Article from:

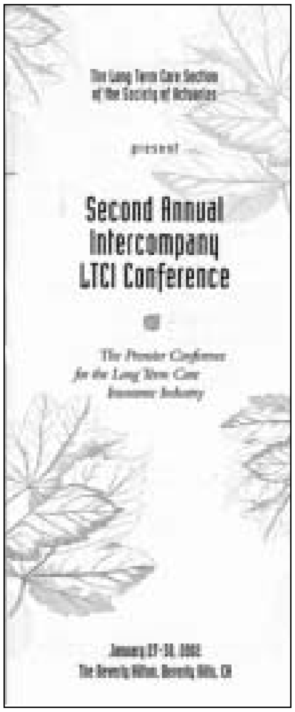
Long-Term Care News

August 2002 – Number 6

Long-Term Care Insurance Industry Update

LTCI Practice Note to Address 2000 NAIC Model Regulation

by Steve Sperka



This is a sample cover from the second annual Intercompany LTCI Conference that was held on January 27-30 at The Beverly Hilton in Beverly Hills, CA.

Editor's Note: Steve Sperka's comments in the following article represent his own views as an individual member of the American Academy of Actuaries LTCI Work Group, not those of the Academy or the Academy's Work Group.

The 2000 NAIC Long-Term Care Insurance (LTCI) Model Regulation has been a topic of discussion among LTCI actuaries because of the new responsibilities it places on the pricing actuary. The Model Regulation eliminates initial loss ratio standards in exchange for an actuarial certification covering several areas. Most significant to the pricing actuary because of the added responsibility it confers is the statement about premium sufficiency. Specifically, the actuary must make a statement that 'the initial premium rate schedule is sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the policy form with no future premium rate increases anticipated.'

These new responsibilities placed on the LTCI pricing actuary by the Model Regulation prompted the formation of an American Academy of Actuaries work group. The work group's charge was to review the responsibilities that the Model Regulation places on the pricing actuary and to recommend actions and develop materials to enable actuaries to appropriately and responsibly discharge their duties. One product from the work group will be a practice note dealing with pricing LTCI policies that are subject to the 2000 NAIC Model Regulation.

The work group, chaired by Eric Stallard, consists of 12 members with a broad range of LTCI experience. In addition the group has received input from other pricing actuaries who have reviewed drafts of the practice note.

A Practice Note Absent From Current Practice?

With the Model Regulation only recently being adopted in a handful of states, the work group was faced with a unique challenge. Whereas practice notes typically describe current actuarial practice on a given topic, little current practice exists on policies priced under the 2000 model. Instead, we hope the practice note will describe steps and issues that an actuary may consider when pricing LTCI policies under the 2000 model regulation. For example, when pricing initial premium rates that are subject to the 2000 Model Regulation, the practice note may discuss items that the actuary may want to consider when:

• Reviewing product design and management strategy for the product

• Setting initial premiums and assumptions

• Testing margins for moderately adverse experience

• Reviewing assumptions and implications of the actuarial certification with company management

• Preparing documentation of assumptions used.

In addition, the practice note may provide several hypothetical examples and Q&A to further aid the pricing actuary. The work group is drawing on the expertise of actuaries to provide a resource for other actuaries that are pricing policies subject to the 2000 Model Regulation.

The Meaning of 'Moderately Adverse Experience'

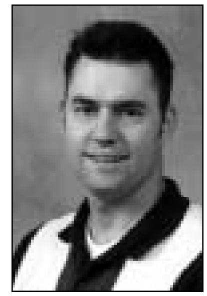
One issue that the work group confronted early on was what to do about the meaning of the phrase 'moderately adverse experience.' Some pricing actuaries feel that further guidance on the meaning of the phrase would be useful when making an actuarial certification. Defining the term would be difficult, however, considering the limited experience available for LTCI. In addition, defining such terms would go beyond the scope of what a practice note covers. Consideration was also given to providing examples of margins for moderately adverse experience used by actuaries in current practice. Again, however, little current practice exists. Instead, we expect the practice note will identify factors that the pricing actuary may consider when determining the appropriate margins for 'moderately adverse experience.' Future revisions to the practice note may consider providing examples of "moderately adverse experience" once actuarial practices are established.

Identifying Issues and Questions in the Model Regulation

The work group identified some issues where the Model Regulation was not clear and may need further clarification. In these instances, the work group has made the NAIC aware of the potential confusion and has requested clarification of these issues. An example of one of these issues, which became a topic of discussion at a recent NAIC meeting, occurs with the actuarial certification made at the time of the rate increase. The Model Regulation is unclear whether the loss ratio requirements should be calculated on the basis of best estimate morbidity assumptions, or if the calculation should include margins for moderately adverse experience. The answer to this question would have implications on the actuary's ability to make a clean certification at the time of the initial filing. Following these discussions, the NAIC has provided clarifications on this point in the NAIC Guidance Manual for the Rating Aspects of the Long-Term Care Insurance Model Regulation. Specifically, the Guidance Manual states the loss ratio demonstration should include the actuary's margins for moderately adverse experience.

Coming Soon

Recognizing the timeliness of a practice note, the work group is working diligently to make a draft available to LTCI pricing actuaries soon. A draft is available for comment now; this draft was the focus of an Interactive Forum and a Workshop at the SOA Spring Meeting in San Francisco, June 24-26. After the final version of the practice note is published later in 2002, periodic updates to the note may also be necessary as actuarial practice continues to emerge. The work group welcomes any comments or thoughts from actuaries about issues that they feel should be covered in the practice note. Comments can be sent to Eric Stallard at *eric@cds.duke.edu*. ☐



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LTCI Section Council Members Enjoy Their Time in New Orleans

Left to Right — Peggy Hauser, Anna Rappaport, Phil Barackman, Jim Glickman, Mike Abroe, Loida Abraham (2000-2001 Chairperson), Greg Gurlik (2001-2002 Chairperson), and Amy Pahl.

Loida Abraham, retiring Section Chairperson, receives a gift of the Section's appreciation from Greg Gurlik, incoming chairperson, at the Annual Meeting in New Orleans.