HEALTH ACTUARIAL (B) TASK FORCE

Health Actuarial (B) Task Force Aug. 2, 2019, Minutes
   Long-Term Care Actuarial (B) Working Group Aug. 2, 2019, Minutes (Attachment One)
      Long-Term Care Actuarial (B) Working Group July 9, 2019, Conference Call Minutes (Attachment One-A)
         Referral from Financial Analysis (E) Working Group (Attachment One-A1)
      Update from American Academy of Actuaries (Academy) (Attachment One-B)
      Update from Academy’s Long-Term Care Combination Valuations Work Group (Attachment One-C)
      Long-Term Care Combination Product Valuation Practice Note (Attachment One-D)
      Update from PricewaterhouseCoopers on Long-Term Care Valuation Work Group (Attachment One-E)
      Update on Hybrid Long-Term Care Insurance Product Market (Attachment One-F)
   Long-Term Care Pricing (B) Subgroup July 11, 2019, Conference Call Minutes (Attachment One-G)
   Long-Term Care Pricing (B) Subgroup June 13, 2019, Conference Call Minutes (Attachment One-H)
   Long-Term Care Pricing (B) Subgroup May 9, 2019, Conference Call Minutes (Attachment One-I)
   Update from the Academy Health Practice Council (Attachment Two)
   Update on Society of Actuaries Health Insurance Research (Attachment Three)
The Health Actuarial (B) Task Force met in New York, NY, Aug. 2, 2019. The following Task Force members participated:

Anita G. Fox, Chair, represented by Kevin Dyke (MI); Jim L. Ridling, Vice Chair, represented by Steve Ostlund (AL); Lori K. Wing-Heier represented by Jake Lauten (AK); Ricardo Lara represented by Perry Kupferman (CA); Michael Conway represented by Efren Tanhehco (DC); Dean L. Cameron represented by Wes Trelax (ID); Stephen W. Robertson represented by Karl Knable (IN); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Marti Hooper (ME); Bruce R. Range represented by Rhonda Ahrens (NE); Marlene Caride represented by Seong-min Eom (NJ); John G. Franchini represented by Anna Krylova (NM); Barbara D. Richardson represented by David Cassetty (NV); Jillian Froment represented by Laura Miller (OH); Jessica Altman represented by Shannen Logue (PA); Kent Sullivan represented by Mike Boerner (TX); Todd E. Kiser represented by Jaakob Sundberg (UT); Mike Kreidler represented by Lichiou Lee (WA); and James A. Dodrill represented by Joylynn Fix (WV).

1. **Adopted its Spring National Meeting Minutes**

Mr. Dyke said the Task Force met June 18, May 8 and April 26 in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, in response to a request from the Financial Examiners Handbook (E) Technical Group to assist in updating its reserves/claims handling examination repositories. The Task Force sent its recommendations to the Technical Group on June 26.

Mr. Lombardo made a motion, seconded by Mr. Ostlund, to adopt the Task force’s April 5 minutes (*see NAIC Proceedings – Spring 2019, Health Actuarial (B) Task Force*). The motion passed unanimously.

2. **Adopted the Report of the Health Care Reform Actuarial (B) Working Group**

Mr. Dyke said the Health Care Reform Actuarial (B) Working Group has not met since the Spring National Meeting.

Samara Lorenz (federal Center for Consumer Information and Insurance Oversight—CCIIO), Erin Sutton (CCIIO) and Jaya Ghildiyal (CCIIO) gave updates on federal Affordable Care Act (ACA) issues.

Ms. Lorenz said the CCIIO published preliminary rate change requests from all ACA policy issuers in the individual and small group markets. She said these requests are for 2020 plan years, both on and off the health insurance exchanges. She said all on-exchange rates must be finalized by insurers by Aug. 21, and all off-exchange rates must be finalized by Oct. 15. She said all final rates will be posted on the federal Centers for Medicare & Medicaid Services (CMS) website on or around Nov. 1.

Ms. Sutton said the CCIIO released a risk adjustment data validation (RADV) report for the 2017 benefit year on Aug. 1. She said this is the first year the report contains the payment adjustment amounts to insurers’ risk adjustment (RA) receipts or collections that resulted from RADV audits. She said the prior two years of the RADV program did not actually implement the adjustments that resulted from audits; 2019 is the first year insurers will be subject to adjustments identified through the audits. She said since the RADV program is budget neutral, RADV results at the state and market level should not affect premiums at a state and market level.

Ms. Ghildiyal said the results of the 2017 benefit year RADV audits will affect RA transfers for the 2018 benefit year. She said 18 states’ individual market RA transfer amounts will be affected by the 2017 benefit year RADV audits, and 31 states’ small group markets will be affected. She said the CCIIO has heard concerns voiced about reflecting RADV adjustments in premium pricing due to uncertainties associated with a new program. In response, the CCIIO said in its last payment notice final rule that insurers have the option of deferring RADV adjustment impacts to pricing until the 2021 benefit year. Ms. Ghildiyal said the CCIIO intends to collect and distribute RADV adjustment amounts identified in the 2017 benefit year during the 2021 benefit year. She said the CCIIO has scheduled listening sessions Aug. 14 and Aug. 28 to hear concerns and questions about the RADV program, and an RADV white paper will also be developed.

Mr. Boerner made a motion, seconded by Mr. Kupferman, to adopt the report of the Health Care Reform Actuarial (B) Working Group. The motion passed unanimously.
3. **Adopted the Report of the Long-Term Care Actuarial (B) Working Group**

Mr. Kupferman said the Long-Term Care Actuarial (B) Working Group met Aug. 2 and took the following action: 1) adopted the reports of the Long-Term Care Pricing (B) Subgroup and the Long-Term Care Valuation (B) Subgroup; and 2) heard an update from the American Academy of Actuaries (Academy) regarding its activities related to long-term care insurance (LTCI).

Mr. Kupferman made a motion, seconded by Mr. Ostlund, to adopt the report of the Long-Term Care Actuarial (B) Working Group (Attachment One). The motion passed unanimously.

4. **Heard an Update from the Academy Council on Professionalism**

Kathleen Riley (Actuarial Standards Board—ASB) said the ASB continues work on the proposed *Modeling* and *Setting Assumptions* Actuarial Standard of Practice (ASOP) drafts. She said work on the proposed *Modeling* ASOP began in 2010, and the first exposure draft was released in 2013. She said the fourth exposure draft was released earlier this year. The ASB will consider whether the fourth draft will become a final ASOP at its December meeting.

Ms. Riley said the first exposure of the proposed *Setting Assumptions* ASOP was released in 2017, and the comment period for the second exposure draft recently closed. She said the ASB will not revisit the draft until 2020.

Ms. Riley said the ASB has formed task forces to work on revisions to three current ASOPs. She said the review of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets* is scheduled to occur in September. She said ASOP No. 3, *Continuing Care Retirement Communities* will be reviewed in December. She said ASOP No. 18, *Long-Term Care Insurance* will be reviewed soon.

Godfrey Perrott (Actuarial Board for Counseling and Discipline—ABCD) said the ABCD surveyed state insurance regulators who have attended Academy professionalism breakfast forums for topics they would like to be discussed at future forums. State insurance regulators said they would like to hear about new and upcoming ASOPs and ABCD discipline. Mr. Perrott said if the ABCD recommends disciplinary action to be taken and the Academy imposes the recommendation, the action becomes a matter of public record. He said records of imposed discipline can be found on the Academy’s website.

Mr. Perrott said since the Spring National Meeting, the ABCD has received requests for guidance pertaining to qualification standards, mental health parity, whether work performed is to be considered an actuarial communication, and what an author of an actuarial report should do concerning the unauthorized modification of the wording in the report by another party.

5. **Heard an Update from the Academy Health Practice Council**

Barb Klever (Blue Cross Blue Shield Association—BCBSA) gave an update (Attachment Two) on recent Academy Health Practice Council activities and publications.

6. **Heard an Update from the SOA Regarding Health Insurance Research**

Dale Hall (Society of Actuaries—SOA) gave an update (Attachment Three) on recent SOA health insurance research. He said the SOA had planned to provide an update on group life waiver of premium mortality and recovery tables work, but it is unable to do so. He said the SOA will provide the update during a Task Force conference call to be scheduled sometime in August.

Having no further business, the Health Actuarial (B) Task Force adjourned.
The Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met in New York, NY, Aug. 2, 2019. The following Working Group members participated: Perry Kupferman, Chair (CA); Steve Ostlund (AL); Paul Lombardo (CT); Craig Wright (FL); Wes Trexler (ID); Nicole Boyd (KS); Marti Hooper (ME); Fred Andersen (MN); Rhonda Ahrens (NE); Laura Miller (OH); Andrew Dvorine (SC); Mike Boerner and Raja Malkani (TX); and Tomasz Serbinowski (UT).

1. **Adopted its July 9 and Spring National Meeting Minutes**

The Long-Term Care Actuarial (B) Working Group met July 9 and April 5. During its July 9 meeting, the Working Group discussed a referral letter from the Financial Analysis (E) Working Group that requested assistance with long-term care insurance (LTCI) total reserve reporting in the Long-Term Care Insurance Experience Reporting Forms and other schedules of the annual financial statement.

Mr. Lombardo made a motion, seconded by Mr. Boerner, to adopt the Working Group’s July 9 (Attachment One-A) and April 5 (see NAIC Proceedings – Spring 2019, Health Actuarial (B) Task Force, Attachment Four) minutes. The motion passed unanimously.

2. **Heard an Update from the Academy on LTC Work Group Activities**

Warren Jones (PricewaterhouseCoopers LLP) gave an update (Attachment One-B) on recent long-term care (LTC) activities of the American Academy of Actuaries (Academy).

Mr. Jones gave an update (Attachment One-C) on the Academy’s LTC Combo Valuations Work Group work on the LTC Combination Product Valuation Practice Note draft (Attachment One-D). He said the draft has been exposed for comment by members of the Academy.

Bob Yee (PricewaterhouseCoopers LLP) gave an update (Attachment One-E) on the Academy’s Valuation Work Group development of mortality and lapse valuation tables.

Mr. Kupferman said the Working Group will schedule a conference call to further discuss with the Academy Valuation Work Group the details of its work.

3. **Heard an Update on SOA LTCI Research and the Hybrid/Combination LTCI Product Market**

Dale Hall (Society of Actuaries—SOA) said the SOA continues to research solutions to LTCI consumer needs. He said a life stage protection product concept developed by the SOA Long-Term Care Think Tank (Think Tank), which begins as term life insurance coverage during an individual’s working years and converts to LTCI during later years, is continuing to be discussed in different venues. He said the Think Tank is also discussing a concept for a retirement savings program that converts to LTCI in later years.

Steve Schoonveld (Lincoln Financial Group), Robert Eaton (Milliman) and Matthew Winegar (Pacific Life Insurance Company) gave a presentation (Attachment One-F) on actuarial considerations for the hybrid/combination LTCI product market.

4. **Adopted the Report of the Long-Term Care Pricing (B) Subgroup**

Mr. Lombardo said the Long-Term Care Pricing (B) Subgroup met July 11, June 13 and May 9 and took the following action: 1) discussed combining LTCI policy form experience for rate increase requests; 2) discussed group LTCI rate increase request
considerations; 3) discussed justification for rate increase requests that vary by rating cell; 4) discussed single premium, limited pay and paid-up experience in rate increase filings; and 5) discussed nationwide versus state-specific experience credibility.

Mr. Lombardo made a motion, seconded by Mr. Ostlund, to adopt the report of the Long-Term Care Pricing (B) Subgroup, including its July 11 (Attachment One-G), June 13 (Attachment One-H) and May 9 (Attachment One-I) minutes. The motion passed unanimously.

5. Adopted the Report of the Long-Term Care Valuation (B) Subgroup

Mr. Andersen said a review group composed of Subgroup members has reviewed *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) year-end 2018 filings for the 50 largest, based on policyholder exposure, LTCI companies. He said it appears that companies have added conservatism to assumptions for mortality, lapse and interest rates as compared to last year’s filings. He said most companies are using the recommended 2012 Individual Annuity Reserving Mortality Table for their mortality assumptions.

Mr. Andersen said the review group’s focus for year-end 2018 filings is to examine assumptions used for morbidity, particularly those used for older ages. He said a high degree of uncertainty in morbidity assumptions used for older ages has been identified, and these assumptions have large impacts on reserves. He said a series of requests for information about morbidity assumptions has been made of companies, and the review group can now implement an action plan to evaluate the range of morbidity assumptions used in the AG 51 filings.

