LONG-TERM CARE INSURANCE EXPERIENCE REPORTING FORMS

These Reporting Forms must be filed with the NAIC by April 1 each year.

The purpose of the Long-Term Care Insurance Experience Reporting Forms is to monitor the amount of such coverage and to provide data specific to this coverage. Long-term care expenses may be paid through life policies, annuity contracts and health contracts. When the long-term benefits portion of the contract is subject to rating rules based on the *NAIC Long-Term Care Insurance Model Regulation* (Sections 9 and 19 or 20), the adequacy of the pricing and reserve assumptions is critical to meeting the expectation of those sections. For life or annuity products where no portion is subject to these rating rules, the products are not being included in the reporting in these forms.

Starting in 200X, these are entirely new forms (Forms 1, 2 and 3) replacing the prior forms (Forms A, B and C). The original forms monitored compliance with lifetime loss ratio standards. The new form 1 focuses on the critical assumptions of morbidity and persistency while still presenting loss ratio data (without the level of detail in the original forms). The new form 2 focuses on the developing level of funds from the issue age premium basis and compares this to the active life reserve. The new form 3 focuses on the adequacy of claims reserves by presenting experience based on incurred year over the next several years. In addition to the considerable changes in the structure and purpose of the forms, the new forms are based on adding additional calendar years of experience to prior results. To more appropriately compare the actual results with expectations, the expected values are based on the exposure at the beginning of that year, *not* the original assumed sales distribution used when completing the original forms.

Because of the relatively small claim rates and variable length and size of long-term care claims, the statistical credibility of long-term care insurance experience is lower than the amount of credibility assigned to similar amounts of experience on other types of health insurance. This should be taken into account when reviewing experience and assessing the adequacy of reserves and the critical assumptions underlying them.

The Long-Term Care Reporting Forms 1 through 3 should be filed whenever Long-Term Care insurance has been sold, regardless of which annual statement has been filed. These forms are not only applicable to companies filing the Life, Accident and Health Annual Statement. The list of the various annual statements is: Life, Accident and Health, Property/ Casualty, Fraternal and Health.

Experience for LTC insurance should be reported separately by stand-alone LTC policy form or by rider where experience is to be reported by form. Reporting by rider is applicable only to riders having distinct premiums for LTC coverage that are attached to products other than stand-alone LTC policies. Experience under forms that provide substantially similar coverage and provisions, that are issued to substantially similar risk classes and that are issued under similar underwriting standards, may be combined. If this option is utilized, the forms combined should be identified in the column captioned “Policy Form.”

Claims incurred will need to reflect the loss of future premiums. These will occur because of the waiver of premium provision in the contract, waiver due to spouse’s benefit status or other provisions in the contract that make it paid-up or not subject to collection of additional premiums for some future period. The claim incurred in each year will include the amount of the reserve established to reflect the loss of future expected premiums. The effect in future years will depend on the manner in which premiums from these policies are reported in following periods. If the assumption is that the policy is paid-up (no future premiums to be collected), the reserve and experience fund would be the paid-up value and future incurred claims will be only for LTC benefits. If the assumption is that future premiums (gross or net) will be considered as “paid by waiver,” the reserve and experience fund will include in the reserve the present value of future premiums to be waived and the premium waived will be reported as both earned premium and a portion of the incurred claims.

Policy forms should be grouped by individual, group direct response, and other group and reported on Lines 1, 2 and 3, respectively. The subtotals for each of the three classes, i.e., individual, group direct response and other group, must be provided. Line 4 is the sum of Lines 1 through 3. **[This needs to be changed.]**

Determining whether data should be included in Part 3 should be decided at the policy form level, not on an individual policy or certificate basis. For example, consider a policy form for which LTC benefits are optional to policyholders, premiums and benefits should be reported in Columns 1 and 3, respectively, for all policies issued under this policy form regardless of whether or not an individual policyholder selected the LTC rider. Alternatively, consider a life insurance policy form for which LTC benefits are not optionally available as a rider or required as part of the basic life policy form. No data for such life only policy forms should be included in Part 3. **[This needs to be changed.]**

[All of the existing instructions from this point on are deleted and replaced with the instructions for the new forms.]

INSTRUCTIONS FOR FORM 1

OVERVIEW

Long-Term Care Insurance Experience Form 1 is intended to track actual claims and persistency against expected. Certain group business is reported separately from Individual and some Group business. Policy forms are grouped into three categories: comprehensive, institutional only or non-institutional. Yearly as well as cumulative comparisons are exhibited. Even though only policy form groupings are displayed, policy form level information should be kept. It may facilitate rating reviews by the regulators.

