



SOCIETY OF ACTUARIES

**Health Valuation Boot Camp
August 12- 13, 2009**

Session 4a: Actuarial Reserves

[Darrell Knapp, FSA, MAAA](#)

Valuation Boot Camp

Actuarial Reserves

Day 1

Overview of Session

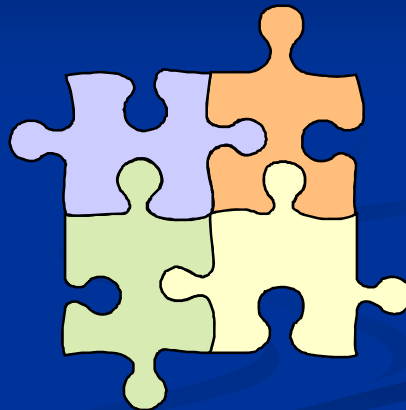
- Sources of Guidance
- Types of Actuarial Reserves
- Discussion on Contract Reserves
- Discussion on Premium Deficiency Reserves

Sources of Guidance

- NAIC Health Insurance Reserves Model Regulation
 - Specific regulatory guidance including minimum standards for many products
 - Covers all types of reserves
 - Prescriptive
- NAIC Health Reserving Guidance Manual
 - Non binding
 - Interpretation of accounting guidance for claim reserves, provider liabilities, contract reserves and premium deficiency reserves
- SOA Examination materials

Policy Reserves

- Contract reserves
- Premium deficiency reserves
- Asset adequacy reserves/gross premium valuation reserves per ASOP 22
- Deferred acquisition cost asset (GAAP)



Contract Reserves

- Required when:
 - Claims costs anticipated to increase at different rate than net premiums
 - Except when rated as a block (HIRMR)
- Methodology
 - Life contingencies—PVFB less PVFP
 - Method varies statutory vs. GAAP
 - Need assumptions regarding morbidity, termination (including mortality and lapse), and interest
 - Certain minimum assumptions specified by regulation
 - Ultimately needs to be adequate and at least as great as would be calculated under minimum standards

Contract Reserves

- Types of products with contract reserves
 - Individual disability
 - Long term care
 - Specified disease
 - Individual medical
 - Conversion products
 - Medicare supplement

Premium Deficiency Reserves

- Recognize current period losses for existing commitments that will generate future losses
 - Solvency focus
 - Value focus
- Often raises management concerns
- Determined based on projected present value of future losses

Premium Deficiency Reserves

- What might drive a PDR?
 - Multi-year rate guarantees
 - Reduced or disapproved rate increases
 - Unexpected trends
 - Legal entity subsidization
 - Medicaid business at inadequate rates



Premium Deficiency Reserves

- Key Issues
 - Grouping of business
 - SSAP says “marketed, serviced, and measured”
 - Health care audit guide says “consistent with the method of establishing premium rates”
 - FAS 60 references “line of business”
 - HRGM defines minimum groupings
 - Comprehensive medical
 - Long term care
 - Income protection insurance (disability income)
 - Limited benefit plans not subject to inflationary trends

Premium Deficiency Reserves

- Key Issues (cont'd)
 - Treatment of expenses
 - GAAP references maintenance costs
 - HRGM allows for overhead to be allocated to other lines (assuming they can absorb)
 - Length of projection period
 - End of the contract
 - Until losses expected to cease
 - State specific interpretations
 - Documentation