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Individual Disability Tables Work Group Update to Health Actuarial Task Force

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Progress Since December 2013

- Report on individual disability table exposed to the industry from Jan. 1, 2014 to June 30, 2014
- 10 comment letters received from nine industry organizations
- Also raised other issues for Individual Disability Tables Work Group (IDTWG) to discuss
- All comments reviewed, leading to various report and workbook changes
- Report resubmitted for HATF commentsIDTWG Workbook has been revised



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IDTWG Objectives

- Goal to have statutory morbidity table that reflect the current environment and provide adequate reserves with a high level of confidence. The table recommendation includes the following:
 - Additional complexity relative to CIDA
 - Use of own company experience
 - Ability to apply retroactively to all inforce policies
- Potential impacts of implementation
 - Additional complexity for implementation this will take time
 - Potential tax issues have been raised and considered
- IDTWG is not recommending significant changes to the original report, but addresses items noted on next slides



Comment Themes/IDTWG Responses

Theme	Specific Items	IDTWG Response
Scope	 Requested exclusion short-term disability worksite policies Requested clarification on handling of certain riders 	 Draft model regulation modified to exclude worksite policies Scope modified to clarify this report is about morbidity tables only, not the handling of riders
Table complexity	• Concern over the time needed to analyze and implement new tables	• Additional complexity reflects experience that has emerged over time that is already reflected in pricing. Also, between the state legislative cycle and transition period, companies have 4-5 years to implement
Tax issues	 Modify model regulation to help clarify existing tax issues Beware of tax issues caused by new table – are these worth the trade-off? 	 Modifications to draft model regulation to help clarify tax treatment, where applicable Other tax issues considered, but didn't lead to modifications (e.g., retroactivity, use of company experience)



Comment Themes/IDTWG Responses

Theme	Specific Items	IDTWG Response
Occupations	 Concern over mapping of occupations to classes Concern over medical occupation class – ranging from don't have or have more 	 Added guidance on mapping No change – stayed with one medical occupation class – felt it was needed based on volume and morbidity differences, but data does not support multiple medical occ classes
Table modifiers	 Are all of the modifiers needed? Clarification on optionality of modifiers Various consistency issues (e.g. diagnosis code mapping) Buy-out modifiers? Accident or sickness-only 	 Kept all others, again, to be reflective of the emerging experience Clarified modifiers are not optional Tables modified accordingly, no major changes; diagnosis grouping looks more like group LTD Not enough experience to justify separate modifier Added modifiers for these coverages
State modifiers	• Are these really needed? Concern over some states adopting, some not	• Dropped state modifiers, but added guidance; this caused other termination modifiers to change
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Comment Themes/IDTWG Responses

Theme	Specific Items	IDTWG Response
Level of margin	• Concern margin may be too high	• Margin recommendations reviewed in light of comments; what IDTWG recommended was still appropriate – no change
Own experience usage	• Concern that use of own experience was not worth the effort	• Concerns discussed, but IDTWG concluded that what was in the report was appropriate
Own experience Usage clarification	• Several questions/comments requesting clarification/correction of certain points	• Report modifications made to be more clear and more correct
Retroactivity	 Request to have flexibility over how far back can a company go Should we limit the period of time companies can exercise retroactivity? 	 Point of discussion with HATF – concern that flexibility could lead to manipulation Limited period of time to the transition period, although in practice, a company can strengthen reserves anytime, and implement at least DLR termination rates retroactively at any time
Other regulation changes	• Request to include reference to VM-25	• Added
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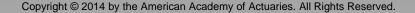
Follow-up Since 10/30 Call

Incidence exposure trends by state

Slightly declining mix of business for CA/FL/NY relative to total

% Exposure	Study Period					
Issue State	1990-94	1995-99	2000-03	2004-06	Total	
California	11.3%	10.4%	10.2%	9.8%	10.4%	
Florida	6.2%	5.9%	5.1%	4.8%	5.5%	
New York	10.4%	11.3%	9.3%	9.4%	10.0%	
Other	72.1%	72.5%	75.4%	76.0%	74.1%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

SOA conducted a survey to see potential impact of retroactivity by company relative to currently held reserves



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For Discussion

- HATF has set up subgroup to address comments expect work to start in December
 - At some point, IDTWG report should be re-exposed to industry for short period of time (e.g., 30 days)
- Discussion issues
 - Transition issue raised for LTD tables by NAIC Statutory Accounting Principles Working Group
 - Retroactivity flexibility
 - Any other questions?



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