Only Coverage
 - a. Incidence rates
 - b. Claim termination rates
3. Home Health Care Only Coverage
 - a. Incidence rates
 - b. Claim termination rates

The incidence rates will be select and ultimate (based on the duration of the policy) and vary by gender (to the extent permitted by law) and possibly marital status at-issue. Claim termination rates will vary by age group at time of claim, by claim duration, gender (to the extent permitted by law) and possibly other factors such as cause of claim, but not by duration of the policy². Because most current policies reimburse actual charges, service utilization factors (typically expressed as percentages of daily benefit maximum) will also be determined. We will consider the necessary instructions for adjustments to account for benefit differences.

The above proposed structure is consistent with the input requirements for the stochastic model being developed by the Academy's LTC Principle-Based Reserve Work Group.

We will construct the basic tables first before loading them for valuation purposes. Before recommending the valuation tables, we plan to request certain companies to provide sample comparisons of their contract and claim reserves against those calculated using the proposed tables.

We believe the proposed structure will be a good first step in establishing a reference for valuation and other purposes. It may also provide a useful foundation for future table constructions.

The attached exhibit summarizes the set of morbidity factors we would like to eventually use in ongoing data collection. We believe we have the data for a subset of these factors necessary for the development of the initial tables.

² We plan to look at variations in claim termination rates for broad duration groupings to see if the valuation table needs to also reflect this parameter.

Our tentative schedule is as follows:

- | | | |
|--|----|---------|
| a. Develop work-around due to data limitations * | by | 3/2010 |
| b. Request data extraction & company samples | | 4/2010 |
| c. Analyze and select data by company | | 9/2010 |
| d. Build basic tables | | 12/2010 |
| e. Build valuation tables | | 2/2011 |
| f. Validation by companies | | 6/2011 |
| g. Recommendation to NAIC | | 7/2011 |

* One issue that needs to be resolved is the lack of information on the specific annual increases for policies with inflation protection.

If you have any questions regarding our proposed structure and timeline, please contact Tim Mahony, the Academy's state health policy analyst, at 202.223.8196 or Mahony@actuary.org. Please provide us with a list of regulators who would be interested in following our progress, and we will keep them up to date on all of our communications.

Very truly yours,



Bob Yee, FSA, MAAA

Exhibit

	<i>Type</i>	<i>Morbidity Factor</i>	<i>Available from Intercompany Study</i>	<i>Required for Initial Table</i>
1	Policy	Company Code		
2	Policy	Coverage (facility, home care, comprehensive, etc.)	✓	x
3	Policy	Type (group, individual, etc.)	✓	
4	Policy	Underwriting standard	✓	x
5	Policy	Distribution method	✓	
6	Policy	Issue date	✓	x
7	Policy	Termination date	✓	x
8	Policy	Termination reason	✓	
9	Policy	Social security number		
10	Policy	Single or multi-lives (i.e. part of share care)	✓	
11	Policy	Birth date	✓	x
12	Policy	Gender	✓	x
13	Policy	Marital class	✓	x
14	Policy	Preferred class	✓	x
15	Policy	Premium paying period	✓	
16	Policy	Original zip code		
17	Policy	Original living arrangement		
18	Policy	Ethnicity		
19	Policy	Income-asset		
20	Policy	Education		
21	Policy	Tobacco usage	✓	
22	Policy	Benefit trigger (ADL or physician certified)		
23	Policy	Original daily benefit maximum by coverage	✓	x
24	Policy	Original maximum lifetime benefit by coverage	✓	x
25	Policy	Elimination period by coverage	✓	x
26	Policy	Inflation protection		x
27	Policy	Purchase option	✓	
28	Policy	Reimbursement or cash		
29	Policy	Daily benefit maximum at claim		
30	Policy	Maximum lifetime benefit at claim		
31	Policy	Waiver of premium		
32	Policy	Zip code at claim	✓	
33	Policy	Living arrangement at claim		

**Exhibit
(continued)**

	<i>Type</i>	<i>Morbidity Factor</i>	<i>Available from Intercompany Study</i>	<i>Required for Initial Table</i>
34	Claim	Primary cause of claim	✓	
35	Claim	Secondary cause of claim	✓	
36	Claim	Marital status at claim	✓	
37	Claim	Claim incurral date	✓	
38	Claim	Service setting at claim	✓	
39	Claim	Number of ADLs	✓	
40	Claim	Cognitive impairment	✓	
41	Claim	Facility benefit (nursing home, assisted living, etc.)	✓	x
42	Claim	Home care benefit (home aide, adult day care, etc.)	✓	x
43	Claim	Payments by benefit & claim duration	✓	x
44	Claim	Service begin date	✓	
45	Claim	Service end date	✓	
46	Claim	Number of service days	✓	x
47	Claim	Claim termination date	✓	x