

The Accident & Health Working Group (A&HWG) is chaired by Michael Batte (NM). Other members participating in the call were: Katie Campbell (AK), Mary Ellen Breault (CT), Frank Dino (FL), Kerry Krantz (FL), Bruce Sartain (IL), Richard Diamond (ME), Julia Philips (MN), William Carmello (NY), Michael Boerner (TX). Members not participating were: John Hartnedy (AR), John Rink (NE), Frank Stone (OK), Kenneth McGuckin (Vermont).

The entire call focused on the proposed revisions to the Health Insurance Reserves Model Regulation which are intended to address perceived inadequacies in the minimum standards for the valuation of long term care benefits.

Background

Since early in 2003, changes to the Model Regulation have been considered. The particular items of concern have been:

- assumed improvements in morbidity subsequent to the date of valuation
- lapse rates
- mortality.

At the meeting of the A&HWG in Chicago on September, the group voted to expose a revised model regulation with key revisions being:

- Prohibition of any morbidity assumption that projects improvements occurring past the date of valuation.
- Restriction of the lapse rate to the greater of 80% of the rates used for pricing and tabular rates equal to 6% in the first policy year, 4% in years two through four, and 2% in years five and later.
- The adoption of the Annuity 2000 Mortality Table to replace the 1983 Group Annuity Mortality Table.
- Retroactivity of the new provisions.

The industry, primarily represented by Bill Weller of the Health Insurance Association of America (HIAA) and Bill Carroll of the American Council of Life Insurance (ACLI), objected to various aspects of the proposed revisions.

The American Academy of Actuaries (AAA) was asked to evaluate the impact on net premiums of the various proposed changes.



AAA Impact Study

Bill Weller presented preliminary results of the AAA impact study. He focused on the scenarios that reflected the proposed changes in the model regulation.

The study considered the LTC lines of seven carriers. The results that Mr. Weller presented excluded one of the seven companies pending a review of anomalous results.

For the scenario where all of the revisions proposed by the A&HWG in the exposed model regulation, the average net premiums for the test companies would increase between 16 and 38 percent, depending on issue age.

When asked about variability between the companies, Mr. Weller responded that the results for the six companies were relatively consistent at age 65, the only age for which variation was examined, with no significant outliers.

New Revisions to Exposed Model Regulation

In response to industry concerns expressed during previous discussions and reflecting a desire to move quickly on the changes without significant industry resistance, Frank Dino (FL) shared the revisions he proposed to make to the model regulation that had been exposed. The key changes were:

- Lapses – the requirement was changed to the greater of 80% of the pricing lapse assumption and the tabular rates – which were left unchanged – for the first four durations, and 100% of the pricing assumption and the tabular rates for the fifth and subsequent durations.
- Mortality – the requirement was changed to the 1994 GAM rather than the Annuity 2000 Mortality Table.

These revisions addressed the industry's most serious concerns.

In discussion, Bill Carmello (NY) expressed discomfort with the new liberalizations. He proposed amendments to Mr. Dino's revision of the model regulation as follows:

- Make the tabular cap on lapse rates one percent for policy years five and later.
- Retain the Annuity 2000 Mortality Table in preference to the 1994 GAM.

Although he acknowledged that there was no comprehensive empirical data to support his views, he sited examples of reserve audits that New York had performed on one or more insurers.

The representatives from Connecticut, Minnesota and Texas concurred with this proposal.



Messrs. Weller and Carroll, speaking for the HIAA and ACLI, respectively, objected vehemently to these new changes.

New York moved to expose the newly revised model regulation with the changes that Mr. Carmello had suggested. Minnesota seconded. The ensuing vote was 3 for, 3 against, 4 abstaining, 4 absent.

The chairman then moved to expose the revised model regulation presented by Mr. Dino and excluding the changes proposed by Mr. Carmello. The vote was 6 for, 2 against, 4 absent. The motion carried.

John Heins, FSA, MAAA

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