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# Get Ready for New LTC Insurance Experience Forms!

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Long-Term Care (LTC) insurers are coming under increasing scrutiny. Many different stakeholders want to better understand the business and financial picture of LTC insurers, such as:

- Insurance company investors that want to understand how companies are performing financially,
- Rating agencies and regulators that want to understand the adequacy of reserve levels,
- Regulators and consumers that want to understand the adequacy of current rate levels, including evaluating rate increase requests,
- Competitors that want to understand each others' financial experience in terms of where they are performing well and where they might be struggling, and
- Auditors that want to understand how assumptions are materializing relative to actual experience.

Beginning with statement year 2009, companies reporting LTC experience are required to file New LTC Experience Reporting Forms ("New Forms"). The New Forms will greatly aid those who want to scrutinize LTC insurers more closely by offering greater transparency of LTC insurers' reserve levels and policy form experience.

Information regarding company experience is difficult to obtain from the prior Forms A, B and C for the following reasons:

- Forms A, B and C ("Prior Forms") were based on the original pricing distribution of business and not the distribution of business actually sold. This is a critical point. The Prior Forms often demonstrated strange actual to expected (A:E) ratios, driven by the use of the original pricing distribution.
- Over time, these strange A:E ratio results on the Prior Forms caused many in the industry to pay little attention to these forms. Consequently, insurers occasionally took high-level shortcuts in preparing the Prior Forms.
- The Prior Forms focused on loss ratio results. The New Forms more directly examine the critical com-

ponent assumptions of morbidity and persistency.

- Many companies combined policy forms for experience reporting under the Prior Forms, making it difficult to isolate experience. The New Form 2 requires each base policy form to be reported separately.

The New Forms attempt to address some shortcomings of the Prior Forms. They also reflect the rating rules in the current version of the *NAIC LTC Insurance Model Regulation*, which has shifted away from a loss ratio focus. The resulting transparency to all interested parties will likely result in increased focus on the New Forms.

The remainder of this article provides some background and potential pitfalls of the New Forms, as well as some tips on preparing for them.

## BACKGROUND

The American Academy of Actuaries worked with regulators to develop the New Forms. The New Forms were completed and approved more than four years ago. On its Web site, the National Association of Insurance Commissioners (NAIC) provides the following reasons for the development of the New Forms:<sup>1</sup>

*"The revisions will allow regulators to track the experience of Long-Term Care insurance and compare the actual experience to the projected experience. This will provide long-term profitability measures and help identify areas where solvency may be an issue. As an additional benefit, this will assist regulators with evaluating requests for premium increases on long-term care insurance."*

The New Forms are required for statement year 2009. They are due by April 1, 2010. *For the 2009*

## FOOTNOTES

<sup>1</sup> National Association of Insurance Commissioners, October 5, 2009. [http://www.naic.org/documents/committees\\_e\\_app\\_blanks\\_adopted\\_2007-49BWG\\_Modified.pdf](http://www.naic.org/documents/committees_e_app_blanks_adopted_2007-49BWG_Modified.pdf)

statement year only, both the Prior and New Forms need to be submitted to ensure the inclusion of calendar year 2008 experience. The reason is the Prior Forms had a one-year lag for reporting calendar year data. Form A from statement year 2008 showed experience for calendar year 2007. The New Forms, however, primarily require reporting starting with calendar year 2009, so 2008 calendar year data may not have been reported under either set of forms (Prior or New). The New Forms completely eliminate the Prior Forms starting with statement year 2010.

The New Forms are intended to track claims and persistency against expected, calculate a ratio of an “experience” reserve against an expected reserve, and examine the adequacy of claim reserves over time.

## WHAT IS CHANGING

There are five entirely new forms (Forms 1 – 5) that replace the prior Forms A, B, and C. The Prior Forms were primarily loss ratio focused. They used pricing assumptions to develop expected morbidity and persistency based on the original assumed distribution of business. Conversely, the New Forms focus on pricing and reserve adequacy. They use valuation assumptions to develop expected morbidity and persistency based on the actual distribution of business.

Table 1 lists each form along with a brief description for both the Prior Forms and the New Forms. Table 2 includes additional details on the new Forms 1 – 5.