Mr. Andersen said the review group found a general trend indicating that length of claim has proven to be longer than initially assumed. He said incidence rates have shown to be higher than, lower than or the same as initially assumed. He said the slope of incidence rates is generally lower at younger ages and higher at older ages than initially assumed. He said benefit utilization assumptions will be analyzed.

Mr. Andersen said the review group has examined the relationship between company morbidity assumptions and the most recent SOA LTC experience study. He said the SOA study uses data from 2000 to 2011. He said the review group found most companies are assuming morbidity that is more conservative than that indicated by the SOA study.

Mr. Andersen said in the upcoming quarter, the review group will identify reasons for the range in morbidity assumptions companies are using. He said the review group has found companies that use an aggressive morbidity improvement assumption, but because of very conservative initial morbidity assumptions, these companies may have an overall more conservative morbidity assumption than other companies that use little or no morbidity improvement in their reserving. He said the review group will continue to study morbidity assumptions.

Mr. Andersen said an AG 51 guidance document was developed to be used for year-end 2018 AG 51 filings. He said the guidance requires companies to submit additional information on in-force statistics, reinsurance, morbidity and sensitivity tests. He said the review group will begin drafting a guidance document for year-end 2019 AG 51 filings this quarter.

Mr. Andersen made a motion, seconded by Mr. Malkani, to adopt the report of the Long-Term Care Valuation (B) Subgroup. The motion passed unanimously.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.
The Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met via conference call July 9, 2019. The following Working Group members participated: Perry Kupferman, Chair (CA); Benjamin Ben (FL); Sherry Ingalls (ME); Rhonda Ahrens and Michael Muldoon (NE); Anna Krylova (NM); Andrew Schallhorn (OK); Andrew Dvorine (SC); Raja Malkani (TX); and Tomasz Serbinowski (UT). Also participating was: Karl Knable (IN).

1. Discussed a Referral from The Financial Analysis (E) Working Group

Mr. Kupferman presented a referral letter (Attachment One-A1) from the Financial Analysis (E) Working Group that requests assistance from the Long-Term Care Actuarial (B) Working Group with long-term care insurance (LTCI) total reserve reporting in the Long-Term Care Experience Reporting Forms and other schedules of the Annual Financial Statement. He gave an overview of the structure of the five Long-Term Care Experience Reporting Forms blanks.

Mr. Kupferman said a drafting group will be formed to address the referral. Jan Graeber (American Council of Life Insurers—ACLI) asked what deadline is in place for submitting a recommendation to the Financial Analysis (E) Working Group. Mr. Kupferman said there is no set deadline. He said he wants the drafting group to propose changes that can be discussed during the Long-Term Care Actuarial (B) Working Group’s next conference call. He asked conference call participants to send proposed changes to NAIC staff for consideration by the drafting group.

Mr. Kupferman asked for volunteers for the drafting group. Mr. Muldoon, Mr. Knable and Mr. Serbinowski volunteered.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.
To: Perry Kupferman (CA), Chair, Long-Term Care Actuarial (B) Working Group  
From: Kevin Fry (IL), Chair of Financial Analysis (E) Working Group  
Date: April 24, 2019  
Re: Long-Term Care Insurance Total Reserve Reporting in Annual Financial Statement

As you may be aware, the Financial Analysis (E) Working Group (FAWG) meets annually in Kansas City to discuss among other things, potentially troubled insurers and insurance groups. During this meeting, FAWG also discusses issues and industry trends, including identifying any that are potentially adverse or might warrant communication and coordination with other NAIC groups. As a result of the issues and trends discussed, FAWG would like to refer the following item to the attention of your group.

1. **Long-Term Care Insurance (LTCI) Total Reserve Reporting in the Annual Financial Statement**—While state insurance financial regulators receive confidential AG51 filings that contain detail of total reserves for LTCI including e.g. active life reserves and disabled life reserve, etc. there does not appear to be reporting in the Long-Term Care Experience Reporting Forms or other schedules of the Annual Financial Statement that quantifies the total reserve liability at Dec. 31 for LTCI. Quantification of such a total reserve liability would assist states’ insurance regulators, the FAWG and the NAIC in monitoring the financial status of individual long-term care insurers as well as facilitate macro-analysis of the LTCI industry. Additionally, consider data such as average claim duration, and data on hybrid/combo products and LTCI riders that have evolved in the market to better assess the entire market.

While the FAWG is not suggesting the level of detail provided in AG51 filings be included in the Annual Financial Statements, certain key reserve totals that reflect the total reserve liability and address changes in the evolution of LTCI products would allow for more accurate analysis. In considering this issue, FAWG recommends the LTC Actuarial (B) Working Group consider if any Annual Financial Statement reporting changes to the Long-Term Care Experience Reporting Forms or other schedules would improve the usefulness of the data provided in the Annual Financial Statement. If there are any questions regarding the proposed recommendation, please contact me or NAIC staff (Jane Koenigsman at jkoenigsman@naic.org).

Thank you for your consideration.
Long-Term Care Updates to NAIC Long-Term Care Actuarial Working Group Meeting
August 5, 2019
Talking Points: Recent Work & Group Updates

As chair of the Academy’s LTC Valuations and Combo Valuations Work Groups, I’m here to give an update on the recent LTC activity at the Academy. We continue to engage policymakers and regulators to determine needs for developing proposals on the regulation of long-term care insurance and more general on long-term care policy.

General Updates

- Members of the LTC Reform Subcommittee met with a new federal LTC Interagency Task Force organized by the Treasury’s Federal Insurance Office (FIO) on their experience and expertise in the LTC insurance (LTCI) space, including pricing, product development, and regulation. The task force is charged with developing policies at the federal level to complement reforms by the states relating to the regulation of LTCI and includes staff from FIO, the Office of Management and Budget (OMB), the Department of Labor (DOL), the Department of Health and Human Services (HHS), the Centers for Medicare & Medicaid Services (CMS), and the Treasury’s Offices of Economic Policy and Tax Policy.
The Work Group, in conjunction with the Academy Research Task Force, conducted a survey of carriers completing Form 4 of either the 2015 or 2016 LTC Experience Exhibit.

The survey addresses Generally Accepted Accounting Principles (GAAP), statutory and tax valuation assumptions and methods.

The survey and responses are included in the appendix to the draft practice note in their entirety.

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**Survey**

- Relevant Pool of Companies:
  - 24 life insurance companies filed Form 4 with their LTC Experience Reports, indicating they had LTC Combo riders in their inforce book of business either on December 31, 2015, or December 31, 2016.
  - See Appendix 1 of the survey for the list of the 24 companies.

- Sample:
  - We contacted Academy members at 22 of the 24 companies, requesting their participation in the survey.

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**Survey**


- Response:
  - We received completed surveys from eight of the 22 companies (36%). Of those eight, two indicated they did not have LTC Combo riders in their inforce book of business as of December 31, 2016.
  - The six companies with relevant riders reported on 11 such products.
  - Of the 11, one reported a deferred annuity as a base plan.
Limitations

- As only one company reported on a deferred annuity as a base plan, annuity valuation is not included in the practice note (PN).
- Following the passage of the Tax Cuts and Jobs Act (TCJA), we resurveyed for the tax valuation questions. We received no responses, therefore the question and answer on tax reserves does not address a range of practices, only the requirements of TCJA.
- Financial Accounting Standards Board (FASB) Long Duration Targeted Improvements is not addressed.

Topics Addressed

- Statutory Reserves
- Provisions for Adverse Deviations (PADs)
- Mortality
- Lapses
- Tax Reserves
- GAAP Reserves
- Disabled Life Reserves
- Yearly Renewable Term (YRT) Long-Term Care (LTC) Rider

Statutory Reserves

Question 1: Are statutory LTC rider reserves usually developed independent of life reserves, or as an integrated calculation?

- PN addresses citations from LTC Model Regulation, the Universal Life Insurance Model Regulation, and VM20. Requirements are not consistent regarding separate reserve models, and separate premiums vs. charges for LTC benefits.
- From the survey results, companies report using a separate reserve calculation individually for both accelerated benefits (AB) and extension of benefit riders using a 1-Year Preliminary Term basis.
- One survey response reported using one-half the discounted cost of insurance for the current age (½ cx) for the LTC AB rider reserve.

Provisions for Adverse Deviation (PADs)

Question 2: When are PADs required in statutory reserve calculations for combination products, and how are they derived when PAD might increase reserves for the LTC rider and decrease the present value of the liabilities for the base plan?

- May have offsetting impacts between life and LTC benefits.
- LTC Model Regulation 641, Section 18A, a reserve developed for life coupled with LTC AB riders should never be less than the standalone life reserve.
- Current range of practice on PADs includes testing of PADs on multiple assumptions, with a review of results for reasonableness and with the principle of increasing total reserves over unpadded levels.
### Mortality

**Question 3: What mortality basis is used in the development of statutory LTC rider reserves?**
- Standard Valuation Law (SVL) – No notable guidance is provided on combo products.
- Valuation of Life Insurance Model Regulation – Riders are not specifically mentioned in this regulation.
- Health Insurance Reserve Model Reg Section 4.B – 1994 GAM (group annuity mortality table) is prescribed for valuation mortality for LTC.
- A multi-decrement model would use one valuation mortality table.
- Adverse mortality experience reduces the life insurance profits but increases the LTC rider profits, as fewer people will survive to claim LTC benefits. One of the key synergies of combo products.

### Lapses

**Question 4: What issues arise when utilizing lapse assumptions in the development of statutory LTC rider reserves?**
- LTC Model Regulation 641 section 18A, accelerated LTC benefits on life contracts.
- Multiple decrement model utilizing all relevant decrements except voluntary terminations.
- Single decrement approximations are acceptable if the calculation produces essentially similar reserves, if the reserve is clearly more conservative, or if the reserve is immaterial.
- Health Insurance Reserve Model Regulation requirements for voluntary terminations.
- Most companies in the LTC combo product market are using separate calculations for reserves on the life base plan and active life (“contract”) reserves on LTC AB riders.

### Tax Reserves

**Question 5: What are the considerations in the development of tax basis reserves for LTC riders on life or annuities?**
- TCJA was effective 1/1/2018.
- Tax reserve for life insurance reserves is 92.81% of the reserve using the prescribed method. The cap of the statutory reserve and floor of the net surrender value is unchanged for TCJA.
- Section 811(a) of the Internal Revenue Code (IRC) prescribes the assumptions used “for purposes of the annual statement approved by the National Association of Insurance Commissioners.”
- No longer prescribed tables and interest other than those used for the statutory reserves. The method for LTC is 2-Year Preliminary Term for issue years prior to 1992, or 1-Year Preliminary Term for issue years 1992 and subsequent.

### GAAP Reserves

**Question 6: What are the considerations in the GAAP valuation of LTC riders on life policies?**
- Five responses that separate reserves were calculated for the LTC rider including both AB and extension of benefit riders. Valuation models for the life insurance and LTC benefits are separate, each with their own methods and assumptions.
- Three responses that an integrated calculation with a multi-decrement approach was used. Most common integrated calculation uses FASB Statement of Position (SOP) 03-1.
  - Are insurance liabilities required in addition to the account balance?
  - SOP 03-1 requires a “profits followed by losses” test. “If the amounts assessed against the contract holder each period for the insurance benefit feature are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function.”
### Disabled Life Reserves

#### Question 7: What are the considerations in the development of statutory disabled life reserves for LTC riders on life or annuities?
- Disabled Life Reserve (DLR) generally calculated using claim termination rate assumptions, benefit utilization, and valuation interest discount rates.
- Some companies reflect recoveries in termination rates, others use on-claim mortality only.
- AB claim benefit is two components, surrender value of the base plan, and Net Amount at Risk (NAR). Surrender value is a floor to reserves, so many would establish DLR based on NAR only with remainder a reduction to surrender value.
- Situs of care may not be reflected (aggregate termination rates), or original situs, or current situs.

### YRT LTC Rider

#### Question 8: What are the considerations in the development of the active life reserve methodology for an LTC AB rider with Yearly Renewable Term (YRT) premiums or charges?
- From the survey results, most companies use separate models for the base policy and the LTC rider.
- Consider the slope and structure of the YRT LTC premium scale.
  - If the slope is materially the same as the LTC claim costs, \( \frac{1}{2} \text{cx} \) may be appropriate.
  - For premium structure that becomes level or ceases at an attained age, pre-funding the claims at those attained ages through the active life reserve may be considered.
- For a valuation using an integrated model for the base and LTC rider, the reserve will be based on the combined cash flows.

