

VM-25 PBR HEALTH SUBGROUP OF AHWG

The Subgroup (chaired by Julia Philips of Minnesota) is under pressure to produce Section VM-25 for the Valuation Manual, defining PBR (Principles-Based Reserves) for A&H. The Chair stated that mirroring NAIC Model Regulation 0010 (A&H Reserves) in VM-25 is an “interim” solution pending a full definition of PBR A&H reserves in the future.

The 10-23-2009 draft of VM-25 was discussed by the Subgroup.

Bill Weller of AHIP presented two proposed changes to the 10-23-2009 draft. The first change would clarify that aggregation of reserves adequacy testing was permitted. Mr. Weller presented the following example:

Reserve Category	Minimum Basis(*)	Adequate Basis(**)	10-23-2009 VM-25
Claim	100	120	120
Contract (Active)	200	160	200
TOTAL	300	280	320

(*) Based upon prescribed statutory assumptions.

(**) For example, GPV plus appropriate margins.

Mr. Weller’s aggregation language was intended to support a final reserve MAXIMUM(Minimum,Adequate) = MAXIMUM (\$300, \$280) = \$300 where the aggregation occurs at the TOTAL level. However, some regulators believe that the correct interpretation of the existing Model Regulation 0010 is to make the MAXIMUM for each component, so that Claim = MAXIMUM (\$100, \$120) = \$120 and Contract = MAXIMUM (\$200, \$160) = \$200 and the final TOTAL reserve becomes \$120 + \$200 = \$320 (reflected in 10-23-2009 VM-25 column of foregoing table).

At the suggestion of the Chair, a motion was introduced and passed that the 10-23-2009 draft of VM-25 be referred to the AHWG by the Subgroup. The Chair stated that this action would allow the industry one more “shot” at the VM-25 language at the AHWG level.

Mr. Weller of AHIP asked if further consideration would be given to AHIP’s second proposal relating to VM-25 requirements for margins in Individual Disability Claim Reserves. The Subgroup agreed to have another call regarding this proposed language.

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21 January 2010

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