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NAIC Activities

by William C. Weller

Editor's Note: This is a summary of the National Association of Insurance Commissioner (NAIC) discussions through December. Discussions continue and this report is necessarily dated by the time this issue of Long-Term Care *is published. The NAIC reports in each issue give the reader background and knowledge of recent developments.*

Long-term care insurance (LTCI) issues were discussed during meetings on August 23-24 in Kansas City and October 1 and 3 in Atlanta, a conference call on November 19, and at the NAIC meeting in San Francisco December 3 and 5. The principal focus of these discussions was again rate adequacy (or the avoidance of rate increases) and changes to the NAIC models dealing with LTCI based on the Health Insurance Portability and Accountability Act of 1996 (HIPAA). On December 5, Senator Joseph Dunn from California reported on the activities during 1999 on his bill to address LTCI rate increases, as well as its prospects in 2000.

Rate Stability - Rate Regulation

Issues surrounding the methods to increase rate stability (defined by most regulators as the elimination of the need to increase premiums after issue) during the August meeting discussions were wide-ranging. Considerable discussion focused on potential changes described in the first Newsletter based on the NAIC's Filing of Rates For Additional Benefits Individual and Group Health Insurance Forms Model Regulation. Much discussion also occurred on the expectation of the actuarial certification, the amount of work underlying that certification, and the ways in which that can be satisfactorily reviewed.

It was noted that the actuary must have a very good idea of the company's business practices (or anticipated practices) regarding the key elements of LTCI to meet the *Actuarial Standards of Practice* (ASOPs). The availability of this material as part of the review is thus another key issue, given its very confidential nature.

Discussion time at the Atlanta meeting was much shorter and focused more on developing an approach to continue moving the open issues to resolution. It was decided that a subgroup of regulatory actuaries and interested parties (industry representatives and funded consumer advocates) would be appointed to address issues in four categories:

1. Areas where there appears to be enough general agreement to complete specific language
2. Areas that received substantial discussion in Kansas City but require further discussion to reach general agreement
3. Areas outlined in comparable July 30 drafts (from NAIC and HIAA/ACLI) that did not receive substantial discussion in Kansas City
4. New areas included in a September 10, 1999, NAIC draft

Other non-model concepts were also discussed with the expectation that they would receive further comment by the December meeting.

Finally, there were concerns raised about the limitations of the existing rules relating to "Guaranteed Renewable" coverage. The laws and regulations limit changes to premiums. However, the potentially lengthy period between original issue and the need for reimbursement for LTC services may significantly change the ways in which benefit eligibility is established and the ways in which LTC needs are provided.

During the November conference call, several changes were agreed to relating to the provisions a commissioner may utilize in the event of rate increases. Additional drafting assignments were made.

The December meetings were used to allow the regulators to define the areas that needed to be included in addition to changes to the NAIC Models. They agreed to the following:

- The development of an NAIC LTCI Regulatory Guidance Manual to list key assumptions, indicating their relative importance
- The development of consumer aids to better understand the impact of rate increases and adding a focus on the rate history of other LTCI products of the same company
- Not to develop a program that would be used by regulators to "calculate" the LTCI premiums based on the carrier's assumptions submitted in a filing

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used; the continuance allows the proper discounting in the cash flows, depending on the purpose of the discounting. For example, ALOSs may be discounted at the reserve interest rate, at the investment earnings rate, or at the hurdle rate.

While the use of continuance certainly complicates the model, our experience is that a spreadsheet model is only slightly more difficult to implement and is worth the effort. Though the DLR can be estimated when needed (for example, for filing in New York), the proper model solves this issue and gives a clearer understanding of the cash flows. Note that using continuance in the model allows for a better comparison of the actual experience of claims payments with the expected experience from the pricing model.

Lapse

While the accuracy and detail selected for the model must be appropriate for the purposes at hand, the inputs to the model must also reflect a measure of reality. While we can simplify assumptions to price LTCI, we may miss important insights if we simplify too much.

Lapses, arguably the most critical assumption for this lapse-supported product, should be examined in detail. For example, ultimate claims assumptions should be increased when using higher ultimate lapse rates, thus accounting for antiselection in lapsation.

A thorough understanding of lapses can shift the pricing of various benefit features. Customers who purchase inflation protection may be less likely to lapse. Married couples may have lower claim costs, but they may also have lower lapses, at least while both are alive. What about males and females, older ages vs. younger ones, facility only vs. integrated products, policy size, and even variations by region of the country? All can affect lapsation.

Mortality

Mortality is often assumed to be according to a given table, say the 83 GAM; but mortality should improve over the life of the block. If the actuary feels positive about the claim experience, shouldn't mortality be assumed to improve? Also, shouldn't mortality be adjusted by the selection factors during the select period, though perhaps not to the level of life insurance? And while the 83 GAM may have certain desirable properties, it is not clear that it has the desired mortality level, not to mention any provision for mortality improvement.

As pricing is done in a world that determines premiums as the "best" balance between expected profits and competitive pressures, an understanding of all these sensitivities is helpful in seeing where a block of business may be most at risk of being out of balance.

(Part II to come in the next issue.)

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Finally, the date for a two-day meeting was set (January 13 and 14), possibly in Dallas. This meeting would focus on continued draft changes to the NAIC Model. The latest model is available on the NAIC web site (*http://www.naic.org*), then go to "Papers/Model Laws/Drafts" and look under "Draft Model Acts and Regulations for the Long-Term Care Insurance Model Regulation (rating)."

HIPAA

The latest HIPAA draft should be available on the NAIC web site (same as above but with "HIPAA changes").

The final issue relating to HIPAA apparently was resolved in December. HIPAA requires the reporting of "Claim Denials" with little definition of what this is to include and to whom the report is to be made. The NAIC Model defines many of these issues, but still leaves a number to each company to determine. The Model defines a "denial" and attaches a format for reporting both certain "not-paid" claim requests (e.g., not paid during the elimination period) and other denials, including appropriate denials in several categories.

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