### Status

- Currently exposed for 45-day comment period, ending September 2, 2019.
A PUBLIC POLICY PRACTICE NOTE

Exposure Draft

Long-Term Care (LTC) Combination Product Valuation Practice Note

July 2019

Developed by the Long-Term Care Combination Product Valuation Work Group

The American Academy of Actuaries is a 19,500 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 qualification, practice, and professionalism standards for actuaries in the United States.

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2019 Long-Term Care Combination Product Valuation Work Group

Warren Jones, Chairperson, MAAA, FSA
Lo Linda Chow, MAAA, FSA
Carl Friedrich, MAAA, FSA
E Perry Kupferman, MAAA, FSA
William Panyard, MAAA, ASA
Lorne Schinbein, MAAA, FSA
Jonathan Wilkins, MAAA, FSA

The comment deadline for this exposure draft is September 2, 2019. Please send any comments to health@actuary.org.
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Introduction

The purpose of this practice note is to provide information to actuaries on current and emerging practices in which their peers are engaged with respect to the considerations in the statutory, Generally Accepted Accounting Principles (GAAP) and tax valuation of long-term care combination products.

This practice note was prepared by a work group organized by the Health Practice Council of the American Academy of Actuaries (Academy). The work group was charged with creating the first practice note on long-term care combination product valuation.

This practice note is not an interpretation of actuarial standards of practice and is not a promulgation of the Actuarial Standards Board, is not an actuarial standard of practice and it is not binding upon any actuary. It is not a definitive statement as to what constitutes generally accepted practice in the area under discussion. Events occurring subsequent to this publication of the practice note may make the practices described in this practice note irrelevant or obsolete.

The purpose of practice notes is to provide information to actuaries on current or emerging practices in which their peers are engaged. They are intended to supplement the available actuarial literature, especially where the practices addressed are subject to evolving technology, recently adopted external requirements, or advances in actuarial science or other applicable disciplines (e.g., economics, statistics, or enterprise risk management). Practice notes are not interpretations of actuarial standards of practice nor are they meant to be a codification of generally accepted actuarial practice. Actuaries are not in any way bound to comply with practice notes or to conform their work to the practices described in practice notes.

Survey

The work group, in conjunction with the Academy, conducted a survey of carriers completing Form 4 of the 2016 LTC Experience Exhibit. The survey addresses GAAP, statutory and tax valuation assumptions and methods. The survey and responses are included in the Appendix in their entirety. Individual company responses are not provided.
Statutory Reserves

Question 1: Are statutory LTC rider reserves usually developed independent of life reserves, or as an integrated calculation?

Reserve requirements from the LTC Model Regulation, the Universal Life Insurance Model Regulation, and VM20 are cited in this response. These are all National Association of Insurance Commissioners (NAIC) model regulations. None are presented as more significant than the others cited. (Note, however, the recent language added to the Valuation Manual via Amendment Proposal 2017-70 as adopted in late 2018 and as covered below.) The actuary might consider all three in developing a reserve methodology.

A. LTC Model Regulation 641—Section 18A:
   - Discusses reserve standards for accelerated LTC benefits on life contracts, indicating that reserves “should be based on the multiple decrement model utilizing all relevant decrements except voluntary terminations. Single decrement approximations are acceptable if the calculation produces essentially similar reserves, if the reserve is clearly more conservative, or if the reserve is immaterial....”
   - However, in no event shall the reserves for the long-term care benefit and the life insurance benefit be less than the reserves for the life insurance benefit assuming no long-term care benefit.

B. Based on practices reported in the survey, it is generally assumed that LTC reserve regulations apply to LTC Extension of Benefit (EOB) Riders, since those riders do not interact with the underlying base plan in terms of mechanics of the benefits.

C. As reported in the survey, almost all companies in the combination market are using separate calculations for reserves on the life base plan and active life reserves on LTC Accelerated Benefit (AB) riders. An approach that has been in use in the market is to determine projected liabilities for AB benefits, reduced by the present value of reductions to future death benefits that occur as AB payments occur. That stream of liabilities is typically used in a traditional LTC reserve approach.

From the survey results, companies report using a separate reserve calculation individually for both AB and EOB riders using a 1-Year Preliminary Term basis. Such a reserve calculation would reflect the pattern of charges or separate premium for the LTC rider. Such patterns might include level, and duration based or attained age based limited-pay charges or premiums. One survey response reported using one-half the discounted cost of insurance for the current age ($\frac{1}{2} cx$) for the LTC AB rider reserve. Such a methodology would not be consistent with limited pay LTC rider charges or premiums. The actuary might consider the pattern of the LTC rider charges or premiums when establishing the LTC rider reserve methodology.
D. Universal Life Insurance Model Regulation—The following sections contained references to riders:

- Section 3H identifies that a UL contract may provide for charges for riders.
- Section 5A addresses the valuation of riders on a UL contract:
  - The section discusses reserves for policies and riders for which premiums are not paid separately.
  - This section appears to direct that riders be valued along with the base policy if no separate premium is required for the rider. Some of the product designs for LTC AB and EOB riders fit this design.

E. VM20

- VM20 addresses holding adequate reserves.

Amendment Proposal 2017-70 to the Valuation Manual was adopted late in 2018. Several key sections are provided below:

B. For supplemental benefits including Guaranteed Insurability, Accidental Death or Disability Benefits, Convertibility, or Disability Waiver of Premium Benefits, the supplemental benefit may be included with the base policy and follow the reserve requirements for the base policy under VM-20, VM-A, and/or VM-C as applicable.

C. ULSG and other secondary guarantee riders shall be valued with the base policy and follow the reserve requirements for ULSG policies under VM-20, VM-A, and/or VM-C as applicable.

D. If a rider or supplemental benefit to a life insurance policy that is not addressed in Paragraphs B or C above possesses any of the following attributes, the rider or supplemental benefit shall be included with the base policy and follow the reserve requirements for the base policy under VM-20, VM-A, and/or VM-C as applicable.

1. The rider or supplemental benefit does not have a separately identified premium or charge;
2. The rider or supplemental benefit premium, charge, value, or benefits are determined by reference to the base policy features or performance; or
3. The base policy value or benefits are determined by reference to the rider or supplemental benefit features or performance. The deduction of rider or benefit premium or charge from the contract value is not sufficient for a determination by reference.

E. If a term life insurance rider on the named insured[s] on the base life insurance policy does not meet the conditions of paragraph D above, and either (1) guarantees level or near level premiums until a specified duration followed by a material premium increase, or (2) for a rider for which level or near level premiums are expected for a period followed by a material premium increase, then the rider shall be separated from the base policy and follow the reserve requirements for term policies under VM-20, VM-A, and/or VM-C as applicable.

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F. For all other riders or supplemental benefits on life insurance policies not addressed in paragraphs B through E above, the riders or supplemental benefits may be included with the base policy and follow the reserve requirements for the base policy under VM-20, VM-A, and/or VM-C as applicable. For a given rider, the election to include riders or supplemental benefits with the base policy shall be determined at the policy form level, and not on a policy by policy basis.

- Item D.3. The language above would appear to require the accelerated death benefit riders be valued on an integrated basis with the base plan, to the extent that the base plan is subject to VM-20.
  - This creates an open issue in that the prescribed (Net Premium Reserve) NPR reserve calculation in VM-20 does not address the inclusion of riders.
  - VM20 language raises some questions about EOB riders with separate charges, but where premiums are commingled. If base plan and rider charges are separately identified but premiums are commingled between the base plan and the rider, it is unclear what it means to have a separate calculation of base plan and rider reserves. Commingled premiums on a Universal Life policy imply a commingled account value, which would appear to create some challenges in the separate development of base plan and rider reserves.
Provision for Adverse Deviation

Question 2: When are Provisions for Adverse Deviation (PADs) required in statutory reserve calculations for combination products, and how are they derived when PAD might increase reserves for the LTC rider and decrease the present value of the liabilities for the base plan?

There are various reserve calculations that require the use of PADs to help assure adequacy of reserves. Examples include GAAP reserves prior to Long Duration Targeted Improvements, and VM-20 reserve calculations. With combination products coupling LTC riders with base plan coverage, it is not always obvious whether loading of a particular assumption will increase or decrease the overall reserve. For example, a life insurance reserve will be increased by the use of a mortality assumption that is increased by a PAD. However, higher mortality may have the effect of reducing the LTC liability on the rider, especially if the rider has level premiums or charges.

In the case of VM-20 requirements, there are specific rules prescribed for the derivation of mortality assumptions to be used based on credibility of a company’s mortality experience, and weighting of those values with industry mortality. Some might view this as an inherent PAD if the company’s experience is lower than industry mortality, in addition to other PADs requirements. On some life combination products this will have the effect of lowering the present value of liabilities for the LTC rider.

Additional PADs may be developed on assumptions pertaining to an LTC rider, such as LTC incidence rates. Although these may more than offset the impact of mortality PADs with respect to reserves for LTC, these would have the effect of reducing life liabilities when the rider is an AB LTC rider.

One principle established in the LTC Model Regulation 641, Section 18A, is that a reserve developed for life coupled with LTC AB riders should never be less than the standalone life reserve. In the spirit of that principle, the use of PADs could be problematic if they have the effect of reducing the overall life plus LTC AB reserves.

To assure that this potential issue is addressed, some actuaries developing PADs for these products are conducting testing of PADs on multiple assumptions, with a review of results for reasonableness and with the principle of increasing total reserves over unpadded levels.
Mortality

Question 3: What mortality basis is used in the development of statutory LTC rider reserves?

A. Standard Valuation Law (SVL)—no notable guidance is provided on combination products

B. Valuation of Life Insurance Model Regulation—Riders are not specifically mentioned in this regulation.

C. LTC Model Reg Section 18.A indicates that applicable morbidity tables must be certified.

D. Per Health Insurance Reserve Model Reg Section 4.B, 1994 group annuity mortality table (GAM) is prescribed for valuation mortality for LTC.

E. It is generally assumed that LTC reserve regulations would apply to LTC EOB riders, since those riders do not interact with the underlying base plan in terms of mechanics of the reserve calculation.

F. Valuation mortality rates to be used for life insurance are 2001 commissioners standard ordinary (CSO) for issues through 12/31/2016, 2017 CSO for issues after 12/31/2019, and either table for dates in between.

G. The survey indicates that most companies in the LTC combination product market are using separate calculations for reserves on the life base plan and active life (“contract”) reserves on LTC AB riders. A multi-decrement model would inherently use one valuation mortality table. If using a separate calculation for LTC AB reserves, it would be mechanically possible to use either the life valuation table or 94 GAM. Note also that if the LTC AB reserve is calculated using projected LTC benefits offset by the present value of death benefit reductions, disabled life mortality is inherently required to determine those death benefit reductions. There is no prescribed mortality table for LTC disabled life mortality. Practices observed for this step include best estimate disabled life mortality assumptions with appropriate PADs.

H. For EOB reserves, traditional LTC reserve calculations would typically be used. If 94 GAM is used, this would create an inconsistency with the mortality assumption used for the life policy. Given that the underlying expected mortality is the same for the base plan and rider, it can be argued that it would be appropriate to use a common mortality basis for valuation. In fact, for many of these products, it has been observed that the use of 94 GAM can produce reserves that are insufficient to cover the liabilities in the tail. The use of a mortality table lower than 94 GAM seems consistent with the spirit of LTC reserving requirements, as it would increase reserves and, in this case, help assure adequacy of those reserves.

Note however that lowering reserve mortality for the underlying life product would generally have the effect of decreasing the life reserve. This is a good example of some of the synergistic
characteristics of combination products, where changes in some experience factors can adversely impact base plan profits but improve rider profits. Such synergies can be positive as they can dampen the volatility of profits across a range of scenarios. For example, adverse mortality experience reduces the life insurance profits, but increases the LTC rider profits as fewer people will survive to claim LTC benefits. This is one of the key synergies of combination products. However, if the desire is to create PADs in the development of both the base plan and the rider reserves, that may not be possible to achieve under an integrated reserve calculation that uses one common set of factors such as mortality.
Lapses

Question 4: What issues arise when utilizing lapse assumptions in the development of statutory LTC rider reserves?

A. LTC Model Regulation 641—Section 18A discusses reserve standards for accelerated LTC benefits on life contracts, indicating that reserves “should be based on the multiple decrement model utilizing all relevant decrements except voluntary terminations. Single decrement approximations are acceptable if the calculation produces essentially similar reserves, if the reserve is clearly more conservative, or if the reserve is immaterial….”

