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What You Need to Know About the 2013 Individual DI Valuation Table

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The 2013 Individual Disability Income Valuation Table (2013 IDIVT) is now official. In August 2016, the National Association of Insurance Commissioners (NAIC) approved the table as the new statutory minimum reserve morbidity basis for individual disability income (IDI) policies. A company has between Jan. 1, 2017, and Jan. 1, 2020, to implement the new table, which applies to all policies issued on or after the selected effective date for statutory active life reserves and all claims (regardless of year of issue) incurred on or after the selected effective date for statutory claims reserves. The new table replaces the 1985 Commissioner's Individual Disability Tables A and C as the statutory minimum reserve basis for new policies and claims.

The 2013 IDIVT was developed by the Individual Disability Tables Working Group (IDTWG), which was a joint committee of the Society of Actuaries (SOA) and the American Academy of Actuaries. The database used to develop the new table was compiled by the SOA Individual Disability Experience Committee (IDEC) and represents industry claim incidence and termination rate experience from 1990 to 2006 for incidence and 2007 for terminations.

Implementation of the 2013 IDIVT will not necessarily be easy, given the complexities associated with the new table. If they

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have not already, companies with IDI blocks of business need to get up to speed with the new table and determine the necessary changes to their reserve systems. This article discusses many of these complexities.

WHAT ARE THE KEY SOURCES ON THE NEW TABLE?

There are three important sources that companies should obtain:

1. **Report of the Individual Disability Tables Work Group of the Academy of Actuaries and the SOA ("the Actuarial Guidelines").** The Actuarial Guidelines describe the structure of the new table and how companies must adjust claim reserves to blend their own experience and the new table. Access the Actuarial Guidelines at http://actuary.org/files/IDTWG_Table_Report_121915_0.pdf.
2. **2013 IDI Valuation Table Workbook Version 1.3.** This workbook, prepared by the IDTWG, contains all of the claim incidence and termination rates and modifiers for the new table. It also allows the user to compare claim incidence rates, termination rates, claim costs, active life reserves and claim reserves for the new table and for the 1985 CIDA and CIDC tables. Access the IDTWG workbook at <http://www.actuary.org/content/2013-idi-valuation-table-workbook-version-13>.
3. **Health Insurance Reserves Model Regulation.** The model regulation has been revised to reflect the implementation of the 2013 IDIVT. Access the revised model regulation at https://urldefense.proofpoint.com/v2/url?u=http-3A__www.naic.org_store_free_MDL-2D010.pdf&d=DwIFAg&c=SbSbeBtp5dC0Du3gqnCYzA&r=RcB4E0BLA0tvkl-RbniSUFNtmLxKF1btYrvKsfYZKlc&m=0VbpFyzuHtEHcv9wPLtmLNz07pIKtc6tU8DGz3EAbCk&s=Zdt4NtmM2AxI-b78sLVTYM9izU8bXC�bpKQFiEqbv8g&e.

WHAT'S DIFFERENT ABOUT THE NEW TABLE?

Simple answer—a lot! In addition to updating the experience basis from the late 1970s, the new table is intended to reflect many of the facets of the IDI risk that have emerged over the last 30 years but that were not taken into account in the 1985 CIDA and CIDC tables. The following is a list of how the structure of the table has changed:

- A medical occupation class in addition to occupation classes 1, 2, 3 and 4
- Distinct incidence rates for zero-, seven-, 14-, 30-, 60-, 90-, 180-, 360- and 720-day elimination periods
- Incidence rates extended to age 69

- Modifiers applied to the claim incidence rates to reflect differences by contract type, benefit period, smoking status, market (employer-sponsored vs. individual-bill) and underwriting type for employer-sponsored policies
- Distinct “select” claim termination rates for zero-, seven-, 14-, 30-, 60-, 90- and 180-day elimination days (i.e., during the first 10 years after the date of disablement)
- Monthly claim termination rates for the first five years of a claim, followed by annual rates
- No weekly claim termination rates as in the 1985 CIDA and CIDC tables
- “Ultimate” claim termination rates: after 10 years of disablement, which vary by attained age, sex and occupation class (medical vs. non-medical) and go to age 119
- Modifiers applied to the select claim termination rates to reflect differences by contract type, benefit period, presence of a cost-of-living rider and claim diagnosis (for claim reserves only)
- Claim termination rates no longer split between accident and sickness, although there are modifiers to produce claim termination rates for accident-only and sickness-only coverages
- Base claim termination rates: prior to the application of modifiers, provided in tables, not derived from formulas as they are for the 1985 CIDA table
- Base claim termination rates from the 2013 IDIVT adjusted to reflect company experience in all claim years based on credibility theory
- Margins explicitly added to active life reserves by increasing the incidence rates by 5 percent and multiplying the claim termination rates by 95 percent in the first claim year and 85 percent in all other claim years
- Margins explicitly added to claim reserves by multiplying the claim termination rates by 95 percent in the first claim year, followed by percentages based on a blending of company and industry experience, not lower than 85 percent after the first claim year

HOW WILL THE NEW TABLE IMPACT RESERVE LEVELS?

Claim termination rates for the 2013 IDIVT are typically lower than those for the 1985 CIDA or CIDC tables and will produce higher reserves. Of course, many companies already hold a stronger claim termination rate basis to reflect their own experience and may not need to strengthen their reserves, if at all, to the extent that companies that have been using 100 percent of the old tables will need to.



Active life reserves and claim reserves for medical occupations will most likely increase because claim incidence rates for the medical occupation class are almost double those for occupation class 1, and claim termination rates for the medical occupation class are generally lower. It is difficult to predict how active life reserves will change under the new table for the non-medical occupation classes. In many cases, the new table produces active life reserves that are lower than those derived from the 1985 CIDA table.

Claim reserves for policies with lifetime benefits will increase significantly because the new ultimate claim termination rates are generally 35 to 45 percent of the ultimate rates from the 1985 CIDA table for ages beyond 60. The 2013 IDIVT ultimate claim termination rates could indirectly affect claim reserves on all claims with the lifetime benefit regardless of the year of incurral. It will be difficult for companies to justify using ultimate termination rates that are materially higher than the 2013 IDIVT rates in setting best-estimate assumptions for gross premium valuations and cash-flow testing if they do not have credible data to support their ultimate termination rates.

NOW IS THE TIME TO BEGIN THE IMPLEMENTATION PROCESS

Companies’ IDI reserve systems could require significant revisions to accommodate the structure of the new table. Companies will be expected to measure their claim termination rate experience relative to the new table at least annually and adjust the valuation claim termination rates for company experience using the methodology described in the Actuarial Guidelines. Financial projection systems will need to be updated to reflect the new table and to inform management of the potential impact of the new table on future statutory earnings. There is much to do, and it needs to begin sooner rather than later. ■



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