January 20, 2015

Jan Graeber, Chair, NAIC LTC (B) Pricing Subgroup
Texas Department of Insurance
333 Guadalupe
Austin, Texas 78701

Re: Industry Comments on Spreadsheet – LTC Assumptions and Notes and Instructions

Dear Jan:

America’s Health Insurance Plans (AHIP) and the American Council of Life Insurers (ACLI) appreciate the opportunity to continue the dialogue with regulators about the spreadsheet titled LTC Assumptions Draft.

This letter addresses only the spreadsheets and not the Instructions as most of those were still being edited and have not been distributed. During the Subgroup’s January 15th call, you stated that the templates only apply to new business under the new rules. We agree and as we make comments on the templates, our position regarding the use of the templates is that their use is prospective and applicable to only new issues subject to the changes to the NAIC Model Regulation adopted in 2014. We think that the following areas need further consideration:

Tab 1: We believe that it would be useful to include a place where the company can note the appropriate contact person, telephone number and e-mail address to assist in answering questions with respect to the templates’ additional spreadsheets. If another state has asked for an independent review of the company’s assumptions, there should be a place for this information and the Instructions should note that reliance on prior independent reviews by other states is anticipated by the NAIC so that multiple reviews are not additional costs for the company.

In addition, each of the remaining spreadsheets should have a specific place where the company can indicate that it has provided additional interpretative information on the data in that particular spreadsheet.

Tab 2: We believe that the Expenses portion should be reduced to the annual renewal expense as a percent of premium (this is a portion of the gross premium/reserve test) and first year expenses as a percent of premium. These will provide the regulators enough information to help determine if premiums are adequate.

Some combination of the materials in Tab 2 and Tab 12 (Distribution of Business) should be developed to allow for the presentation of anticipated loss ratios that are likely to vary across ages and benefit plans. Presumably, this entails providing information on PV of Gross Premiums
(PVGP) and PV of Benefits (PVB). Since the actual distribution of business will not match the expected, the aggregate values in the various tabs and the original loss ratio will need to be updated to establish the necessary basis for addressing future deviations for assumptions that can be the basis for potential rate adjustments. Currently, we do not see this anywhere in the exposed templates.

In line with the above, it may be worthwhile to consider focusing on PVB as the basis for review rather than the attained age claim costs, selection factors, incidence rates and continuance patterns. For example in lieu of tabs 3-7, consider requesting PVB for selected segments (e.g. issue ages, gender, benefit period, etc.) on several bases (e.g. PVB after 10 years, after 15 years, etc. to understand the assumed impact of selection as well as the values at later attained ages) and a section where the company can inform the regulators if the patterns for the selected segments are not representative of the aggregate. We would be happy to work with a few regulators to develop revisions to the template consistent with this alternative approach.

We understand that the mortality (Tabs 8 and 10) and voluntary lapse (Tab 11) could be used to develop patterns of variation for values for PVGP assuming there is some way to address the loss of premiums that are waived or otherwise not due from policyholders. We are not certain what the information in Tab 9 on Disabled Life Mortality is intended to provide for analysis. Before we can agree to this additional reporting, we need to understand how the regulators currently have utilized the existing reporting of Claim Reserves in their review of company experience. We note that claim continuance patterns (developed from actual claim run-out experience) may vary more frequently than other pricing components and separation of mortality from other causes of claim termination expectations may not be readily available.

We agree with the need for review and updating of the assumptions regarding distribution of sales in Tab 12. We do not support the extensive nature of Tab 13. Beyond the first three columns of data, which are generally necessary to meet Model Regulation requirements, the additional data is more likely to be misleading than informative. For example, differences in amount of benefit are a major driver of differences in average premium from state to state, as is the size and pattern of inflation protection provisions.

We are concerned with the potential for inconsistent information being provided in Tab 14. States’ varying actions and effective dates will preclude comparisons to expected values based on actual results from calendar year data. Since this Tab only applies to rate increase filings on policies under the revised NAIC Model, we suggest that it be removed from this revision to the Manual and addressed at a later date.

We are prepared to address any questions you and your subgroup may have.

Sincerely,

William C. Weller
Consultant to AHIP

Sincerely,

Steve Clayburn
ACLI

cc: Perry Kupferman
Eric King