B. LTC reserve regulations may apply to LTC EOB riders, since those riders do not interact with the underlying base plan in terms of the mechanics of the reserve calculation.

C. Below is the key provision for lapse assumptions for LTC contract reserves from the Health Insurance Reserve Model Regulation.

Section 4. Contract Reserves

B (1) (c) (iii) Termination Rates

For long-term care individual policies or group certificates issued on or after January 1, [2005], the contract reserve shall be established on the basis of:

(I) Mortality (as specified in Appendix A); and

(II) Terminations other than mortality, where the terminations are not to exceed:

- For policy year one, the lesser of eighty percent (80%) of the voluntary lapse rate used in the calculation of gross premiums and six percent (6%);

- For policy years two (2) through four (4), the lesser of eighty percent (80%) of the voluntary lapse rate used in the calculation of gross premiums and four percent (4%); and

- For policy years five (5) and later, the lesser of one hundred percent (100%) of the voluntary lapse rate used in the calculation of gross premiums and two percent (2%), or three percent (3%) for group

Experience as indicated by the survey is that most companies in the LTC combination product market are using separate calculations for reserves on the life base plan and active life (“contract”) reserves on LTC AB riders. It is not clear in the regulations how to construct a multi-decrement model. An approach that has been in use in the market is to determine projected liabilities for AB, reduced by the present value of reductions to future death benefits that occur as AB payments occur. That stream of liabilities can be used in a traditional LTC reserve calculation. Some companies have used all elements of a traditional LTC reserve calculation, including the voluntary lapse assumptions listed above. This might be viewed as inconsistent.
with the language in LTC Model Regulation 641—Section 18A, which precludes voluntary terminations as a decrement.

It also should be noted than under Principles Based Reserving (PBR), lapses (usually with PADs) are inherently reflected in life insurance reserve calculations. LTC combination product reserves will be required to be developed under PBR due to the underlying guarantees within the base plans.
Tax Reserves

Question 5: What are the considerations in the development of tax basis reserves for LTC riders on life or annuities?

NOTE: No portion of this Practice Note is intended to be tax advice. For specific questions, you should address with your company’s tax advisor.

A. The Tax Cuts and Jobs Act (TCJA) was effective Jan. 1, 2018. This results in a significant change to methods and assumptions for tax reserves.

B. Under TCJA, Section 807(d) of the Internal Revenue Code (IRC) prescribes the methodology as Commissioners Reserve Valuation Method (CRVM) for life insurance, Commissioners Annuity Reserve Valuation Method (CARVM) for annuities and the NAIC prescribed method for accident and health (A&H). The tax reserve for life insurance reserves (including life, annuity, and A&H as defined in IRC section 816) is 92.81% of the reserve using the prescribed method, regardless of the method used for the statutory reserve. The cap of the statutory reserve and floor of the net surrender value is unchanged for TCJA.

C. Under TCJA, Section 811(a) of the IRC prescribes the assumptions used “for purposes of the annual statement approved by the National Association of Insurance Commissioners.”

D. Changes under TCJA are that there are no longer prescribed tables and interest other than those used for the statutory reserves. The method for LTC is either 2-Year Preliminary Term for issue years prior to 1992, or 1-Year Preliminary Term for issue years 1992 and subsequent. This is from Model 010, the Health Insurance Model Regulation, of the NAIC. Companies may have different statutory bases for LTC than that prescribed by NAIC Model 010. However, the bases in NAIC Model 010 are the IRS-prescribed bases for tax.

E. The same considerations discussed in Question 3 regarding Integrated versus Independent reserve calculations apply here. From the survey, most companies are currently using an independent reserve calculation for the LTC rider(s).

F. The Disabled Life Reserve (DLR) for LTC is a life insurance reserve and is calculated as 92.81% of the statutory reserve. Incurred But Not Reported (IBNR) for unaccrued LTC benefits is also a life insurance reserve as defined under IRC section 816(b). Section 816(b) defines life insurance reserves to include:

future unaccrued claims arising from life insurance, annuity, and noncancelable accident and health insurance contracts (including life insurance or annuity contracts combined with noncancelable accident and health insurance) involving, at the time with respect to which the reserve is computed, life, accident, or health contingencies.

IRC section 816(e) gives guaranteed renewable A&H insurance the same treatment as noncancelable A&H insurance.
G. Both IBNR for accrued benefits and In Course Of Settlement (ICOS) for the LTC benefit are not life insurance reserves, but are IRC section 807(c)(2) unpaid losses in total. The one-half year discounting required by IRC section 846(e)(6)(B) states:

\[
\text{in all other cases, by using an assumption (in lieu of a loss payment pattern) that unpaid losses are paid in the middle of the year following the accident year.}
\]

The IRS publishes the one-half year discount factor. A good reference for understanding this treatment is the Society of Actuaries text *U.S. Tax Reserves for Life Insurers*. See page 577 regarding the tax treatment of A&H unpaid losses.
GAAP Reserves
Question 6: What are the considerations in the GAAP valuation of LTC riders on life policies?

From the survey question on GAAP methodology, there were five responses that separate reserves were calculated for the LTC rider including both AB and EOB riders. Here, the valuation models for the life insurance and LTC benefits are separate, each with their own methods and assumptions. The actuary might choose such separate models and consider the methods and assumptions independently. Here, there is no interaction of the life and LTC benefits within the reserve models.

The survey also has questions about GAAP valuation assumptions used. With respect to morbidity and lapse assumptions, the majority of companies indicated that best estimate assumptions are used. With respect to mortality assumptions, three out of six responses indicated the use of GAAP reserve mortality. The other three responses are one each for Company Best Estimate, 2001 CSO ultimate, and 94 GAM. We presume this includes PAD. With respect to interest rate, three out of five responses indicated the use of a GAAP reserve interest rate. The other two responses are 3.5%.

There are also three responses from the survey that an integrated calculation with a multi-decrement approach was used. Also from the survey, the most common integrated calculation uses Statement of Position (SOP) 03-1. For considerations on an integrated valuation, the actuary may consider the Academy Practice Note on Anticipated Common Practices Relating to AICPA Statement of Position 03-1: Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. (April 2005. Available under the Life tab at www.actuary.org/content/practice-notes.)

A significant consideration in using SOP 03-1 as the basis of an integrated model is whether insurance liabilities are required in addition to the account balance. SOP 03-1 requires a “profits followed by losses” test. The SOP states that an additional insurance liability should be established “if the amounts assessed against the contract holder each period for the insurance benefit feature are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function.”

There is a range of practice among actuaries in performing the profits followed by losses test. The range includes performing the test for multiple scenarios to a single deterministic test using the best estimate assumptions.

The SOP together with AICPA Technical Practice Aids (TPA) 6300.05 indicate the profits followed by losses test is to be performed for each mortality and morbidity feature. However, there is a range of practice among actuaries as to whether the liability calculation is performed for each insurance benefit function. Some actuaries calculate the liability for each insurance benefit feature separately. Other actuaries calculate the liability for all insurance benefit features in the aggregate.
The calculation of the additional liabilities for insurance benefits is described in the SOP. The first step is the calculation of the Benefit Ratio as the present value (PV) of cumulative actual plus future expected excess benefits to the PV of cumulative actual plus future expected total assessments. The SOP states that the Benefit Ratio is based on future expected experience over a full range of scenarios, rather than on a single set of best estimate assumptions. Also, the assumptions should be consistent with those used to calculate the Estimated Gross Profit for the amortization of the deferred acquisition cost (DAC). The Benefit Ratio might exceed 100%. The Additional Insurance Liability is calculated as the Benefit Ratio multiplied by the cumulative actual assessments minus cumulative actual excess payments, all accumulated with interest. The Additional Insurance Liability may not be less than zero.

This is not a comprehensive listing of the issues in using SOP 03-1 for integrated reserves of life insurance with LTC riders but is intended to make the actuary aware of the topic for further consideration. There are significant ranges of practice in the use of SOP 03-1 for an integrated valuation model. The Academy practice note cited above also provides additional references.
Disabled Life Reserves
Question 7: What are the considerations in the development of statutory disabled life reserves for LTC riders on life or annuities?

A. LTC reserve regulations may apply to LTC (EOB) riders, since those riders do not interact with the underlying base plan in terms of the mechanics of the reserve calculation.

B. LTC disabled life reserves are generally calculated using claim termination rate assumptions, benefit utilization, and valuation interest discount rates, with or without margins.

C. Some companies reflect expected recoveries in the development of disabled life reserves, while others do not consider recoveries and reflect on-claim mortality as the only termination.

D. For LTC accelerated benefit riders, the total claim benefit being paid may be viewed as coming from two components, the first being the surrender value of the base plan, and the second coming from the insurance company’s assets. Since the surrender value serves as a floor to life and annuity reserves, many companies would likely not set up an additional disabled life reserve on those amounts, but rather establish disabled life reserves based on projected net amounts at risk projected to be paid out during the disability.

E. Since every projected accelerated benefit claim payment from a life combination product in the future is accompanied by a reduction in the life insurance death benefit, some may believe that a reduction to the projected payments should be made in the disabled life reserve calculation to recognize that dynamic. This has not been observed in practice in our experience. Any overstatement of liabilities related to this is fairly quickly self-corrected as the death benefit and reserves are reduced with each payment for LTC accelerated benefits.

F. As is true for stand-alone LTC, some companies base disabled life reserves for LTC riders on the current situs of care (e.g., institutional vs. home health care), reflecting the projected level of payouts for that situs, transition probabilities to other situses, and the corresponding projections in those situses. Alternatively, the original situs might be used with the transitions reflected in the termination experience used. Other companies use aggregate factors that do not recognize the situs of care, but rather use overall average factors in their projected payments, claim termination rates, and other factors.
Yearly Renewable Term Long-Term Care Rider

Question 8: What are the considerations in the development of the active life reserve methodology for an LTC AB rider with Yearly Renewable Term (YRT) premiums or charges?

A. The first consideration is the type of reserve model being used, those being separate models or an integrated model. From the survey results, most companies use separate models for the base policy and the LTC rider.

B. For a valuation using separate models, the actuary might consider the slope and structure of the YRT LTC premium scale. If the slope is materially the same as the LTC claim costs, \( \frac{1}{2} cx \) might be considered appropriate. Other considerations would be a premium structure that becomes level or ceases at an attained age. For such premium or charge structures, pre-funding the claims at those attained ages through the active life reserve might be considered.

C. For a valuation using an integrated model for the base and LTC rider, the reserve is based on the combined cash flows.
Appendix
Reserving for LTC Combo Riders:
Results from a Survey of Life Insurance Companies

November 10, 2017

Report by: Steve Jackson, Assistant Director for Research (Public Policy)
To: Warren Jones, Chair, and members of the LTC Combo Valuations Work Group, of the Long Term Care/Disability Committee, Health Practice Council
Relevant Pool of Companies: 24 life insurance companies filed Form 4 with their LTC Experience Reports, indicating they had LTC Combo riders in their inforce book of business either on December 31, 2015 or December 31, 2016. See Appendix 1 for the list of the 24 companies.

Sample: We contacted Academy members at 22 of the 24 companies, requesting their participation in the survey.


Response: We received completed surveys from 8 of the 22 companies (36%). Of those 8, two indicated they did not have LTC Combo riders in their inforce book of business as of December 31, 2016. The six companies with relevant riders reported on 11 such products. Of the 11, one reported a deferred annuity as a base plan.

Based on 2015 data from the NAIC, the top 20 life insurers accounted for 64% of total direct premiums. Of those 20, 6 offered LTC riders in 2015 or 2016, with those companies accounting for 26% of all life insurance premiums. Four of the six respondents to our survey are among the top 20 life insurers, accounting for 19% of direct premiums in 2015. While we do not have data available on premiums only for LTC combo products, the four respondents who were among the top 20 life insurers based on all direct premiums accounted for 73% of the premiums of the six of the top 20 companies which offered LTC combo products.

