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Individual Disability Tables Work Group Update to Health Actuarial Task Force

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American Academy of Actuaries

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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 comments
- IDTWG Workbook has been revised



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	<ul style="list-style-type: none"> Requested exclusion short-term disability worksite policies Requested clarification on handling of certain riders 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Concern over the time needed to analyze and implement new tables 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Modify model regulation to help clarify existing tax issues Beware of tax issues caused by new table – are these worth the trade-off? 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> • Concern over mapping of occupations to classes • Concern over medical occupation class – ranging from don't have or have more 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Are these really needed? Concern over some states adopting, some not 	<ul style="list-style-type: none"> • Dropped state modifiers, but added guidance; this caused other termination modifiers to change



Comment Themes/IDTWG Responses

Theme	Specific Items	IDTWG Response
Level of margin	<ul style="list-style-type: none"> Concern margin may be too high 	<ul style="list-style-type: none"> Margin recommendations reviewed in light of comments; what IDTWG recommended was still appropriate – no change
Own experience usage	<ul style="list-style-type: none"> Concern that use of own experience was not worth the effort 	<ul style="list-style-type: none"> Concerns discussed, but IDTWG concluded that what was in the report was appropriate
Own experience Usage clarification	<ul style="list-style-type: none"> Several questions/comments requesting clarification/correction of certain points 	<ul style="list-style-type: none"> Report modifications made to be more clear and more correct
Retroactivity	<ul style="list-style-type: none"> Request to have flexibility over how far back can a company go Should we limit the period of time companies can exercise retroactivity? 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Request to include reference to VM-25 	<ul style="list-style-type: none"> Added



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				
	1990-94	1995-99	2000-03	2004-06	Total
Issue State					
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



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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