

**AHWG Premium Deficiency Reserve Subgroup Conference Call**

Subgroup Chair Joe Musgrove (AK) presided. Comments by NAIC associate actuary Randall Stevenson on AHIP's draft HRGM revisions relating to premium deficiency reserves (PDR) were before the subgroup for discussion. Chair Musgrove began the meeting by asking the subgroup members if there was sufficiency consensus on the concept of aggregating gains and losses to proceed.

Frank Dino (FL) and William Carmello (NY) and the representative of CA expressed their views that only similar plans should be aggregated in computing PDR. Mr. Carmello stated that NY permitted aggregation only for plans rated together.

John Rink (NE), Michael Boerner (TX), Tomasz Serbinowski (UT) and Chair Musgrove (AK) expressed their openness to some level of compromise. Mr. Musgrove suggested that solvency (i.e., financial statement reserves) be based on full aggregation but that a full analysis of the gain/loss posture on a plan-by-plan basis be prepared by the actuary and be available for regulatory review. Mr. Boerner suggested that the projection period for full aggregation of reserves be chosen as the period which produced the highest PDR level.

NAIC staff member Robin Marcotte expressed the views that SSAP54 currently contains liberal grouping criterion and that statutory accounting principals require (1) immediate recognition of anticipated future losses and (2) deferral of anticipated future gains. The representative of CA also questioned why gains should be allowed to offset losses when computing PDR. Several regulators objected to Chair Musgrove's characterization of statement-level reserve offsets as "principles-based" versus aggregation restrictions as "rules-based."

Mr. Serbinowski differentiated between (1) gains and losses anticipated prior to the next re-rating/review date and (2) gains and losses anticipated after the next re-rating/review date and suggested that PDR calculations not extend beyond the next re-rating/review date.

Chair Musgrove pointed out that HIRMR states that a gross premium valuation (GPV) is the ultimate test of reserve adequacy. SSAP and HRGM contain all the available guidance with respect to groupings for PDR calculations. Mr. Boerner pointed out that SSAP is formally adopted into authoritative regulatory literature each year by his and other states. So, there is no current inconsistency between HIRMR and SSAP. Mr. Weller (AHIP) pointed out that if the AHIP revisions of HRGM relating to PDR are adopted, conforming revisions to SSAP should be considered.

Chair Musgrove then solicited specific comments on Randall Stevenson's proposed revisions (12/14/2005) to the AHIP PDR draft. Discussion immediately devolved on why



plans requiring contract reserves were exempted from PDR calculations and subjected to a GPV reserve adequacy test. Some regulators including Chair Musgrove asked why all business shouldn't be subjected to a GPV reserve adequacy test especially in light of the language in HIRMR. Mr. Weller (AHIP) explained that plans requiring contract reserves are usually level premium plans not usually subject to annual re-rating (e.g., DI, LTC, HIP). By way of contrast, plans like group medical are subject to annual cost trends and annually re-rated. For plans like group medical, the premiums of each year cover the claims and expenses of that year. For plans requiring contract reserves, the funding of the reserve necessary to support the level premium structure represents an additional complication.

In addition, some lines of business requiring contract reserves (e.g., LTC) have special requires that reserve assumes be adequate for moderately adverse experience. Some regulators including Mr. Dino expressed especial concern about making LTC margins (anticipated profits) available to offset losses in other lines of business (e.g., group medical). Mr. Weller indicated this was another reason for the branched processing in the AHIP HRGM revisions draft. However, he indicated that AHIP would probably be willing to agree to one set of PDR rules for all plans if the regulators objected to the branched processing for plans with and without contract reserves. He clarified that projection assumptions under the AHIP proposal are plan-specific (not standardized) and that anticipated profits must be strongly supported in order to be aggregable with anticipated losses.

An industry representative Mr. Brow [phonetic spelling] argued that aggregation across all blocks of small to mid-size group medical coverage was reasonable and consistent with established actuarial practices and that attempting to segment reserve analysis group-by-group would result in loss of credibility. He drew an analogy to individual life insurance, where aggregation across insured lives results in reasonable reserves while the attempt to analyze reserves at the individual life level results in shortfalls for insureds who do not survive, and redundancies for insured who do survive any particular financial reporting period. This industry representative did express sympathy for the idea that aggregation should not extend to radically different lines of business such as LTC and group medical.

Chair Musgrove indicated that the next subgroup conference call would be held on January 30, 2005. Having failed to achieve consensus among subgroup members, he asked that subgroup members review the specific changes proposed in Randall Stevenson's 12/14/2005 comments on the AHIP's PDR draft. He expressed the hope that the subgroup would be able to report to AHWG on PDR issues before NAIC's scheduled Orlando FL meeting. He stated his personal view that redundant reserves were against the best interests of insurance consumers.

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