Note: Because only one company reported a deferred annuity as a base plan, we will not report the answers to questions by that company (since their answers might be traceable to the particular company). We will report the results for the ten products from five companies which offered UL, WL, IUL, VUL or Term products.
On the following pages, results for the twenty-one questions which did not refer specifically to deferred annuities are presented. For each question, all responses which generated at least one response is reported exactly as written. The raw number of responses is reported, with the percent of those responding to the particular question in parentheses. These are results for: all respondents (ALL); those offering a Universal Life policy (UL-ALL); those offering a Universal Life policy with an Accelerated Benefit Rider (UL-ABR); those offering a Universal Life policy with an Extension of Benefits (UL-EXT); and those offering a Whole Life or Term policy with an Accelerated Benefit Rider (WL/Term-ABR). Note: column counts for ALL = UL-ALL + WL/Term-ABR; and UL-ALL = UL-EXT + UL-ABR.

<table>
<thead>
<tr>
<th>Question</th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) For your LTC combination product, is it an:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. LTC extension of benefits, inflation benefit,</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and/or Paid-up nonforfeiture benefits</td>
<td>(40%)</td>
<td>(50%)</td>
<td>(100%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(presumed to have level or one-time charges or premium).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. LTC ABR to life insurance, with level charges or premium.</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>(50%)</td>
<td>38%</td>
<td>75%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. LTC accelerated benefit rider (ABR) to life insurance, with YRT</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>charges or premium.</td>
<td>(10%)</td>
<td>(12%)</td>
<td>(25%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) For this LTC combination product, what is the type of base plan?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. UL</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>(70%)</td>
<td>88%</td>
<td>(100%)</td>
<td>(50%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Can be UL, IUL or VUL</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10%)</td>
<td>(12%)</td>
<td>(17%)</td>
<td>(50%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. WL</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(10%)</td>
<td>(12%)</td>
<td>(17%)</td>
<td>(50%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Term</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(10%)</td>
<td>(12%)</td>
<td>(17%)</td>
<td>(50%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Are there guaranteed charges?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Yes</td>
<td>9</td>
<td>8</td>
<td>4</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>(90%)</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(50%)</td>
<td></td>
</tr>
<tr>
<td>b. No</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(10%)</td>
<td>(10%)</td>
<td>(10%)</td>
<td>(50%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4) What kind of statutory reserve methodology is used for this LTC rider?
   a. Separate reserves generated for the rider.  
   b. Integrated calculation with the base plan, using a multi-decrement approach

<table>
<thead>
<tr>
<th>Methodology</th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate</td>
<td>9 (90%)</td>
<td>8 (100%)</td>
<td>4 (100%)</td>
<td>4 (100%)</td>
<td>1 (50%)</td>
</tr>
<tr>
<td>Integrated</td>
<td>1 (10%)</td>
<td></td>
<td></td>
<td></td>
<td>1 (50%)</td>
</tr>
</tbody>
</table>

5) For the statutory reserves, what mortality assumption is used?
   a. 1994 GAM Table
   b. 2001 CSO Ultimate mortality table
   c. Required statutory reserve mortality table
   d. For the extension rider, reserves are calculated using experience mortality and 1994 GAM. The greater of the two reserves at each duration is held.

<table>
<thead>
<tr>
<th>Mortality Assumption</th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994 GAM Table</td>
<td>3 (33%)</td>
<td>2 (25%)</td>
<td>2 (50%)</td>
<td></td>
<td>1 (100%)</td>
</tr>
<tr>
<td>2001 CSO Ultimate</td>
<td>2 (22%)</td>
<td>2 (25%)</td>
<td>2 (50%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Required statutory</td>
<td>3 (33%)</td>
<td>3 (38%)</td>
<td>1 (25%)</td>
<td>2 (50%)</td>
<td></td>
</tr>
<tr>
<td>Extension</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6) For the statutory reserves, what interest rate assumption is used?
   a. 3.5%
   b. the maximum valuation interest rate permitted by law for Whole life policies issued on the same date (currently 3.50% interest per year)
   c. Statutory reserve interest rate

<table>
<thead>
<tr>
<th>Interest Rate Assumption</th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5%</td>
<td>4 (44%)</td>
<td>3 (38%)</td>
<td>2 (50%)</td>
<td>1 (25%)</td>
<td>1 (100%)</td>
</tr>
<tr>
<td>Maximum</td>
<td>2 (22%)</td>
<td>2 (25%)</td>
<td>1 (25%)</td>
<td>1 (25%)</td>
<td></td>
</tr>
<tr>
<td>Reserve</td>
<td>3 (33%)</td>
<td>3 (38%)</td>
<td>1 (25%)</td>
<td>2 (50%)</td>
<td></td>
</tr>
</tbody>
</table>
7) For the statutory reserves, what reserve methodology is used?

<table>
<thead>
<tr>
<th>Methodology</th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. One year FPT</td>
<td>6 (60%)</td>
<td>6 (75%)</td>
<td>3 (75%)</td>
<td>3 (75%)</td>
<td></td>
</tr>
<tr>
<td>b. 1/2 cx</td>
<td>1 (10%)</td>
<td>1 (12%)</td>
<td></td>
<td>1 (25%)</td>
<td></td>
</tr>
<tr>
<td>c. First Principles approach for both base and CAE reserve components</td>
<td>1 (10%)</td>
<td></td>
<td></td>
<td></td>
<td>1 (50%)</td>
</tr>
<tr>
<td>d. AG38 for base plus rider combined</td>
<td>1 (10%)</td>
<td></td>
<td></td>
<td></td>
<td>1 (50%)</td>
</tr>
<tr>
<td>e. AG38 for the base life policy. ALR and DLR are held for the acceleration rider based on the NAAR. ALR and DLR are held for the extension rider. Claim expense reserves are held for both riders.</td>
<td>1 (10%)</td>
<td>1 (12%)</td>
<td>1 (25%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8) For the statutory reserves, what morbidity assumptions are used?

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. best estimate offset by PV life benefit reductions</td>
<td>3 (33%)</td>
<td>2 (29%)</td>
<td>1 (25%)</td>
<td>1 (33%)</td>
<td>1 (50%)</td>
</tr>
<tr>
<td>b. best estimate</td>
<td>5 (55%)</td>
<td>4 (57%)</td>
<td>2 (50%)</td>
<td>2 (67%)</td>
<td>1 (50%)</td>
</tr>
<tr>
<td>c. Best Estimate with benefits multiplied by (1-NAAR/DB)</td>
<td>1 (11%)</td>
<td>1 (14%)</td>
<td>1 (25%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9) For the statutory reserves, what lapse assumption is used?
   a. 0% for Base and Best Estimate for CAE
   b. No lapses for acceleration rider. Best estimate lapses capped at Statutory maximums for the extension rider.
   c. Voluntary lapse assumptions are included as stated in the 2003 NAIC Health Insurance Reserves Model Regulation
   d. No lapses
   e. Best estimate lapse assumptions subject to valuation law constraints.

<table>
<thead>
<tr>
<th></th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>1 (20%)</td>
<td></td>
<td></td>
<td></td>
<td>1 (100%)</td>
</tr>
<tr>
<td>b.</td>
<td>1 (20%)</td>
<td>1 (25%)</td>
<td>1 (33%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>1 (20%)</td>
<td>1 (25%)</td>
<td>1 (33%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>1 (20%)</td>
<td>1 (25%)</td>
<td></td>
<td>1 (100%)</td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>1 (20%)</td>
<td>1 (25%)</td>
<td>1 (33%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10) What kind of tax reserve methodology is used for this LTC rider?
   a. Separate reserves generated for the rider.
   b. Integrated calculation with the base plan, using a multi-decrement approach

<table>
<thead>
<tr>
<th></th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>9 (90%)</td>
<td>8 (100%)</td>
<td>4 (100%)</td>
<td>4 (100%)</td>
<td>1 (50%)</td>
</tr>
<tr>
<td>b.</td>
<td>1 (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11) For the tax reserves, what mortality assumption is used?
   a. 94 GAM
   b. 2001 CSO Ultimate mortality table
   c. Tax reserve mortality table
   d. For the extension rider, reserves are calculated using experience mortality and 1994 GAM. The greater of the two reserves at each duration is held.

<table>
<thead>
<tr>
<th></th>
<th>ALL</th>
<th>UL-ALL</th>
<th>UL-EXT</th>
<th>UL-ABR</th>
<th>WL/Term-ABR</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>3 (33%)</td>
<td>2 (25%)</td>
<td>2 (50%)</td>
<td></td>
<td>1 (100%)</td>
</tr>
<tr>
<td>b.</td>
<td>2 (22%)</td>
<td>2 (25%)</td>
<td></td>
<td>2 (50%)</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>3 (33%)</td>
<td>3 (38%)</td>
<td>1 (25%)</td>
<td>2 (50%)</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>1 (11%)</td>
<td>1 (12%)</td>
<td>1 (25%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
12) For the tax reserves, what interest rate assumption is used?
   a. 3.5%  
      5 (55%)  5 (62%)  3 (75%)  2 (50%)
   b. Tax reserve interest rate  
      3 (33%)  3 (38%)  1 (25%)  2 (50%)
   c. Greater of Prevailing State Assumed Rate and AFR  
      1 (11%)  

13) For the tax reserves, what reserve methodology is used?
   a. One year FPT  
      6 (60%)  6 (75%)  3 (75%)  3 (75%)
   b. 1/2 cx  
      1 (10%)  1 (12%)  1 (25%)
   c. First Principles approach for base reserve component  
      1 (10%)  
   d. Ag38 for base plus rider combined  
      1 (10%)  
   e. AG38 for the base life policy. ALR and DLR are held for the acceleration rider based on the NAAR. ALR and DLR are held for the extension rider.  
      1 (10%)  1 (12%)  1 (25%)

14) For the tax reserves, what morbidity assumptions are used?
   a. best estimate offset by PV life benefit reductions  
      3 (33%)  2 (29%)  1 (25%)  1 (33%)  1 (50%)
   b. best estimate  
      4 (44%)  4 (57%)  2 (50%)  2 (67%)
   c. Milliman Data offset by PV life benefit reductions  
      1 (11%)  
   d. Best Estimate with benefits multiplied by (1-NAAR/DB)  
      1 (11%)  1 (14%)  1 (25%)
15) For the tax reserves, what lapse assumption is used?
   a. No lapses
      2 (50%)  1 (33%)  1 (100%)  1 (100%)
   b. No lapses for acceleration rider. Best estimate lapses capped at Statutory maximums for the extension rider.
      1 (25%)  1 (33%)  1 (50%)
   c. Best estimate lapse rates subject to valuation law constraints.
      1 (25%)  1 (33%)  1 (50%)

16) What kind of GAAP reserve methodology is used for this LTC rider?
   a. Separate reserves generated for the rider.
      5 (55%)  4 (57%)  1 (33%)  3 (75%)  1 (50%)
   b. Integrated calculation with the base plan, using a multi-decrement approach
      3 (33%)  3 (43%)  2 (67%)  1 (25%)
   c. NA do not calculate GAAP
      1 (11%)  1 (50%)

17) For the GAAP reserves, what mortality assumption is used?
   a. Company Best Estimate
      1 (17%)  1 (17%)  1 (33%)
   b. 2001 CSO Ultimate mortality table
      1 (17%)  1 (17%)  1 (33%)
   c. GAAP reserve mortality table
      3 (50%)  3 (50%)  1 (33%)  2 (67%)
   d. 1994 GAM
      1 (17%)  1 (17%)  1 (33%)

18) For the GAAP reserves, what interest rate assumption is used?
   a. 3.5%
      2 (40%)  2 (40%)  1 (50%)  1 (33%)
   b. GAAP reserve interest rate
      3 (60%)  3 (60%)  1 (50%)  2 (67%)
19) For the GAAP reserves, what reserve methodology is used?
   a. SOP 03-1 reserve
      - ALL: 4 (57%)
      - UL-ALL: 4 (67%)
      - UL-EXT: 2 (67%)
      - UL-ABR: 2 (67%)
   b. FAS97
      - ALL: 1 (14%)
      - UL-ALL: 1 (17%)
      - UL-EXT: 1 (33%)
   c. GAAP Reserve = Highest CSV + max(0, CV+LTC/EOB reserve – Highest CSV)
      where Highest CSV is (max, AB, ROP, MGCV), AB is the Account Balance before reduction for surrender charges, and MGCV is the tabular guaranteed cash value.
      - ALL: 1 (14%)
      - UL-ALL: 1 (17%)
      - UL-EXT: 1 (33%)
   d. do not calculate GAAP
      - ALL: 1 (14%)

20) For the GAAP reserves, what morbidity assumptions are used?
   a. best estimate
      - ALL: 5 (83%)
      - UL-ALL: 5 (100%)
      - UL-EXT: 3 (100%)
      - UL-ABR: 2 (100%)
   b. best estimate offset by PV life benefit reductions
      - ALL: 1 (17%)

