



Premium Deficiency Reserves

Speakers:

Russ Willard
Martin Staehlin

Session Objectives

- Why another PDR paper?
- Does this paper have any authority?
- What is the problem?
- What do I have to do different?
- Everything else you wanted to know (Q&A)



Company Perspective

When Is A PDR Necessary?

- Short Term Deficiency?
- Focus On Year End Valuation Date?
- Product Specific?
- Case Size?
- Case By Case?
- Statutory vs GAAP?



Company Perspective

How?

- Time Horizon?
- Impact and Timing of Corrective Action?
- Expenses?
- Claim Reserves?
- Time Value of Money?



Another PDR Paper?!

- **NAIC Discussions**



- **Industry Inconsistencies**

Authority over PDR

- SSAP 54
- State rules – written or otherwise
- NAIC guidance manual
- ASOPs
- White Paper



The Problem

- Actuaries often lack a thorough understanding of the accounting implications
- Lack of communication and/or understanding between actuaries and accountants
- Inconsistent guidance and practice



What's New

General Principles

Keep in mind when judging Methods and Assumptions...

- Situations that should result in PDR
- Minimize “false positives”
- Minimize “false negatives”



What's New

Examples

- Financial Reporting
- Appendix III – various issues

Frequently Asked Questions

- Throughout the paper

Main Challenges

Assumptions/Methods

- Business to be included
- Contract Grouping
- Projection Periods
- Expenses

Challenges

Business To Be Included

- New Business?
- Known premium-deficient contracts

Challenges

Contract Grouping

- Much Debate
- Consistency
- Marketed, Serviced and Measured
- How granular should the analysis be?

Challenges

Contract Grouping

- Testing Level
- Reporting Level
- Reasonable and Credible
- HRGM
- Medical Conversions?

Challenges

Projection Periods

- Remainder of a contract period
- Typically shorter period
- Fluctuations in results – be careful
- Cancellations
- Monthly results

Challenges

Expenses

- Must cover all expenses
- Questions about how to allocate
- Start-up companies
- “Wind-down” situations

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Marty?



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- **The PDR is an actuarial reserve and is to be contained in any actuarial opinion of the reserves of a health entity. Thus, both actuarial standards and accounting standards may have to be consulted.**
- **“0” is a number**

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- **The implications of various degrees of grouping – the “granularity” of the analysis – are addressed in Section IV.C.**

“For purposes of determining if a premium deficiency exists, contracts shall be grouped in a manner consistent with how policies are marketed, serviced and measured. A liability shall be recognized for each grouping where a premium deficiency is indicated. Deficiencies shall not be offset by anticipated profits in other policy groupings.”

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Factors Affecting Contract Grouping

- 1) **Materiality** of a group relative to size of the whole reporting entity
- 2) **Similarity of product types**
- 3) **Differences in marketing methods**
- 4) **Potential rate restrictions**
- 5) **Geographical rating areas**

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Factors Affecting Contract Grouping

- 6) **Length of rate guarantee periods**
- 7) **Regulatory requirements**
- 8) **Line of business**
- 9) **Case size within group business**
- 10) **Expected future growth or decline of a possible grouping**

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Questions?

