



AMERICAN ACADEMY *of* ACTUARIES

To: Mr. Michael Batte, Chair
Accident and Health Working Group of the NAIC Life and Health Actuarial Task Force

From: Mr. Robert K. W. Yee, Chair
American Academy of Actuaries¹ Long-Term Care Reserve Work Group

March 7, 2003

Mr. Batte,

The Long Term Care Reserve Work Group of the American Academy of Actuaries (Academy) is ready to assist your Work Group in a thorough review of the reserve methodology relating to Long Term Care (LTC) insurance. We understand your group's desire for both a near-term and a long-term solution. Accordingly, we have formulated the following 'work order' proposal.

Near-Term Objectives:

1. Review the current requirements in the Health Insurance Minimum Reserves Model Regulation to address three aspects:
 - a. Termination Assumptions
The Academy Work Group will review the potential use of the results of a SOA/LIMRA persistency study that is not yet completed. The Work Group will also review the potential use of industry trade (HIAA and ACLI) studies of total termination rates that may provide more timely data. The Work Group will make a good-faith effort to distinguish voluntary lapses from deaths.
 - b. Morbidity Improvements
The Academy Work Group will review the ways in which Commissioner approval of morbidity tables can be augmented to address assumptions other than current experience.
 - c. Credibility Standards
The Academy Work Group will review existing literature on credibility as it applies to the data used to justify reserve assumptions or to make modifications to the assumptions to reflect differences (as required by ASOP No. 18).

¹ The American Academy of Actuaries is the public policy organization for 14,000 actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the actuarial profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

2. Review current experience reporting requirements to increase their effectiveness:
 - a. Persistency Experience
The Academy Work Group will investigate the information disclosed in the Experience Reporting Forms and recommend future improvements to gather more useful persistency data.
 - b. Expected Claims
The expected claims in the current Experience Reporting Forms are based on pricing expectation of distribution of business. Actual product mix may be different than pricing expectation. The Work Group will review the use of actual mix of business to come up with expected claims.
 - c. Claim Reserves
Current Experience Reporting Form A provides a unique basis for looking at the adequacy of claim reserves. The Work Group will review the manner in which this form is being used and what changes would enhance the review of claim reserve adequacy.

Long-Term Objectives:

1. The Academy Work Group will review the entire basis for developing minimum statutory contract reserves. Under the applicable model regulation, this review will include the mechanism for the setting and release of the margins in the reserves over the anticipated experience. Furthermore, the Work Group will consider differences and similarities between the reserving practices of LTC and other lines of business.
2. The Work Group will look into the potential value and manner in which improved feedback loops can be incorporated into the assessments of future experience. The Work Group will determine the mechanism of how reserves may be ‘unlocked’ (either to build at a slower or faster rate), given credible new information.
3. The Work Group will consider the relationship between statutory reserves and risk-based capital to ensure total capital adequacy.

The Academy Work Group expects to present its findings and recommendations for the near term objectives by the end of this year. The expected completion date for the investigation of the long term objectives will be determined at a later date when a detailed list of tasks have been identified. At this time, the Work Group intends to work on the near term and long term objectives simultaneously.

Very truly yours,

Bob Yee
Chair, Long-Term Care Reserve Work Group
American Academy of Actuaries