

Following is another brief health update.

Background

In 2009 the NAIC adopted a new set of LTC Experience Reporting Forms 1–5 (to replace the former Forms A, B, C) for 12-31-2009 and subsequent statements. However, for 12-31-2009 both Forms 1–5 and Forms A, B, and C must be filed by 04-01-2010. The new forms are oriented toward reserve adequacy analysis rather than loss ratio monitoring.

PolySystems has fielded a number of questions regarding the new reporting forms. The most frequently asked-about item in the new forms is valuation expected incurred claims (column 3) in Form 1.

HealthSOE

For those of you with HealthSOE, there is a simple and accurate way to obtain this quantity. Statutory valuation assumptions should be encoded as one of the GAAP valuation bases in your Health coding. Then, the expected incurred claims from the HealthSOE results for study period 01-01-2009 to 12-31-2009 will produce the required quantity.

If you have a series of quarterly or monthly valued VMFs for the period 12-31-2008 through 12-31-2009 you can quickly build the PolySystems Policy Detail History database which drives HealthSOE. It is not necessary to have terminated policy data in the VMFs and it is not necessary to have actual claims paid data for the study period. It is important to actually use one additional VMF (e.g., 09-30-2008 or 11-30-2008) in the PDH build in order to eliminate accrued claims that precede the first processing cycle in the calendar year 2009 study.

HealthDelphi

If you have licensed HealthDelphi (but not HealthSOE), another approach is to code the statutory valuation assumptions as the projection assumption basis*. Then, projecting the 12-31-2008 in force PMF over calendar year 2009 will produce expected incurred claims on the valuation basis. The instructions for Form 1 indicate that policies not yet in force as of 12-31-2008 may be omitted from this estimate.

Another possible approach taking account of new business through the third quarter of 2009 would be to project the 12-31-2008 PMF over the first quarter of 2009, the 03-31-2009 PMF over the second quarter of 2009, the 06-30-2009 PMF over the third quarter of 2009, and the 09-30-2009 PMF over the fourth quarter of 2009. This approach loses only the new business of the fourth quarter of 2009. The PMF is made directly from the VMF within the Health screens system. An even finer-combed approach could use one-month projections of monthly PMFs from the period 12-31-2008 through 11-30-2009.

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*The Form 1 instructions indicate that exposure adjustments for expected deaths and lapses should be based on the (statutory) “valuation assumptions.” Using a quarterly or monthly series of PMFs not only includes most of the year’s new business but also greatly reduces dependence of the results on expected deaths and lapses.

Can We Assist You?

PolySystems believes that HealthSOE provides the best solution for Form 1 expected incurred claims. Existing HealthMaster statutory coding and quarterly VMFs from 09-30-2008 through 12-31-2009 are all that is needed to build the PDH and run HSOE to get the valuation basis expected incurred claims for calendar year 2009. PolySystems can perform the necessary work on a consulting basis if in-house time demands do not allow for timely completion and filing on 04-01-2010, or if your company is not licensed for HealthSOE.

If, for the longer term, you wish to transfer this work in-house, you may license HealthHorizon and HealthSOE. On-site software training is automatically included as part of the license fees. HealthHorizon and HealthSOE can provide many advantages in addition to Form 1 expected incurred claims reporting. If you require support for completion of the new LTC Experience Forms 1–5, please call or email me.

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