

Meeting of the LTC Reserves Subgroup of the NAIC A&H Working Group
April 14, 2005 via conference call

There were 3 topics on this call

- Receive the report of the AAA on new LTC exhibits to replace current LTC exhibits.
- Hear a report from the SOA committee working on a reserve morbidity table for LTC.
- Hear a report on some long term thinking on LTC RBC.

The first topic took most of the meeting time. Warren Jones presented the proposed LTC experience exhibits with some additional commentary by Bill Weller. Bill explained the advantages of the 3 new exhibits which will replace the 3 current exhibits. The current exhibits focus on comparing loss ratios to pricing loss ratios without giving much information on the reasons for any differences. The new exhibits will focus on comparing experience to the reserve assumptions. The old exhibits didn't give any information on persistency, which has turned out to be an important component of pricing. The new exhibits include a claims exhibit similar to Schedule O, but incorporating valuation interest to make this test more meaningful for long duration claims.

The timeline is to have the AAA committee incorporate some numerical examples to supplement the new exhibit instructions before the NAIC summer meeting in June. These changes would be discussed again at the summer meeting. Assuming there are no major changes, the goal at the summer meeting would be to have the NAIC committee direct the NAIC staff to prepare a proposal for the NAIC Blanks committee to accept the new exhibits, which proposal will be reviewed by the A&H Working Group and then sent to the Blanks Committee at the fall meeting in September. Also, during the summer, the intention would be to distribute the proposed exhibits to industry for any further comment. (An earlier draft of the exhibits was distributed to members of the SOA LTC Section last fall.) The Blanks committee will expose the proposed changes, but the goal is to have the industry comment before the A&H Working Group takes action in September. There was no discussion on this call as to when that would mean these exhibits take effect.

Al Schmitz led a 10 to 15 minute discussion of the progress, or lack thereof, in producing a standard LTC reserve morbidity table based on industry experience morbidity. The primary hold up has been some anomalies in the data such as preferred morbidity being worse than standard morbidity. The committee has asked MIB, which has gathered the data on behalf of the committee, to slice the data in an alternative manner. A question was asked as to whether the committee was looking at the data by company, which might explain the anomalies and also may be important in setting



morbidity margins. The answer was that the committee was not looking at company specific detail. Presumably there is a concern that even with the names removed it may be possible to identify the company by the years and size of its data. There was also a comment from the floor that experience after 1995/1996 varied significantly from prior experience.

The work of the committee to date has not yet included the most recent 2 year experience study which was completed in December. The committee has pushed back its proposed completion date from October, 2005, to March, 2006. The committee was asked to provide a report to the Working Group for the June NAIC meeting.

The final topic was on some early work being done on creating LTC capital standards consistent with SVL#2. In particular, certain members of the AAA don't like it that a company that adopts more conservative reserves also ends up with a higher RBC amount. The goal would be to have the total of capital plus reserve set, perhaps with some CTE, and then the capital requirement would be this total minus the reserves. The current work is to determine what would be the required inputs for modeling some sort of Conditional Tail Expectation (CTE) reserve. The model could take different forms. No dates for the completion of this work were given.

This NAIC group will next meet at the summer NAIC meeting.

Doug Van Dam

15 April 2005