**TABLE 1**  
Listing of Prior and New LTC Experience Forms

<p><b>Prior Forms</b></p> <ul style="list-style-type: none"> <li>- Form A: Claim Experience by Calendar Duration (One Calendar Year)</li> <li>- Form B: Cumulative Claim Experience</li> <li>- Form C: State Specific Form B</li> </ul>
<p><b>New Forms</b></p> <ul style="list-style-type: none"> <li>- Form 1: Actual Claims and Persistency vs. Expected</li> <li>- Form 2: Ratio of Experience Reserve to Reported Reserve</li> <li>- Form 3: Test Adequacy of Claim Reserves</li> <li>- Form 4: LTC Acceleration Benefits Under Life/Annuity</li> <li>- Form 5: State Specific Data</li> </ul>

**TABLE 2**  
New LTC Experience Forms – Key Components and Requirements

<p><b>Form 1</b></p> <ul style="list-style-type: none"> <li>- Tracks Actual Claims and Persistency Against Valuation Expected</li> <li>- Reports Open and New Claim Counts</li> <li>- Reports Individual and Group Business Separately</li> <li>- Summarizes Experience Into Three Policy Categories: <ul style="list-style-type: none"> <li>• Comprehensive</li> <li>• Institutional</li> <li>• Non-Institutional</li> </ul> </li> </ul> <p>Requires Policy Form Detail to be Retained</p>
<p><b>Form 2</b></p> <ul style="list-style-type: none"> <li>- Calculates Ratio of Experience Reserve to Reported Reserve <ul style="list-style-type: none"> <li>• Experience Reserve calculated on retrospective basis using prior year reserve, valuation net premiums and interest rates, and experience claims and premiums.</li> </ul> </li> <li>- Captures Actual Loss Ratio Experience</li> <li>- Displays Net-to-Gross Premium Ratio</li> <li>- Reports Individual and Group Business Separately</li> <li>- Shows Data by Policy Form</li> <li>- Requires Calendar Duration Detail to be Retained</li> </ul>

**TABLE 2 (continued)**  
**New LTC Experience Forms – Key Components and Requirements**

<p><b>Form 3</b></p> <ul style="list-style-type: none"> <li>- Tests Adequacy of Claim Reserves                             <ul style="list-style-type: none"> <li>• Tracks runout for eight years</li> </ul> </li> <li>- Reports Individual and Group Business Separately</li> <li>- Similar to Schedule O – But LTCI Only</li> <li>- Requires Individual Claim Data</li> <li>- Consistent with Actual Incurred Claims in Form 1</li> </ul>
<p><b>Form 4</b></p> <ul style="list-style-type: none"> <li>- Tracks Life/Annuity Products with LTC Acceleration Benefits</li> <li>- Summarizes Policies, Claims, and Non-claim Reserves</li> <li>- Reports Individual and Group Business Separately</li> <li>- Shows Last Three Years and Total Since Inception</li> </ul>
<p><b>Form 5</b></p> <ul style="list-style-type: none"> <li>- State’s Portion of Earned Premium, Incurred Claims, and Lives Inforce</li> <li>- Reports Individual and Group Business Separately</li> </ul>

Learning how to navigate the forms, properly fill them out, and understand some of the nuances will take time.

**POTENTIAL PITFALLS**

The New Forms require a fair amount of effort to complete. Learning how to navigate the forms, properly fill them out, and understand some of the nuances will take time. In addition, companies and their actuaries should be prepared to explain counterintuitive or unusual results that may potentially show up in these New Forms. For example:

- Some difference between the incurred claims reported in Form 1 and Form 2 is to be expected, but a large difference may send up a red flag and require further explanation.
- Persistency experience relative to expected is shown for each year, and not on a cumulative basis. Therefore, the long-term impact of missing the persistency assumption is not readily apparent by only examining the actual to expected lives from Form 1.
- A comparison of the reported reserve with the experience reserve may be counterintuitive. Deviations in morbidity and persistency have different timing impacts on the experience reserve.

The approach and specific calculations a company uses to populate a form need to remain consistent for all subsequent years for that form. For example, the method used to account for waiver of premium

must be consistent over time. Therefore, companies should give proper consideration to the long-term impact of technical decisions made in the first year of filing the New Forms.

**START PREPARING NOW!**

It is important for companies to begin understanding the way the forms work and their nuances as early as possible. If time permits, a dry run can help determine whether results are accurate and consistent with internal business analysis results. In addition, it will be necessary to tie form data to financial statement items as required in the instructions.

LTCI is a complicated product. The New Forms do a better job capturing the drivers of LTC experience, but they will not account for all the intricacies affecting financial results. In the event unusual or counterintuitive results arise, companies must be prepared to explain these results. Remember that these forms will create greater transparency and results may be ranked and analyzed closely by many different stakeholders (regulators, rating agencies, investment analysts, competitors, etc).

A thorough understanding of what the experience forms are communicating about a book of business is critical. ■