



SOCIETY OF ACTUARIES

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NAIC Receives Morbidity Table for Credit Disability

by Steven L. Ostlund

The Society of Actuaries formed a task force in September to provide a recommendation to the NAIC on the appropriate standard to use in the valuation of Credit Disability insurance. The task force made its recommendation on November 30, 2000, to the National Association of Insurance Commissioners' Accident and Health Working Group (A&HWG) of the Life and Health Actuarial Task Force.

The A&HWG will now decide how to implement the recommendation through revision to the Health Insurance Reserves Model Regulation and Statements of Statutory Accounting Principles. Following this review, the group will consider adopting the changes at their next meeting in March 2001.

Morbidity Standards

The Society of Actuaries' Task Force to Recommend Morbidity Standards for Valuation of Credit Disability built upon the work of the paper "A Credit Disability Morbidity Table" (published in the

special supplement to the summer 2000 issue of *NewsDirect*).

It also relied upon techniques developed by a previous SOA task force that recommended changes to the claim reserve standard for Individual Disability Income.

Specific issues addressed by the task force included how to reconcile divergent experience of 30-day elimination period plans to that of 7-day and 14-day plans.

Another issue that needed reconciliation was the interpretation of SSAP Issue paper 59 that seemed to obviate the need for a morbidity standard. Robert Butler and Steven Ostlund, representing the task force, discussed both issues in the presentation to the NAIC.

Due to the length of the report and the several Appendices, we have reprinted the Executive Summary below and on page 7. A copy of the full report can be obtained by contacting the editor.

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Task Force Executive Report Summary

Policy reserves for single premium Credit Disability Insurance are currently based upon gross unearned premiums. The Task Force has developed a recommendation to adjust the 85CIDA for use as a morbidity standard for these reserves. The task force built its analysis based upon the paper, "A Credit Disability Morbidity Table," and the statistical methods used by the Individual Subcommittee of the SOA's Task Force to Recommend Morbidity

Standards for the Valuation of Group and Individual Disability.

We recommend that the 85CIDA be used as a morbidity reserve standard with incidence rates increased 12%. The resulting policy reserves will be approximately 72% of current unearned premium reserves, but will have a margin of approximately 44% over aggregate experience reserves. To avoid discontinuity between plans using different elimination periods, we recommend that the 14-day elimination

period tables be used for both 14-day and 30-day plans.

The study used data provided by 17 contributing companies on single premium policies issued in 1997 to develop an exposure base. These companies wrote in excess of 70% of all Credit Disability premium in 1997. Premium and claim experience was drawn from the NAIC's Credit Insurance Experience Exhibit for these 17 companies as well as for four non-contributing companies. Based upon each