

AHWG Conference Call

AHWG Chair Julia Philips (MN) presided. Randall Stevenson, Mark Peavy and other NAIC staff participated. AHWG members from seven states (CT, FL, MN, NE, NY, TX, and UT) participated, constituting a quorum.

The AHWG considered proposed modifications of APPM Appendix A-010 (Minimum Reserve Standards for Individual and Group Health Insurance Contracts) and SSAP 59 (Credit Life and Accident and Health Insurance Contracts). SAPWG Chair Joe Fritsch had requested (February 14, 2005) that AHWG evaluate what changes to Appendix A-010 should be incorporated into APPM.

The SSAP 59 modifications deal with single premium credit A&H. Paragraph 11 is changed to exempt from unearned premium reserve requirements single premium credit A&H policies issued January 1, 2002 and later, which APPM Appendix A-010 requires to be valued on a tabular morbidity table basis. A new paragraph (12) is interjected covering the single premium credit A&H policies required issued January 1, 2002, which are required to be valued on a tabular morbidity table basis. Julia Philips's proposed letter to Joe Fritsch, Chair, SAPWG, clarifies that it was never AHWG's intention to require that both unearned premium and tabular morbidity table basis reserves be held for single premium credit A&H policies.

The proposed APPM Appendix A-010 changes incorporate changes to the corresponding Model Regulation adopted by the NAIC in 2003-4 including (1) optional use of credible company experience for individual and group disability income claim reserves, (2) requirement of provision for adverse deviation in contract reserves and the prohibition of the use of morbidity improvement assumptions in computing contract reserves, and (3) new mortality and termination rate assumptions for LTC contract reserves. In addition, the proposed A-010 changes (4) exempt single premium credit A&H policies from unearned premium reserve requirements (for consistency with the proposed SSAP 59 changes), (5) clarify the computation of the gross advance premium liability (for consistency with SSAP 54 Paragraph 6), and (6) modify several definitions for clarification and consistency with other parts of APPM.

There was significant discussion of the optional use of own company experience for individual and group disability claim reserves. The August 19, 2005 draft of APPM A-010 omitted the requirement of the corresponding Model Regulation that a plan for modification of group disability income claim reserves based on credible company experience be approved by the commissioner. HIAA consultant William Weller said that he would not object to requiring approval of the domiciliary commissioner in A-010; however, ACLI consultant William Carroll remarked that inclusion of the language concerning commissioner approval (even domiciliary commissioner) would result in an "uneven playing field" for codified statutory accounting. NAIC staff did cite several



instances (including A-785 [Credit for Reinsurance] and SSAP 25 [Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties]) where requirements for commissioner approval were retained in the APPM. There was general agreement that the A-010 text should be modified to require that a plan of modification for use of credible company experience for group disability claim reserves be in writing.

Representatives of SAPWG attending the call stated that the proposed A-010 and SSAP 59 changes could not be adopted until 2006. Mr. Weller discussed the impact of adoption timing on the January 1, 2006 effective dates proposed for changes in the A-010 text. William Carmelo (NY) did not understand why APPM appendix changes corresponding to Model Regulations changes could not be made effective simultaneously with NAIC adoption of the Model Regulation changes. (The changes proposed for adoption in A-010 correspond to Model Regulation changes adopted by the NAIC in 2003-4.) Mr. Carmelo cited the immediate impact of Actuarial Guidelines adopted by the NAIC on codified statutory accounting.

After discussion, Ms. Philips proposed that the A-010 and SSAP 59 drafts be exposed for further consideration by AHWG at the December 2005 NAIC meeting in Chicago with the following changes: (1) language relating to plan of modification for use of credible company experience for group disability claim reserves be changed from “a plan of modification to the reserve basis must include: [list of requirements]” to “a plan of modification to the reserve basis must be **in writing** and must include: [list of requirements]” and (2) effective dates for changes be changed from January 1, 2006 to January 1, 2007. FL moved and CT seconded that the documents be exposed by AHWG with these changes. On the roll call, CT, FL, NE, TX and UT voted yes and NY voted no, the motion carrying 5-1.

The amended A-010 and SSAP 59 documents will be the subject of further AHWG discussion at the NAIC meeting in Chicago in December 2005. At that time, it is anticipated that AHWG will make final recommendations to SAPWG relating to A-010 and SSAP 59 changes.

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