DEFINITIONS AND FORMULAS

Comprehensive

Policy forms that provide a combination of institutional or facility and non-institutional coverage. These include institutional only policies with non-institutional riders.

Institutional Only

Policy forms that provide institutional coverage only.

Non-Institutional Only

Policy forms that provide only non-institutional coverage.

Current

Current calendar year of reporting.
Example: For a specific policy form category, the first year of issue was 1999. This Form 1 is required starting for the year 2006 and the reporting year is 2008. The current year would be 2008.

Prior

The year immediately prior to the year of reporting.
Example: 2007

2nd Prior

Two years prior to the year of reporting.
Example: 2006

3rd Prior

Three years prior to the year of reporting.
Example: Blank, since the first year of reporting is 2006.

4th Prior

Four years prior to the year of reporting.
Example: Blank, since the first year of reporting is 2006.

5th Prior

Five years prior to the year of reporting.
Example: Blank, since the first year of reporting is 2006.

Form Inception-to-Date

Aggregate experience data since the adoption of this Form 1.
Example: Data from 2006 through 2008.

Actual and expected in force counts are sums of counts for all years since adoption of Form 1.

Total Inception-to-Date

Aggregate experience data since issuance of policies.
Example: Data from 1999 through 2008.

Column 1 – Earned Premiums

Earned premiums:

Collected Premiums + Change in Due Premiums – Change in Advanced Premiums – Change in Unearned Premium Reserves.

Total earned premiums should equal direct earned premiums for LTC business from Schedule H (Part 1 line 2 less Part 4 line A 2 plus Part 4 line B 2).

Column 2 – Incurred Claims

If iy = incurred year
T = report year – incurred year,
v = discount rate,
${}_t\text{Paid Claims}_{iy}$ = paid claims during claim duration t from claims incurrred in year iy, t = 0, 1, 2, 3, . . . T
${}_T\text{Case Reserve}_{iy}$ = case reserve at end of report year from claims incurred in iy

Incurred claims for incurred year iy :

For T=0

$${}_0\text{Paid Claims}_{iy} \times v^{1/4} + {}_0\text{Case Reserve}_{iy} \times v^{1/2} + {}_0\text{IBNR}_{iy} \times v^{1/2}.$$

For T>0

$${}_{0}\text{Paid Claims}_{iy} \times v^{1/4} + {}_{1}\text{Paid Claims}_{iy} \times v^{1} + {}_{2}\text{Paid Claims}_{iy} \times v^{2} + \ldots + {}_{T}\text{Paid Claims}_{iy} \times v^{T} + {}_{T}\text{Case Reserve}_{iy} \times v^{T+1/2} + ({}_{T}\text{IBNR}_{iy} \times v^{T+1/2})$$

This is the developed claim amounts for claims incurred during the specific calendar year. For each claim, the incurred claim equals to the present values of all claim payments and the present value of any outstanding case reserve. This will be different from the reported financial incurred claims. The financial incurred claims including the change in claim reserves which contains gain or loss due to reserve estimation different from actual payments for claims incurred in prior years.

For purposes of the present value calculation, assume all payments are made on the middle of calendar years and the case reserve is at the end of the calendar year. The discount rate is the statutory valuation interest rate for case reserve. For the current calendar year, an Incurred But Not Reported reserve should be assigned. If a portion of the IBNR is held for years other than the current calendar year, the value in the parenthesis should be used.

The incurred claims should be consistent with the claims exhibited on Form 3.

Column 3 – Valuation Expected Incurred Claims

The expected claim cost for an individual covered under a policy inforce[1] at the beginning the calendar year based on statutory active life reserve morbidity assumption. This is the interpolation of successive policy year expected claim cost for all coverages inforce at the beginning of the year. Simple averaging is acceptable.

An acceptable approximation is the expected claim cost times an exposure adjustment where expected claim cost is the sum of claim costs during the year, based on the valuation morbidity assumption, of each life inforce at the beginning of the year. The valuation claim cost during the year is an interpolation of successive claim costs by policy year. Other approximations may also be acceptable. Any changes in method should be disclosed on the Form.

