

Valuation Actuary Symposium

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Long Term Care Statutory Reserves

- Reserve requirements vary by state
- States that have adopted NAIC model regulation 010 require premium, contract, and claim reserves along with periodic gross premium valuations
- Appendix A-010 of the NAIC Accounting Practices and Procedures Manual is essentially the same as model regulation 010

Claim Cost Tables not Specified

- Long Term Care minimum morbidity standards rely on the actuary's judgment
- In developing claim costs the actuary must follow state laws and regulations and Actuarial Standards of Practice
- The actuary should consider Practice Notes and NAIC Guidance Manuals
- Claim costs may not be derived with the intent to minimize reserves

NAIC Model Regulation 010

Section 4. Contract Reserves

Drafting Note:

Contracts for which tabular morbidity standards are not specified in Appendix A shall be valued using tables established for reserve purposes by a qualified actuary and acceptable to the commissioner. The morbidity tables shall contain a pattern of incurred claims cost that reflects the underlying morbidity and shall not be constructed for the primary purpose of minimizing reserves.

Standards and Guidance

- ASOP No. 18 LONG-TERM CARE INSURANCE
 - <http://www.actuarialstandardsboard.org/pdf/asops/asop18.PDF>
 - Section 3.2 Assumption Setting
- NAIC Guidance Manual for Rating Aspects of the Long-Term Care Insurance Model Regulation
 - Source: the LTC Guidance Manual Subteam, 5/15/02
 - Future expected claims must be developed based on moderately adverse future conditions.
 - There is no specific definition of “**moderately adverse experience**” in the Model Regulation. This phrase is used in Actuarial Standards of Practice (ASOPs) and its reference in the Guidance Manual is intended to be consistent with those standards.
- NAIC Health Reserves Guidance Manual
 - Date: November 6, 2000
 - Section IV Contract Reserves
- American Academy of Actuaries Health Practice Note 1995–9 November 1995 Long-Term Care Insurance Business
 - <http://www.actuary.org/pdf/practnotes/hpracnte9.pdf>
 - Questions and issues regarding the valuation actuary’s responsibilities in determining adequate reserve levels and asset adequacy
- American Academy of Actuaries Health Practice Note 2002-1 June 2002
 - http://www.actuary.org/pdf/practnotes/ltc_spring02.pdf
 - Compliance with the NAIC LTCI Model Regulation Relating to Rate Stability
 - Questions and issues for the pricing actuary

May claim costs be reduced to reflect future improvement?

- Some actuaries have studied the trend in claim costs
- Their conclusion is morbidity can be expected to continue to improve
- Regulators may agree that improvement has occurred but question whether claim costs for statutory reserves can reflect improvement beyond the effective date of the claim cost table (i.e. policy issue year)

Projection of CSO mortality to 2001

- The committee which developed the 2001 CSO projected the mortality rates from the experience period to 2001
- This was appropriate because they believed the tables would be effective in 2001
- The committee did not project mortality beyond 2001

Annuity Projection Scales

- Historically, projection scales have been developed to be used with annuity mortality tables
- Assuming mortality improvement results in larger reserves which is conservative.
- Applying mortality improvement to life insurance mortality rates or morbidity improvement to LTC claim costs would lower reserves which is not conservative