21) For the GAAP reserves, what lapse assumption is used?
   a. none
      - ALL: 1 (20%)
      - UL-ALL: 1 (20%)
      - UL-ABR: 1 (50%)
   b. Best Estimate
      - ALL: 3 (60%)
      - UL-ALL: 3 (60%)
      - UL-EXT: 2 (67%)
      - UL-ABR: 1 (50%)
   c. pricing lapse assumption
      - ALL: 1 (20%)
      - UL-ALL: 1 (20%)
      - UL-EXT: 1 (33%)
Appendix 1

Life Insurance Companies Filing Form 4 with their Life Experience Reports,
December 31, 2015 and/or December 31, 2016

Allianz Life Ins Co Of N Amer
Bankers Life & Cas Co
Colonial Life & Accident Ins Co
Continental Gen Ins Co
Country Life Ins Co
First Penn Pacific Life Ins Co
Forethought Life Ins Co
Genworth Life Ins Co
Guaranty Income Life Ins Co
John Hancock Life Ins Co USA
Kanawha Ins Co
Kansas City Life Ins Co
Lincoln Natl Life Ins Co
Massachusetts Mut Life Ins Co
National Life Ins Co
Nationwide Life Ins Co
New York Life Ins & Ann Corp
Northwestern Mut Life Ins Co
Provident Life & Accident Ins Co
RiverSource Life Ins Co
Standard Life & Accident Ins Co
Sunset Life Ins Co Of Amer
Transamerica Premier Life Ins Co
Trustmark Ins Co
Charges to the LTC Valuation Work Group

- Develop a replacement mortality table for Long-term Care (LTC) life reserves
  - Based on the 2012 Annuitant Mortality Table
  - Recommend a margin for conservatism
- Develop a replacement lapse table
  - Recommend a margin for conservatism
- Consider developing tables for valuation on total lives basis as well as active lives basis
Proposed Factors for Tables

- Preliminary proposed basic tables and factor tables have been developed.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mortality Individual &amp; Group</th>
<th>Lapse Individual</th>
<th>Lapse Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue Age</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Policy Duration</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Risk Class</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Ultimate Mortality Rates

- Based on 48,000 deaths from companies with reasonable data (DEFN. 2 companies*) for policy years 15 and beyond during the experience period 2008-2011.

* 10 companies’ data were deemed to be reasonably reliable:
  - Identified deaths from lapses, and
  - Less than 25% unknown terminations.
Ultimate Mortality Rates

- Use 2012 IAM as a guide when data is sparse.

Data for Lapse Table

- Based on 2008-2011 experience years and DEFN 2 companies:

<table>
<thead>
<tr>
<th></th>
<th>Exposure Years</th>
<th>Number of Lapses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>9.4 million</td>
<td>197,000</td>
</tr>
<tr>
<td>Group</td>
<td>4.9 million</td>
<td>302,000</td>
</tr>
</tbody>
</table>

- Minimum 240 lapses in any rate-cell (minimum 50% partial credibility).
Select Factors for Lapse

- Key lapse factors were identified using a logistic regression method.
- To be consistent with the factors selected for Mortality Table, Work Group selected the following factors for lapse:
  - Policy Year
  - Premium Paying Status
  - Issue Age
  - Underwriting Class
  - Periodic Premium Level
  - Marital Status
  - Premium Mode
  - Rate Increase Indicator

Raw Lapse Rates – Individual

- Raw rates were capped by prior year’s rates to remove increasing patterns.
Smoothed Lapse Rates – Individual

- Capped raw rates for each issue age group were fitted by either an exponential (Expon.) or a power trend line.

Smoothed Lapse Rates by Issue Age Group and Policy Duration

- Expon. (Under 55)
- Expon. (55-59)
- Power (60-64)
- Power (65-69)
- Power (70-74)
- Power (75+)

Smoothed Lapse Rates – Group

- Raw rates for each issue age group were fitted by either a 2nd degree polynomial (Poly.) or an exponential (Expon.) trend line.

Smoothed Lapse Rates by Issue Age Group and Policy Duration

- Poly. (Under 35)
- Expon. (35-39)
- Expon. (40-44)
Next Steps

- Develop active lives tables
- Review reasonableness of total terminations
- Recommend margins
- Update NAIC LTC Actuarial Working Group for additional feedbacks
- Produce report (ECD end of 2019)

Questions?
Endnotes

Abbreviations:

- 1 DEFN: Definition 2
- 2 IAM: Individual Annuity Mortality
- 3 VBT: Valuation Basic Table
- 4 ECD: Estimated Completion Date

Additional Information

David Linn
Senior Health Policy Analyst
American Academy of Actuaries
Linn@actuary.org
202-785-6931
Actuarial Thoughts on Hybrid LTC/Life Products
presented to: Long-Term Care Actuarial Working Group

STEVE SCHOONVELD, FSA
ROBERT EATON, FSA
MATHEW WINEGAR, FSA
SOA LTCI Section Council
NAIC Summer Meeting, NYC
August 2, 2019

Presentation Disclaimer

The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented.
The LTC Insurance Market is Robust

• Hybrid?
  • aka – combination product, hybrid product, asset based product, etc...

• Part of an 8 product set of consumer solutions:
  1. Traditional Long Term Care Insurance
  2. Short Term Care Insurance
  3. Linked Benefit Life / Long Term Care Product
  4. Long Term Care Rider on Life Chassis
  5. Chronic Illness Rider on Life Chassis
  6. Group/Multi-life products
  7. LTC Annuities
  8. Impaired Annuities

The LTC Hybrid Market is Growing!

• 85% of LTC product sales in 2018 were Hybrid LTC products

• Two main types of Life/LTC Hybrid – Chronic Illness riders and LTC

• Sales in 2018 (source LIMRA):

<table>
<thead>
<tr>
<th>2018 Hybrid Sales</th>
<th>Chronic Illness Riders</th>
<th>Long-Term Care</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Policies</td>
<td>259,690</td>
<td>144,678</td>
<td>404,368</td>
</tr>
<tr>
<td>Total Premium (SM)</td>
<td>1,779</td>
<td>2,535</td>
<td>4,314</td>
</tr>
<tr>
<td>Average Face Amount</td>
<td>213,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range of Average Initial LTC Pool:</td>
<td>180K to 600K+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurring Premium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Face Amount:</td>
<td>200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Annual Premium:</td>
<td>4,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth in Recurring Premium Sales:</td>
<td>14%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range of Avg Annual Premium 300K FA,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variates by base Life Product:</td>
<td>3,500 to 5,500+</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The LTC Hybrid Market is Growing!

- NAIC Summer 2016 National Meeting: Long-Term Care Innovation
  - 228,000 policies with LTC solutions in 2015

- NAIC Summer 2019 National Meeting
  - 461,000 policies with LTC solution in 2018

- The drop in new premiums was due to higher sales of combination policies that involve recurring premiums, instead of a one-time payment.....Spreading payments out over a longer period is more affordable for a larger swath of consumers. A recurring premium option is “going to pick the industry up a little bit.”
  - LIMRA Insurance Research, David McAllen

- In 2018, combination products represented 27 percent of the overall U.S. individual life insurance market, LIMRA reported.

Source: life annuity specialist ‘Buyers Cool on Life ‘Combo’ Products After Hot 2017, Surprising LIMRA’, Cyril Tuohy, July 24, 2019

Hybrid Products, How Do They Work?

- Various levels of LTC benefits
  - Accelerated Death Benefit
  - Extended Benefits
  - Inflation Benefits

- Ultimately pay a death benefit, a return of premium or LTC benefits
  - Cash value, partial, or full return of premium

- Various funding mechanisms
  - No charge / discounted death benefit (chronic illness riders only)
  - Monthly charge on the base policy, or separate premium
  - Single, limited, or lifetime premiums/charges
  - Many products are fully guaranteed – no premium increases!
Hybrid Products, How Do They Work?

- Many products have streamlined or simplified underwriting
  - Medical records and exams often not required beyond the base policy’s requirements
  - Cognitive screening still a consideration
  - Morbidity and mortality underwriting on life hybrid products
- Tax-qualified benefits using same benefit triggers and covered services as traditional LTC
  - Acceleration riders TQ under 7702B or 101g
  - Indemnity and reimbursement benefit designs
  - LTC acceleration and extension riders are filed as health (LTC) products
- Broad and expanding distribution system - 85% of LTC product sales
- Various design options to meet a variety of consumer needs – demographic, income/asset levels, level of family support, etc.

Actuarial Considerations:

- Reduced volatility example as compared to standalone LTC
  - Documented in 2012 SOA paper *Quantification of the Natural Hedge Characteristics of Combination Life or Annuity Products Linked to Long-Term Care Insurance*

<table>
<thead>
<tr>
<th>Example</th>
<th>Morbidity +10%</th>
<th>Mortality +10%</th>
<th>Mortality -10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standalone LTC</td>
<td>10.0%</td>
<td>-6.3%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Hybrid (Base)</td>
<td>0.0%</td>
<td>5.8%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>Hybrid (Acceleration Rider)</td>
<td>8.8%</td>
<td>-4.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Hybrid (Base+ Acc Rider)</td>
<td>0.9%</td>
<td>4.7%</td>
<td>-5.0%</td>
</tr>
</tbody>
</table>

- What is a PAD in Hybrids/combos?
  - PBR
    - “Riders and Supplemental Benefits” from NAIC Valuation Manual
    - No additional charge: cash flows incorporated into base policy reserve
    - Additional charge: reserves computed separately according to that benefit
Actuarial Considerations:

- What could go wrong with assumptions?
  - How conservative have carriers been?

- Assumption of policyholder behavior for hybrid products vs. traditional LTCI
  - Mindset
  - Financial and tax implications

- How will carriers react to emerging experience?

- What portion of overall benefits are LTC (or similar)?

Top client concerns about longevity risk:

The concerns of clients with $250,000 of investable assets

- **57%** healthcare/long-term care expenses
- **37%** outliving their savings
- **31%** investments decline in value
- **30%** planning for retirement
- **29%** market volatility

Hybrid Product Impediments:

- Long-Term Care “special” LTC training discourages advisor participation
- Inconsistency of Partnership program requirements
- Traditional LTC regulations that don’t apply to hybrid products:
  - For example, Hybrid products generally have cost of insurance charge structures. Level premium requirements on the LTC charges decrease benefits for consumer.
- Point of sale disclosures are not customized for Hybrid products
  - Seen recently in the LTC Buyer’s Guide discussion
- The lack of simple coordination of benefit provisions that allows the consumer to choose which policy will pay but not reimburse twice
Questions
1. **Discussed Combining LTCI Policy Form Experience for Rate Increase Requests**

Mr. Lombardo said Connecticut has on occasion asked insurers to submit state-specific experience for all its long-term care insurance (LTCI) policy forms sold in Connecticut in addition to experience for the policy form a rate increase is being requested for. He said this was done so the performance of the insurer’s entire block of business, not just the portion of its block a rate increase was requested for, could be evaluated. He asked members of the Subgroup if their states make similar requests and to explain why or why not. He said combining experience from multiple policy forms, either on a state-specific or nationwide basis, can increase credibility of the experience being used in a rate increase request justification.

Mr. Ben said Florida has a regulation that requires the combination of experience from all policy forms, as well as experience for all policy forms to be submitted separately. He said this is done to increase the credibility of the experience and to help identify the potential for the need for future rate increases on policy forms other than the ones a rate increase is being requested for. Mr. Lombardo asked if Florida reviews the total block experience to determine if the rate increase for the subset of policy forms is justified. Mr. Ben said Florida considers the total block experience, but it also considers the experience for the subset of policy forms when making its determination. He said Florida’s regulation considers 1,000 claims over five years to be fully credible.

Mr. Leung said Missouri does not have LTCI rate increase approval authority, but it does review rate increase filings to determine if they are actuarially justified. He said Missouri only reviews experience for policy forms that are the subject of the rate increase.

Mr. Serbinowski said Utah generally leaves the level of aggregation of policy form experience to the discretion of the insurer filing a rate increase request. He said Utah rarely requests experience for policy forms that are not subject to the rate increase. He said Utah has never used the experience for policy forms not subject to the rate increase in its determination.

Mr. Muldoon said if the experience for a policy form, either only in Nebraska or nationwide, has low credibility, the insurer may be asked for experience from additional forms. He said there are sometimes difficulties associated with the aggregation of experience from policy forms with differing benefit structures. He said Nebraska examines the experience for each policy form that is part of the aggregation on a form-by-form basis.