The exposure adjustment is:

[Actual Number of Lives Inforce at Beginning of Year – (Expected Deaths + Expected Lapses) ÷ 2] ÷
Actual Number of Lives Inforce at Beginning of Year,

where Expected Deaths and Expected Lapses are based on valuation assumptions. They can be derived from a single average decrement rate combining deaths and lapses or specific decrement rates applying to actual exposures. If there is no inforce at the beginning of the year, the expected claim cost can be zero.

Column 4 – Actual to Expected Incurred Claims

Actual incurred claims as percentage of valuation expected incurred claims.

Column 5 – Open Claim Count

Number of claims that have at least one benefit payment made during the year after the elimination period. For the purpose of including a claim in this count, payments that do not require satisfaction of the elimination period are excluded. A claim should be included in the count even though it has terminated by the end of the year.

[1] If active life reserves are not held for claimants, then exclude the claimants.

Column 6 – New Claim Count

Number of claims that have at least one benefit payment made during the year after the elimination period but have no payments in previous years. If a claimant has prior claims, he or she should be counted if the current claim is considered as a new claim. For the purpose of including a claim in this count, payments that do not require satisfaction of the elimination period are excluded. A new claim should be included in the count even though it has terminated by the end of the year.

Column 7 – Lives Inforce End of Year

Actual number of lives inforce at the end of the year. Joint policies should be counted by number of lives.

Column 8 – Expected Lives Inforce End of Year

Expected number of lives inforce at the end of the year:

> Actual Number of Lives Inforce at Beginning of Year + New Issue Lives – Expected Deaths – Expected Lapses,

where Expected Deaths and Expected Lapses are based on valuation assumptions. They can be derived from a single average decrement rate combining deaths and lapses or specific decrement rates applying to actual exposures. Joint policies should be counted by number of lives.

Column 9 – Actual to Expected Lives Inforce

Actual number of lives inforce as percentage of expected number of lives inforce at the end of the year.

NOTES

1. Form 1 applies to direct business only.

2. Prior years' figures, except for incurred claim, should be the same as the figures from prior years' Form 1.

3. Form Inception-to-Date figures, except for incurred claims, should be the corresponding figures from prior year Form 1 plus the figures for the current year. No interest discounting is required to determine Form Inception-to-Date and Total Inception-to-Date figures.

4. If Incurred But Not Reported reserves must be allocated by policy form, the allocation should be based on paid claims and change in case reserves.

5. Use the valuation assumptions corresponding to the current reserves being held. They are not necessarily the original reserve assumptions if strengthening or release of reserves have been made in the past. The assumptions for each year should be applied to the actual in-force (age, gender, plan distribution) not the distribution originally expected or issued.

6. An insurance company may use more refined methods in determining the required information than those described in the definitions and instructions. Methods must be consistent from report year to report year.

INSTRUCTIONS FOR FORM 2

Overview

The purpose of Form 2 is to calculate a ratio of an experience reserve to the reported reserve by calendar year. Summary data by policy form is to be reported. Data for the current reporting year as well as that reported in each of the prior two reporting years is to be shown in Form 2.

The following formulae specify data by calendar duration (t) and calendar year of issue (n). Data at this detail is required for the calculation of the experience reserve although only totals by policy form are illustrated. Experience data is notated by a superscript E to distinguish from valuation assumptions. The experience reserve reported in column 13 is developed from (1) the experience reserve at the end of the prior reporting year (E-1); (2) valuation net premiums and interest rates; and, (3) experience incurred claims, earned premiums, and actual persistency. The valuation net premiums used are the actual net premiums used for that reporting year. *As an example, if a factor file method is used, the valuation net premiums used to calculate the reserve factors would be used for Form 2.*

For the first filing of this Form, the experience reserve as of the second prior year (earliest year illustrated) is set equal to the reported reserve as of that date. Similarly, for acquired business, the experience reserve as of the year-end following acquisition is set equal to the reported reserve as of that date. The experience reserve as of subsequent periods is developed from the first experience reserve reported in this Form.

Experience and valuation data are reported by base policy form. Rider forms will be reported with the base forms to which they are attached.

Only summary data by reporting year is illustrated. *The reporting company should have detail by calendar duration available upon request.*

DEFINITIONS AND FORMULAS

Column 4 – Earned Premiums

${}_tEP_n$ = The direct earned premium in calendar duration t for all business of Calendar Year of Issue (CYI) n. Include earned premiums only for the reporting year. Total direct earned premiums should equal direct earned premiums for LTC business from Schedule H (Part 1 line 2 less Part 4 line A 2 plus Part 4 line B 2).

