



AMERICAN ACADEMY *of* ACTUARIES

Oct. 31, 2011

Steve Ostlund
Chair, Health Actuarial Task Force
National Association of Insurance Commissioners

Re: Update on Academy/SOA Cancer Claims Cost Tables Work Group Project

Dear Steve:

As chairperson of the joint American Academy of Actuaries¹/Society of Actuaries (SOA) Cancer Claims Cost Tables Work Group, I appreciate the opportunity to update you and the Health Actuarial Task Force on the work group's progress. Over the past year, the work group has completed the following:

1. Released a survey to the industry about the use of the 1985 cancer tables and the SOA collected data from 16 of the 33 companies surveyed. The collected data were largely qualitative in nature even though the SOA also asked for quantitative data about reserve effects of the 1985 tables versus reserves built from valuation actuary assumptions. The SOA staff reviewed the data and summarized the information for the work group's review. The data show a diversity of practice when dealing with the 1985 tables. Of the 16 companies that responded, only five reported using the 1985 tables for all benefits in their products. The remaining 11 companies reported using the modified 1985 tables, using the 1985 tables for some but not all benefits, or not using the 1985 tables at all.

2. Presented and discussed the summarized survey results on a conference call in September. During the call, the work group reached the following conclusions:

- The diversity of practice demonstrates the problems the industry is having in applying these older tables.
- The results show the need for the development of new valuation tables more consistent with recent experience and the reality of the rapid change in cancer treatment paradigms and consequent adaptations in cancer policy benefits.
- New tables for valuation of cancer occurrence and hospitalization due to cancer are prime candidates because data submission by companies is relatively simple and medical advances do not affect these benefits to a great extent.

¹ The American Academy of Actuaries is a 17,000 member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualifications, practice, and professionalism standards for actuaries in the United States.

- Development of reserve tables for benefits that would be appropriate over the long term, such as radiation, chemotherapy, and possibly surgical treatment, would be difficult, if not impossible, to develop.

Based both on these conclusions and the inability to collect industry experience for all benefit types, the work group decided to work with the SOA staff to solicit and obtain voluntary information through the collection of data on incidence and hospitalization experience benefits. Since the industry is fragmented, with many companies having small amounts of exposure, our focus will be the top 15 companies. We believe that if the data is collected from at least 10 of these companies, along with any smaller companies that contribute data, we will have the basis for updated tables for incidence and hospitalization benefits. We believe that other benefits should be reserved in the future by use of valuation actuarial assumption estimates.

It would be helpful if the task force could assist our work group in urging companies to voluntarily participate when the data call goes out from the SOA. If possible, we would like to include a letter from the task force in the data call package that will be sent out.

We plan to have the data call ready for submission to companies after statutory year-end work is over and will keep you up to date on the progress of our efforts. We expect that the timeline for this project will be at least a year (12 to 16 months). If you have any questions or would like to discuss this matter further, please do not hesitate to contact Tim Mahony, the Academy's state health policy analyst (202.223.8196; Mahony@actuary.org).

Respectfully,

Brad Spenny, MAAA, FSA
Chair, Joint SOA/Academy Cancer Claims Cost Tables Work Group