

Long Term Care Reserve Standards

The members of the Long Term Care Working Group participating in the call included Frank Dino (FL – Chair of the group), John Hartnedy (AR), Dennis Lauzon (NY) and Sheldon Summers (CA). Bill Carmello (NY), the final member, did not participate.

Since early in 2003, discussion has centered around proposed changes to the Health Insurance Reserves Model Regulation (HIRMR). Specifically, several regulators – with Frank Dino spearheading the issue – have expressed concern over the industry's use of morbidity assumptions that project improvement in anticipated experience beyond the date of valuation. This particular issue has opened up the general discussion of valuation requirements for long term care insurance.

Dino kept the call focused on comments from the working group with limited input by other regulators. Industry representatives were given no opportunity to comment due to time constraints.

Morbidity

Dino opened the discussion by reiterating the working group's agreement at its June meeting that morbidity improvement beyond the date of valuation be prohibited. The working group further took up the wording of a proposed amendment authored by the ACLI. The proposed wording specifically applies the new regulation prospectively. Dino suggested amending the proposal to make the regulation retroactive unless the insurance commissioner approves of the existing assumptions. Hartnedy disagreed on the basis that the impact of applying the new requirement retroactively was unknown and could have dire effects on some companies. After further discussion, the two did not come to a meeting of the minds. The other two members of the group on the call – Lauzon and Summers – were undecided, but when pushed by Dino, fell on the side of making the new requirement prospective only.

Provisions for adverse deviation (PAD)

The working group discussed whether PADs should apply to each assumption (for example, 5% adverse morbidity, 0.5% adverse interest, etc) or directly to the reserve amount (for example, PAD = 5% of ALR). One concern raised was that an aggregate requirement could permit a company to use, for example, a morbidity assumption that is less than 100% of expected. It was agreed that that would be unacceptable. There seemed to be a consensus on one point: further research is required.

Mortality

The working group considered a proposal to update the required mortality basis. Dino recommended use of the 1994 GAR, which incorporates generational adjustment. There was substantial discussion that not enough was known about LTC mortality patterns. Although Dino agreed that further research is necessary, he maintained that it



is clear that the 1983 GAM, which is the current requirement, is inadequate and that an interim change is desirable. He seemed impatient with the reticence of some group members to take a stand. Hartnedy was uncomfortable with establishing a new standard on the basis that there is no information on the impact that a change might have. Dino disagreed, saying that the impact should not drive the decision process, but that adequacy should be the primary determinant. Ultimately, four possibilities were raised for the new standard: 1983 GAM, 1994 GAR, 1994 GAM or 2000 IAM. No agreement was reached.

John Heins, FSA, MAAA

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