Column 5 – Incurred Claims

${}_tIC^E{}_n$ = The experience incurred claims of all business of CYI n in calendar duration t for the reporting year. Total direct incurred claims should equal direct incurred claims for LTC business from Schedule H (Part 1 less Part 4).

$$
\begin{aligned}
{}_tIC^E{}_n = {} & [{}_t(\text{Paid Claims})_n] + [{}_tIBNR^E{}_n - ({}_{t-1}IBNR^{E-1}{}_n\ ) \times (1+i_n)] \\
& + [{}_tDLR^E{}_n - ({}_{t-1}DLR^{E-1}{}_n\ ) \times (1+i_n)]
\end{aligned}
$$

<u>Where:</u>

${}_t(\text{Paid Claims})_n$ = The paid claims of all business of CYI n in calendar duration t for the reporting year. Paid claims is the total direct paid claims for LTC business from Exhibit 8 Part 2, line 1.1.

i_n = The valuation interest rate for CYI n.
${}_tIBNR^E{}_n$ = The claim liability of all business of CYI n in calendar duration t for the reporting year. $IBNR^E$ is the total direct claim liability for LTC business from Exhibit 8 Part 2, line 2.1.

${}_{t-1}IBNR^{E-1}{}_{n}$ = The claim liability of all business of CYI n in calendar duration t-1 for the prior reporting year. $IBNR^{E-1}$ is the total direct claim liability for LTC business from Exhibit 8 Part 2, line 4.1.

${}_{t}DLR^{E}{}_{n}$ = The Disabled Life Reserves (PVANYD) of all business of CYI n in calendar duration t for the reporting year. DLR^{E} is the total direct claim reserve for LTC business from Exhibit 6 line 14 for the current year.

${}_{t-1}DLR^{E-1}{}_{n}$ = The Disabled Life Reserves (PVANYD) of all business of CYI n in calendar duration t-1 for the prior reporting year. DLR^{E-1} is the total direct claim reserve for LTC business from Exhibit 6 line 14 for the prior year.

Column 6 – Loss Ratio

${}_{t}LR_{n}$ = The incurred claims loss ratio in calendar duration t for all business of CYI n.

${}_{t}LR_{n} = {}_{t}IC^{E}{}_{n} / {}_{t}EP_{n}$

Column 6 = Column 5 / Column 4

Column 7 – Annual Net Premium : Annual Gross Premium

Annual Net Premium = ∑ (annual valuation net premiums for policies issued in calendar year n at the start of calendar duration t). Companies may report zero (0) for the net premiums during the Preliminary Term period.

Annual Gross Premium = ∑ (Annualized Premium Inforce including mode loadings for policies issued in calendar year n at the start of calendar duration t).

For calendar duration 0, the net premiums and gross premiums at issue should be used.

Column 8 – Current Year Net Premiums

${}_{t}P_{n}$ = The annual valuation net premium for all business of CYI n in calendar duration t.
${}_{t}P_{n} = {}_{t}EP_{n}$ x ∑ (annual valuation net premiums for policies issued in calendar year n at the start of calendar duration t)/ ∑ (Annualized Premium Inforce for policies issued in calendar year n at the start of calendar duration t). At the detail level of CYI n and calendar duration t, Column 8 = Column 4 x Column 7.

Column 9 – Inforce Count Beginning of Years

${}_{t-1}IF_{n}$ = The inforce count in calendar duration t-1 for all business of CYI n at the end of the calendar year proceeding the reporting year. Inforce Count Beginning of Years should equal inforce end of prior year from the Exhibit of Number of Policies (page 28, Accident and Health Insurance, line 1) for LTC business.

Column 10 – New Issues Current Year

The new issues count during the reporting year. New Issues Current Year should equal issued during year from the Exhibit of Number of Policies (page 28, Accident and Health Insurance, line 2) for LTC business.

Column 11 – Inforce Count End of Years

${}_{t}IF_{n}$ = The inforce count in calendar duration t for all business of CYI n at the end of the reporting year. Inforce Count End of Years should equal inforce end of year from the Exhibit of Number of Policies (page 28, Accident and Health Insurance, line 10) for LTC business.

Column 12 – Inforce End of Years : Beginning of Years

For calendar duration zero, use the ratio of Column (11) : Column (10). For all other durations, use the ratio of Column (11) : Column (9).

