



# AMERICAN ACADEMY *of* ACTUARIES

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## **Progress Report of the American Academy of Actuaries'<sup>1</sup> Long-Term Care Principles-Based Work Group to the NAIC's Accident & Health Working Group**

**December 2006**

During the June 2006 quarterly meeting of the NAIC, the Academy's Long-Term Care Principles-Based Work Group made a presentation to discuss the importance of studying the effects of a Principles-Based methodology on long-term care insurance products. Since that meeting, the Academy's Work Group has continued to meet regularly. This progress report highlights the work to date as well as next steps as we head into 2007.

### ***Technical Subgroup***

Since June, the Technical Subgroup has made modest progress and is continuing discussions on issues revolving around the modeling, particularly in terms of the technical capabilities of current models to reflect a Principles-Based methodology.

Throughout their discussions, the Subgroup has developed three primary foci:

- 1) To maximize transparency, any initial modeling will be attempted using Microsoft ® Excel.

There are currently two models that the Subgroup is investigating. Jim Robinson donated one model. Steve Pummer of Towers Perrin will hopefully develop the second alternative.

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<sup>1</sup> The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

- 2) Continue to monitor and follow the approach of the Life Practice Council's Principles-Based projects.

The Subgroup has been reviewing all of the documentation and materials available from the Academy's Life Practice Council. Discussions center upon the approaches and thought processes of the various Life groups. The Subgroup has also reached out to various individuals who have been active on the modeling for the Life Practice side and invited them to join our conference calls to discuss modeling approaches.

- 3) The need for an industry morbidity table is paramount.

The Subgroup believes that a long-term care industry table is essential for Principles-Based valuation and is currently investigating how to work with the Society of Actuaries (SOA) in supporting the development of a table.

### ***Issues Subgroup***

The Issues Subgroup has focused on reviewing the five principles of a Principles-Based Approach, as is described by the Life Practice Consistency Work Group<sup>2</sup>, as well as the definitions supporting these principles and how the principles could be applied to long-term care insurance (LTCI). To this point, the Subgroup has been most interested in Principles 4 (the use of company experience to establish assumptions for risks over which the company has some control) and 5 (the use of prudent best estimates assumptions that recognize the solvency objective of statutory reporting) as they apply to LTCI. The Subgroup has also concluded that actuaries need a basic valuation morbidity table for LTCI, which would be the starting point for the application of these principles.

Such a morbidity table does not currently exist and the Subgroup has taken an interest in understanding the progress and timetables of the SOA workgroups involved with this project. The SOA's LTCI Intercompany Study workgroup is currently working with data compiled through the end of 2004 and, at this point, it appears the SOA's LTCI Valuation Morbidity Table

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<sup>2</sup> Complete document, as presented to the NAIC Life and Health Actuarial Task Force in September 2006, can be found online at [http://www.actuary.org/pdf/life/principles\\_sept06.pdf](http://www.actuary.org/pdf/life/principles_sept06.pdf).

workgroup will be applying their proposed methods to this dataset with results possibly available in nine (9) to twelve (12) months. The format, structure, and credibility of this valuation morbidity table will be of great interest to the Issues Subgroup.

As is evidenced above, both the Issues and Technical Subgroups are in agreement as to the need for an industry-wide morbidity table. As recently as November 8, 2006, the two groups have discussed the importance of creating such a table and the effect such a table would have on incorporating a Principles-Based Approach to long-term care. We look forward to, and would be willing to assist in, the creation of such a table in conjunction with the SOA and the NAIC. We are confident that with your support and encouragement, this valuable tool will soon be realized.

### *Next Steps*

Looking forward, the Work Group will be focused on:

- Providing input to the Technical Subgroup via the Issues Subgroup;
- Understanding and achieving consistency with the Life Principles-Based Approach;  
and
- Doing its best to ensure that the approach developed for LTCI will work with other Health products.

We anticipate having a more complete update and progress report for the spring 2007 meeting. At that time, we should be better able to address the issue of an industry morbidity table, provide insight into how a Principles-Based Approach will more fully impact upon LTCI, and highlight the impact that a Principles-Based methodology will have on other health products.

If there are any questions or comments regarding this progress report, we invite you to contact Geralyn Trujillo, Health Policy Analyst, State, at (202) 785-6924 or [trujillo@actuary.org](mailto:trujillo@actuary.org).

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