

## ACTUARIAL GUIDELINE \_\_\_\_\_

### THE APPLICATION OF COMPANY EXPERIENCE IN THE CALCULATION OF CLAIM RESERVES UNDER THE 2012 GROUP LONG-TERM DISABILITY VALUATION TABLE

#### I. Background

The 2012 Group Long-Term Disability (GLTD) Valuation Table, as included in the *Health Insurance Reserves Model Regulation* (#10), is the valuation standard to replace the Commissioner's Group Disability Table 1987 (CGDT87 Table) with a new one based on the GLTD 2008 Table. This table is referred to as the GLTD 2012 Valuation Table and can be found at the following location:

[http://www.naic.org/documents/01\\_naic\\_2012\\_group\\_long-term\\_disability\\_valuation\\_table.xls](http://www.naic.org/documents/01_naic_2012_group_long-term_disability_valuation_table.xls)

An actuarial guideline is more appropriate to handle the multiple segments of the 2012 GLTD Valuation Table, the computations of own experience and the application of credibility which are not normally found in model regulations.

#### II. Purpose

The purpose of this Actuarial Guideline is to provide an instruction for the use of the 2012 GLTD Valuation Table that is referenced in the *Health Insurance Reserves Model Regulation* (#10). This guideline pertains to Group Long-Term Disability claims consistent with the conditions defined in the model regulation, and governs the selection of claim termination rates for the purpose of calculating GLTD claim reserves. This guideline does not address reserve adequacy, which remains the concern of the insurer according to the terms expressed in the model regulation.

Although the various detailed formulas in this guideline do not directly address or define reserve adequacy, it is assumed that appropriate adequacy tests will be made periodically. Such adequacy testing is considered to be an additional tool for the actuary to make appropriate choices where leeway from any prescription made herein is allowed (A/E calculation, margin, etc.) so that the calculation of the reserve will generally be adequate and the actuary does not need to continually rely on other measures to achieve adequacy. In addition to the few times that leeway from prescription is mentioned below, nothing in this guideline should be assumed to prohibit the actuary from building a case and requesting permission from the state insurance commissioner for other appropriate variations. Many such situations, because they would apply to fully credible blocks of business and are intended for continual use, should be considered for approval by the commissioner for a period tied to the updates required by Section C.vi and not approved on an annual basis.

#### III. Text

- A. When the insurer follows the instructions provided in this guideline, the selected claim termination rates automatically meet the minimum valuation standard defined in the model regulation.
- B. Valuation Table Modifications

If not invoking the small company exception specified in Section D, a company must use a credibility-weighted combination of its own claim termination experience with the 2012 GLTD Valuation Table to create its specific valuation table.

- i. For claims in Duration Group 1 (duration  $\leq$  3 months), termination rates may be developed as below consistent with other Duration Groups or in any other manner deemed appropriate by the actuary. With respect to credibility, any value between 0 and 1.0 that the actuary deems appropriate for the block may be used.
- ii. For claims beyond 3 months, the valuation termination rates shall be computed using the termination rates from the 2012 GLTD Valuation Table (S) multiplied by experience adjustment factors (T) that are calculated separately for four different duration groups.



- 6)  $C$  shall be the company's actual number of total recovery and death counts by duration group.
- iii. The company shall not use termination rates that produce total reserves for claims disabled for more than two years that are less than the reserves produced for these claims by computing  $T$  as  $\underline{T} = 1.30$ . If the Company Specific Experience, determined in Section C below, for Duration Group 3 includes at least 5,000 claim terminations, the value of  $T$  for that Duration Group shall not be limited to  $\leq 1.30$
- C. Company Specific Experience—Own Experience Measurement  
In computing values  $F$  and  $S$  to comply with Section B above, the appointed actuary shall:
- i. Segment the company claim termination experience into any major subgroups that may produce significantly different results (e.g., market niches, claims operations, unique benefit designs, etc.).
  - ii. Combine affiliated statutory entities and assumed reinsurance, where claim management is under a common structure, when considering company experience. It is also appropriate to evaluate experience separately when specific blocks of company business have distinct claim management practices or significantly different risk characteristics.
  - iii. Include all relevant experience the company is capable of providing for as many of the last five years as possible (not including the lag period described below). However, there are two situations where using other than a five-year period may be more appropriate. The first is when a company's experience in a longer period not only increases credibility but is still relevant and appropriate for the company's products and claim management practices. The second is for a company that has had significant changes in product and/or claim management practices within the past five years that has diminished the relevance of the company's experience early in the five-year period. In this second situation, less than five years of experience may be used for any duration band for which there is compelling logic and when either the company's experience to be used is at least 90% credible, or the shorter experience period produces higher reserves than using five years.
  - iv. Recognize a suitable lag period to allow for a full resolution of claim status. The lag period used in the 2008 GLTD Study was 12 months. However, the appointed actuary may use a different lag period based on his or her company experience. For example, company experience indicates that all changes after the selected lag period are negligible.
  - v. Measure actual (A) to expected (E) terminations based on claim count (unless another weighting is deemed more appropriate, as mentioned in Section B(ii)(b)4), where the E is based on monthly expected recoveries and deaths from the 2012 GLTD Valuation Table. Claim count is also used in the measurement of credibility.
  - vi. Update the minimum valuation basis in accordance with Section B above at least once every five years. In addition, the valuation basis also must be updated whenever the company's annual own experience study produces, in accordance with Section B, a value  $T$  that changes by more than 10% from the one used in the current valuation basis for any of the five duration groups.
  - vii. Recognize where appropriate any flexibility built into the 2012 GLTD Valuation Table, such as not utilizing diagnosis-specific termination rates when the information is deemed unreliable.
  - viii. Do not count as terminations those claims that are closed due to settlement (i.e., a lump sum replacing a series of potential future payments), or that have reached the end of the maximum benefit duration, or that are closed due to a contractual limit, such as a mental and nervous limit. For this purpose, a closure due to a change in definition of disability should be considered an actual termination and not a termination due to reaching the maximum benefit duration.
  - ix. Use experience that is otherwise relevant in accordance with the professional judgment of the appointed actuary.

- x. Do not use experience that the commissioner has deemed inappropriate or likely to produce significantly inadequate reserves.

In the above paragraphs, the expression term “company” refers to a single company or a group of legally related companies subject to the same claim management.

D. Own Experience Measurement Exemption

If, at the time of valuation, a company has fewer than 50 open claims disabled within two years of the effective date of the valuation, and fewer than 200 open claims disabled more than two years prior to the effective date of the valuation, the carrier is exempt from the requirement that the 2012 GLTD Valuation Table be modified by the company’s own experience. Said company will use 100% of the 2012 Valuation Table for calculating claims termination rates in order to comply with the minimum valuation standard.