Column 13 – Experience Policy Reserves

${}_{t}V^{E}{}_{n} = [({}_{t-1}V^{E-1}{}_{n}) + {}_{t}P_{n}] \times (1+ i_{n}) - {}_{t}IC^{E}{}_{n} \times (1+ i_{n})^{1/2}$

Where:

${}_{t}V^{E}{}_{n}$ = The experience reserve as of the end of the reporting year for calendar duration t, and CYI n.

${}_{t-1}V^{E-1}{}_{n}$ = The experience reserve as of the end of the prior reporting year for calendar duration t-1, and CYI n. For the first filing of this Form, the experience reserve as of the second prior year is set equal to the reported reserve as of that date.

${}_{t}P_{n}$ = The annual valuation net premium for all business of CYI n in calendar duration t. The total for the reporting year is the amount reported in Column (8).

i_{n} = The valuation interest rate for CYI n.

${}_{t}IC^{E}{}_{n}$ = The experience incurred claims for all business of CYI n in calendar duration t. The total amount for the reporting year is reported in Column (5).

Column 14 – Reported Policy Reserves

The amount reported in Annual Statement Exhibit 6, line 2.

Column 15 – Experience : Reported Ratio

The ratio of Column (13) : Column (14).

INSTRUCTIONS FOR FORM 3

Parts 1 and 2

Instructions will be the same as for the current Schedule O in the Life and A&H Blank ***except that the items will be on a direct basis (including transfers), before any reinsurance.***

Transfer policies are defined as policies that are either purchased or sold, typically through assumption reinsurance. These policies will be recorded in these parts of this exhibit while the company owns them.

Parts 3 – Transferred Reserves

Claim reserves for ***transfer claims (acquired or sold)*** is shown here, by claim incurred year, starting from the year of transfer. For sold business, the entries are positive. For acquired business, the entries are negative. For years after the transfer year, the reserves are increased with interest

Claim reserves for the buyer are the reserves initially set by the buyer, not necessarily equal to the reserves for the seller.

Part 4 – Present Value of Incurred Claims

Since claim reserves for long duration claims are generally discounted, the year-to-year comparison in Part 2 is misleading to the extent interest income on claim reserves is material. To show consistent values, paid claims, transferred reserves and claim reserves are discounted to a common point in time (assumed to be July 1 of the incurred year).

- Paid claims in the year of incurral are discounted one-quarter year.
- Paid claims subsequent to the year of incurral are assumed to be paid mid-year and discounted back to the midpoint of the incurred year.
- Outstanding claim reserves for a given incurred year plus transferred reserves from Part 3 are discounted from the valuation date to the midpoint of the incurred year.
- Negative results are possible for acquired business only. Negative results indicate downward development of ultimate claims.

If iy = incurred year
T = report year – incurred year,
v = discount rate,
${}_{t}\text{Paid Claims}_{iy}$ = paid claims during current or prior calendar year t from claims incurred in year iy,
${}_{t}\text{Case Reserve}_{iy}$ = case reserve at end of calendar year t from claims incurred in iy,
${}_{t}\text{Transferred Reserve}_{iy}$ = Transferred Reserve at end of calendar year t from claims incurred in iy, and
t = iy, iy+1, iy+2, . . . , iy + T

then the Present Value of Incurred Claims for incurred year iy:

For T=0

$${}_{iy}\text{Paid Claims}_{iy} \times v^{1/4} + {}_{iy}\text{Case Reserve}_{iy} \times v^{1/2} + {}_{iy}\text{IBNR}_{iy} \times v^{1/2} + {}_{iy}\text{Transferred Reserve}_{iy} \times v^{1/2}.$$

For T>0

$${}_{iy}\text{Paid Claims}_{iy} \times v^{1/4} + {}_{iy+1}\text{Paid Claims}_{iy} \times v^{1} + {}_{iy+2}\text{Paid Claims}_{iy} \times v^{2} + \ldots + {}_{iy+T}\text{Paid Claims}_{iy} \times v^{T} +$$
$${}_{iy+T}\text{Case Reserve}_{iy} \times v^{T+1/2} + ({}_{iy+T}\text{IBNR}_{iy} \times v^{T+1/2}) + {}_{iy+T}\text{Transferred Reserve}_{iy} \times v^{T+1/2}.$$

If a portion of the IBNR is held for years other than the current calendar year, the value in the parenthesis should be used.