Mr. Kupferman said California relies on the insurer’s actuary to determine how and which policy forms’ experience are combined for a rate increase request.

Mr. Serbinowski said it is common for property/casualty (P/C) insurance rates to be calculated using aggregated policy form experience as fully credible, and then blending the calculated individual policy form rate with the fully credible aggregate rate using credibility weighting. He said he sees no reason that this should not be done with LTCI rates.

Ms. Bohn said Minnesota aggregates policy forms by benefit type when it reviews experience for rate increase requests.

Mr. Knable said Indiana often aggregates the experience for an insurer’s entire block of policy forms to examine the appropriateness of a rate increase for a selected policy form. Mr. Lombardo said Connecticut performs similar analyses.

Ray Nelson (America’s Health Insurance Plans—AHIP) said he agrees that insurers should be allowed to aggregate policy form experience in the manner they think is appropriate.
Mr. Brady asked what should be considered as fully credible to credibility weight with experience that is not fully credible. Mr. Nelson said companies tend to use nationwide data as fully credible when possible and use industry studies as a fully credible standard if nationwide company experience is not deemed fully credible.

2. Discussed Group LTCI Rate Increase Review Considerations

Mr. Lombardo said the pricing of group LTCI is similar to individual pricing in some ways, but group pricing differs from individual in other ways. He asked the Subgroup for its thoughts on the differences. Mr. Kupferman said in reviewing various group LTCI rate filings, he observed the risks associated with the group populations differed from those seen in individual filings. He said some of the groups to be insured were associations, employer groups, laws firms and school districts. He said premiums were paid by the employee in some cases and partially or wholly by the employer in others. He said the average age of the insureds was much lower for group policies than is seen in individual policies, which corresponds to fewer claims in the experience for group compared to individual. Mr. Lombardo said he agrees with Mr. Kupferman’s observations, and the underwriting of group policies differs from individual because of actively-at-work provisions for group and differences due to whether the employee pays all, part or none of the premium. He said the issue of portability in group policies, and the risk profile of those who continue LTCI coverage after leaving the employer versus those who do not, also contribute to differences in group and individual pricing.

Mr. Serbinowski said he recently reviewed a group rate filing, and he said he is unsure of the insurer’s ability to accurately model projected experience for the block. He said ultimately, all employees will leave the employer through termination or retirement. He said he is unsure of the insurer’s estimation of lapse rates and percentage of employees leaving the group that will continue to be covered by a conversion policy. He said it is possible that the policy’s low daily benefit may not be useful to the insured and that because of this, lapse rate assumptions may be understated.

Mr. Lombardo asked what data sources group LTCI insurers use for pricing if their own blocks are not large enough to be credible. He asked if they use individual policy experience for older ages that may not be adequately represented in their group experience and, if so, is this appropriate.

Bonnie Burns (California Health Advocates—CHA) said she was told by a group LTCI company that they have a high percentage of claims that last less than one year. She said the explanation given was the low average age of the company’s block of insureds. She suggested that the causes of such short-duration claims be examined and compared to claim causes for older ages represented in individual blocks.

Jan Graeber (American Council of Life Insurers—ACLI) asked if the same magnitude of rate increase percentages is being seen for group LTCI products as for individual products. Mr. Kupferman said the increases filed in California are similar in magnitude, but for differing reasons. He said increases for group policies may be requested out of fear that group policies will have deteriorating experience similar to individual policies, not because the group experience indicates such a trend. Mr. Lombardo said this is similar to what he has seen in Connecticut. Ms. Graeber said she will ask ACLI member companies for their thoughts on why group and individual rate increase request percentages are so close to one another.

Mr. Kupferman said he asks insurers whether the experience for a lapsed group policyholder is retained in its group block or if it is transferred to its individual block. He said he has not received consistent answers on the treatment of such experience.

Ms. Burns said some group LTCI insurers allow family members of employees to enroll and that this practice is likely to increase the average age of such a block and affect experience.

Mr. Lombardo asked Ms. Graeber to provide topics related to group LTCI rating issues to add to issues discussed during the conference call. He said the Subgroup will discuss these topics during a future conference call.

Having no further business, the Long-Term Care Pricing (B) Subgroup adjourned.
Long-Term Care Pricing (B) Subgroup
Conference Call
June 13, 2019

The Long-Term Care Pricing (B) Subgroup of the Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met via conference call June 13, 2019. The following Subgroup members participated: Paul Lombardo, Chair (CT); Greg Campbell (AK); Steve Ostlund (AL); Fred Andersen (MN); William Leung (MO); David Yetter (NC); Rhonda Ahrens (NE); Anna Krylova and Mark Hendrick (NM); Laura Miller (OH); Anamaria Burg (SC); Raja Mallani (TX); Tomasz Serbinowski (UT); and Joy Lynn Fix (WV). Also participating were: Karl Knable (IN); and Bob Williams (MS).

1. Discussed Justification for Rate Increases that Vary by Rating Cell

Mr. Lombardo said the Subgroup will continue the discussion from its May 9 conference call of long-term care insurance (LTCI) rate increase requests that vary by rating cell. He said Connecticut allows rate increases that differ for policies with and without inflation protection, lifetime versus limited benefit, and other differing benefit structure differences when there is actuarial justification. He said historically, Connecticut has not allowed rate increases to vary by insured attained age.

Mr. Andersen said he thinks it is possible to do analyses of the credibility of changes in assumptions for given cells, even if the volume of experience for the given cell is not credible. He said this can be applied to both issue age and attained age cells. He said this may be able to be justified since there are more years of potential future experience that can be observed for younger issue and attained ages. Ms. Ahrens said Mr. Andersen’s argument for increases that vary by age can also be applied to persistency issues.

Mr. Serbinowski said he does not think attained age should be used as a rating variable. He said differences by issue age can be justified.

Mr. Knable said Indiana sometimes requests that insurers reduce rate increases for policyholders older than a given attained age.

Mr. Lombardo asked if any call participants have seen rate increase requests that vary by rating factors other than the ones he mentioned. Ms. Ahrens said she has seen variances in requested increases by elimination period.

2. Discussed Single Premium, Limited Pay and Paid-Up Experience in Rate Filings

Mr. Lombardo said Connecticut requests all of an insurer’s claims experience for rate filings, including the experience of policyholders that may not be affected by a rate increase. He said this is done, in part, to determine if an insurer is meeting the lifetime loss ratio standard that is included in Connecticut statutes. He said the recently completed all-state LTCI rate review showed a split among states for the inclusion of single premium, limited pay and paid-up claims experience in rate filings. He asked for input from all participants for state rationale for the use or exclusion of such experience.

Mr. Serbinowski said limited pay policies are, in a sense, midway between guaranteed renewable policies and non-cancellable policies, and it may be unfair to LTCI policyholders with guaranteed renewable policies to pay for increases that may result from the claims experience of paid-up policyholders. He said he thinks such experience should be segregated. Mr. Lombardo gave a hypothetical example of a company that had half paid-up policyholders and half guaranteed renewable policyholders. He asked Mr. Serbinowski if he thinks it is fair to the insurer to bear the financial consequences of being able to generate additional premium based only on poor experience for half its block, even though it is obligated to pay for possible worsening claims experience for both classes of policyholders. Mr. Serbinowski said he thinks this is fair, especially since most insurers’ blocks of limited pay policies are a small percentage of its total block. Mr. Lombardo asked if other states use the same approach as Utah. Ms. Ahrens said Nebraska does. Mr. Williams said Mississippi employs an approach similar to Utah.

Mr. Lombardo said as more limited pay policies become paid-up policyholders, and there is no opportunity to collect additional premium from them, the pool of policyholders to collect additional premium to support worsening claims experience shrinks in instances where paid-up experience is excluded from rate increase filing reviews. He asked if there is a point where the shrinking premium-paying policyholder pool becomes insufficient to maintain the insurer’s financial viability. Mr. Serbinowski said there are similarities to this scenario and very small remaining blocks of LTCI, and Utah generally will not
grant rate increases for blocks that are so small that there is no hope of moving the insurer towards its initially-priced lifetime loss ratio. He said it could be that granting rate increases in such scenarios may lead to the insurer’s best risks paying for the claims experience of its worst risks.

Jan M. Graeber (American Council of Life Insurers—ACLI) said the prospective present value (PPV), or Texas methodology, of reviewing rate increases addresses this issue by using experience from limited-pay policies that still have premium-paying periods left until they become paid-up, but no experience from paid-up policyholders. She said using this methodology only levies rate increases on policyholders that will pay future premiums, and it disallows recouping past losses from insufficient rates. Mr. Lombardo asked if the projected future experience from paid-up policyholders is also excluded in the PPV methodology. Ms. Graeber said this is correct. Mr. Lombardo asked how the financial implications to an insurer should be addressed when paid-up block experience is excluded in the scenario where the insurer’s paid-up block experience is deteriorating much more than its guaranteed renewable block experience. Ms. Graeber said the insurer will have to bear the consequences of any deviation from priced experience for its paid-up block, as there is no opportunity to collect additional premium from these policyholders.

Mr. Andersen said the Minnesota methodology is similar to the PPV methodology in that an insurer will have to bear any financial losses associated with the mispricing of its paid-up block. He said there is a second issue related to the use of paid-up experience that relates to whether the morbidity experience of the paid-up block can be used to develop assumptions to be used in projecting future claims experience for guaranteed renewable policies, even if the claims experience for the paid-up block is excluded from the rate increase review.

Mr. Lombardo said the Subgroup will meet again via conference call prior to the Summer National Meeting.

Having no further business, the Long-Term Care Pricing (B) Subgroup adjourned.
The Long-Term Care Pricing (B) Subgroup of the Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met via conference call May 9, 2019. The following Subgroup members participated: Paul Lombardo, Chair (CT); Greg Campbell (AK); Steve Ostlund (AL); Perry Kupferman (CA); Benjamin Ben (FL); Karl Knable (IN); Kristi Bohn and Fred Andersen (MN); William Leung (MO); David Yetter (NC); David Sky (NH); Anna Krylova (NM); Andrew Dvorine (SC); Raja Malkani (TX); and Tomasz Serbinowski (UT). Also participating was: Amy Peach (WA).

1. Discussed Nationwide Versus State-Specific Credibility

Mr. Lombardo said Connecticut requests nationwide and state-specific experience for long-term care insurance (LTCI) rate increase filings. He said if credibility formulas are applied to the Connecticut-only experience, it usually has low or zero credibility. He said Connecticut has not adopted the rate stabilization aspects of the Long-Term Care Insurance Model Regulation (#641), noting that rates are subject to a 60% individual and 65% group lifetime loss ratio standard. He said if Connecticut did apply formulaic credibility-weighted methodologies to its LTCI rate reviews, Connecticut-only experience would rarely, if ever, factor into a rate increase review determination. He asked call participants for their perspectives on the use of state-specific experience in rate review determinations, and whether technical credibility measures are used to determine if state-specific experience is to be considered.

Mr. Serbinowski said that if the use of state-specific experience is to be fair, such experience needs to be used to justify lower rate increases in some states compared to nationwide averages to offset higher-than-average increases in other states. Mr. Lombardo asked Mr. Serbinowski if Utah asks for Utah-specific experience in LTCI rate increase filings, and if such experience is used in rate increase determinations. Mr. Serbinowski said he requests Utah experience for all LTCI filings, but such experience has never been used in a rate increase determination.

Ms. Bohn said Minnesota examines Minnesota-only experience relative to nationwide experience in its review of LTCI rate increase requests.

Mr. Leung said Missouri requires insurers to submit Missouri-only and nationwide experience and claims projections for LTCI rate increase requests.

Mr. Ostlund said Alabama examines Alabama-only claims salvage values, distribution of policies with and without inflation protection, and rate increase histories versus corresponding national figures more than it examines morbidity and continuance experience.

Mr. Kupferman said he has examined California-only experience in the past and found that, overall, it did not differ significantly from nationwide experience. He said because of this finding, California no longer requests California-only experience for LTCI rate increase filings.

Mr. Knable said Indiana considers the credibility of Indiana-only experience in its rate increase reviews, but the majority of the decision is made using administrative considerations related to how the increase will affect Indiana policyholders.

Ray Nelson (America’s Health Insurance Plans—AHIP) said the states that do use state-specific experience to justify rate increases lower or higher than nationwide average increases may worsen the problem of disparity in LTCI rate variance among the states.

Ms. Peach said Washington requests Washington-only experience. She said some companies comply, but others do not, stating that their rates are developed using nationwide experience, and that Washington-only experience would not be fully credible. She asked if other states take partially credible experience into account for their rate increase filing reviews.

Mr. Nelson said if even a few states approve rates that differ from the nationwide average, whether using fully or partially credible experience justification, rates in the balance of the states that do not use state-specific experience for rate increase reviews will be affected.

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Mr. Lombardo said actuaries typically employ credibility methodologies in the review of rates for products other than LTCI. He asked Mr. Nelson if he believes credibility-weighted state-specific experience should not be used in LTCI rate increase reviews.

Mr. Nelson said, generally, the original rates were based on nationwide experience, noting that most companies do not have fully credible experience in any one state. He said some states are required by law to use state-specific experience in their rate reviews, and this requirement may force companies to file for lower or higher average rates in the balance of the states.

Jan Graeber (American Council of Life Insurers—ACLI) said if a company updates its rating assumptions using nationwide experience, it is possible to apply the updated assumptions to the rates in each state individually, thereby striving for equitable increases that may vary by state without having to use state-specific experience to achieve a fair outcome.

Mr. Knable asked how the states treat rate increase request reviews for companies that do not have fully credible nationwide experience and use consultant industrywide data or other such studies to justify the rate increase. Ms. Bohn said she finds this manner of justification to be acceptable. Mr. Serbinowski said it may not be fair to a company filing a rate increase request if some states accept consultant data or other studies as justification and other states do not.

2. Discussed Justification for Rate Increases That Vary by Rating Cell

Mr. Lombardo said companies often request LTCI rate increases that vary by rating cell, such as age, presence of inflation protection and other rating variables. He said the All-State LTC Rate Review and Final Rate Decision Survey recently conducted by the Subgroup indicates that many states do allow rates increases to vary by cell, provided there is actuarial justification for the differences. He asked regulators in the states that do allow variances by cell if there is any concern about the credibility of the data that is used to support the cell-by-cell differences. He said because there is concern with the level of credibility of a company’s data in aggregate, there is even more concern when the credibility is lessened when the data is further divided into cells.

Mr. Andersen said Minnesota encourages companies to vary rate increases by cell, as not doing so may unfairly penalize policyholders with less generous benefits. He said Minnesota rate reviews focus more on assumptions used than claims experience within the cell, which helps alleviate any issues with low credibility within a cell.

Mr. Leung said Missouri has received rate increase requests that vary by rating cell, but there is generally not enough information provided to support differing increases. He said, in most cases, Missouri will approve increases that vary by cell, provided there is justification for the overall increase of the aggregated cells.

Mr. Lombardo said Connecticut allows rate increases that differ for policies with and without inflation protection, lifetime versus limited benefit, and other differing benefit structure differences when there is actuarial justification. He said occasionally there are issues when increases vary by attained age, such as no increase for individuals above a given attained age. He said there is concern related to introducing a new rating variable, attained age, for policies that were initially rated using only issue age.

Mr. Serbinowski said Utah is opposed to using attained age as a rating variable. Mr. Ostlund said the concept of varying rates based on attained age is more of a public policy issue than an actuarial one, and it cannot be justified on an actuarial basis.

Mr. Lombardo said the Subgroup will discuss the treatment of single premium, limited pay and paid-up experience in rate increase filings during its next conference call.

Having no further business, the Long-Term Care Pricing (B) Subgroup adjourned.
Since the last HATF meeting, the Academy’s Health Practice Council (HPC) has continued to actively engage policymakers and regulators. The HPC has held a number of meetings with various federal agencies and Congressional committees on the topics of long-term care (LTC), social determinants of health, Medigap, surprise billing and health savings accounts. Different committees within the HPC continue to work on publications within these areas. Furthermore, members of the LTC Reform Subcommittee met with a new federal LTC Interagency Task Force organized by the Treasury’s Federal Insurance Office (FIO) on their experience and expertise in the LTC insurance (LTCI) space, including pricing, product development, and regulation. The task force is charged with developing policies at the federal level to complement reforms by the states relating to the regulation of LTCI and includes staff from FIO, the Office of Management and Budget (OMB), the Department of Labor (DOL), the Department of Health and Human Services (HHS), the Centers for Medicare & Medicaid Services (CMS), and the Treasury’s Offices of Economic Policy and Tax Policy.

Other recent work includes:

**Affordable Care Act (ACA)**
- The Individual and Small Group Markets Committee published an issue brief in late June outlining the major drivers behind why 2020 premiums could differ from those in 2019. The brief focuses primarily on the individual market, yet many of the factors discussed are also relevant to the small group market.
- The Individual and Small Groups Committee, along with the Medicaid Subcommittee and the Medicare Subcommittee, gave a joint presentation at the Society of Actuaries (SOA) Health Meeting that reviewed the proliferation of proposals to expand access to public health insurance plans, either to strengthen insurance markets under the ACA, or to replace ACA marketplaces or other health insurance programs altogether. Panelists discussed general approaches for expanding access to public plans and their potential implications.
- The Individual and Small Groups Market Committee gave a presentation at the SOA Health Meeting providing an overview of the challenges that the ACA has faced since its enactment in 2010, and looking forward to where it’s headed in the future. Panelists discussed current ACA legislative and regulatory activities, as well as ongoing ACA litigation.
- The HPC submitted two comment letters for the record this past spring, the first to the U.S. House Committee on the Budget regarding its May 22 hearing, "Key Design Components and Considerations for Establishing a Single-Payer Health Care System" and the second to the U.S. House Committee on Ways and Means regarding its June 12 hearing, "Pathways to Universal Health Coverage."
- The Individual and Small Group Markets Committee also sent comments in early May in response to HHS’ request for information on selling insurance across state lines through Health Care Choice Compacts.

**Long-Term Care**
- The LTC Combination Product Valuation Work Group last month exposed the LTC Combination Product Valuation Practice Note to provide information to actuaries on current and emerging practices in which their peers are engaged with respect to the considerations in the
statutory, Generally Accepted Accounting Principles (GAAP) and tax valuation of long-term care combination products. The deadline for members to send comments is September 2.

Medicaid
- The Medicaid Subcommittee sent comments in July on the May 15 Center for Medicaid and Children’s Health Insurance Program (CHIP) Services Informational Bulletin (CIB) titled *Medical Loss Ratio (MLR) Requirements Related to Third-Party Vendors*, seeking additional clarification.

Medicare
- The Medicare Subcommittee has sent or published a few materials since the last meeting, including:
  - Comments in early April to HHS’ Office of the Inspector General on the proposed rule regarding the removal of safe harbor protection for rebates involving prescription pharmaceuticals and the creation of new safe harbor protections.
  - A new issue brief, *Medicare’s Financial Condition: Beyond Actuarial Balance*. The brief highlights the findings of the annual report to Congress by the Boards of Trustees of the Federal Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) trust funds on Medicare’s financial condition.
- The Academy also updated its *Essential Elements* report on Medicare’s *Long-Term Sustainability Challenge* with information from the newly released 2019 Medicare and trustees report. The *Essential Elements* series is designed to make actuarial analyses of public policy issues clearer to general audiences.

Professionalism
- The Health Practice Council submitted a comment letter to the Actuarial Standards Board on the fourth exposure draft of a proposed new actuarial standard of practice (ASOP) for modeling in May, and an exposure draft of an ASOP for assumptions in July.

Reminders:
- All of the materials mentioned are on the Academy's website, actuary.org in the Health section under the Public Policy tab, or contact David Linn, the Academy's Senior Health Analyst.
SOA Research Update to HATF

DALE HALL
SOA Managing Director of Research
August 2, 2019

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Commercial Health Care Trends 2009-2015

Allowed PMPM Trends by Year

- Large and Small Group
  - Overall trends in 2-5% range
  - Outpatient highest from 2009-2013
  - Pharmacy highest from 2014-2015
  - Utilization trend was flat.
- Individual
  - Similar range to Group from 2009 to 2013
  - Large trends in 2014-2015 due to Exchange members.
  - 2014-2015 driven by utilization trends

Paid / Allowed Ratio by Service Category and Market

- Individual Market jumped in 2014 & 2015 due to ACA requirements
- Overall, Large Group is at 85%, Small Group at 80%
- Individual jumped by > 10% from 2013 to 2015
- Inpatient has the highest ratio
- Pharmacy increased due to higher Specialty Utilization
Commercial Health Care Trends 2009-2015

- Brand Costs are flat
- Generic increases offset by Other & OTC decreases
- Total non-specialty costs were ~$60 PMPM for all periods
- Specialty costs increased significantly from 2009 - 2015
  - From $10 PMPM to almost $30 PMPM

**Large Group Allowed Pharmacy PMPM By Subcategory**

- Link to report
- Link to database
<table>
<thead>
<tr>
<th>Project Name</th>
<th>Objective</th>
<th>Expected Completion Date</th>
</tr>
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<tbody>
<tr>
<td>2004-12 Disability Credibility Stage 2</td>
<td>Study credibility applications on Group LTD insurance, stage 2.</td>
<td>8/15/2019</td>
</tr>
<tr>
<td>2009-17 Group LTD Claim Termination Study - Report</td>
<td>Update the study of termination experience under group long-term disability claims.</td>
<td>8/15/2019</td>
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<tr>
<td>2009-15 ID Persistency</td>
<td>Update the study of policy terminations for individual disability.</td>
<td>9/30/2019</td>
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<tr>
<td>2011-2015 LTC Policy Termination - Report</td>
<td>Update the study of policy terminations for LTC.</td>
<td>9/30/2019</td>
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<td>2009-2011 LTC Lapse and Mortality Valuation Assumptions</td>
<td>Develop a replacement mortality LTC valuation table and a proposal to replace the current LTC voluntary lapse parameters. Work done in conjunction with the AAA.</td>
<td>12/31/2019</td>
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<tr>
<td>2006-15 Individual Disability Income</td>
<td>Update the study of incidence and claim termination for individual disability.</td>
<td>1/31/2020</td>
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<tr>
<td>2006-15 Individual Disability Income</td>
<td>Update the study of incidence and claim termination for individual disability.</td>
<td>9/30/2020</td>
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<tr>
<td>Group Life Waiver of Premium Valuation Tables</td>
<td>Develop valuation tables for claim mortality and recovery on Group Term Life policies with Waiver of Premium benefits.</td>
<td>12/31/2021</td>
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Experience Studies

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<tr>
<th>Project Name</th>
<th>Objective</th>
<th>Expected Completion Date</th>
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<tr>
<td>Commercial Claims Cost and Utilization</td>
<td>Review 2009 - 2015 HCCI data to identify cost and utilization trends across major service categories, demographic variables and market types.</td>
<td>1 Complete. On SOA web site.</td>
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<td>Health Plan Strategic Implications of MACRA</td>
<td>Analyzes the implications of the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) on various health care system stakeholders including results of actuarial cost modeling.</td>
<td>8/30/2019</td>
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<td>PEP Toolkit</td>
<td>This project will create a toolkit to help actuaries estimate the costs of covering HIV related Pre-Exposure and Post Exposure Prophylaxis drugs.</td>
<td>9/30/2019</td>
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<tr>
<td>Patient Centered Medical Homes</td>
<td>Examines an actuarial perspective on the relationship of patient centered medical homes and healthcare costs including looking at scenarios of various arrangements.</td>
<td>11/1/2019</td>
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<tr>
<td>Direct Primary Care – Evaluating a New Model of Delivery and Financing</td>
<td>Conduct Market Survey and Literature Review to define DPC and examine its expected efficacy. Interview Physicians who operate under a DPC model. Create case Study to quantify the impact of DPCs.</td>
<td>11/30/2019</td>
</tr>
<tr>
<td>Initiative 18/11 - 5/50 Project - Analyzing Characteristics of the top 5% members by cost who drive 50% of Medical Expenses</td>
<td>Validate the 5/50 Premise through % of total costs and average allowed annual costs by percentile grouping. Analyze ability to predict the 5% based on prior claims and risk factors. Calculate Transition probabilities between different groups. Develop a methodology for identifying and stratifying future year risks.</td>
<td>12/31/2019</td>
</tr>
<tr>
<td>Modeling Effects of Enrollee Choice in the Commercial Health Insurance Market</td>
<td>This study will examine the impact of greater enrollee choices on health care costs and how the design and composition of the health insurance marketplace may contribute to health insurance costs.</td>
<td>12/31/2019</td>
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