



AMERICAN ACADEMY *of* ACTUARIES

American Academy of Actuaries¹/Society of Actuaries Group Long Term Disability Work Group Update to the National Association of Insurance Commissioners Health Actuarial Task Force (HATF)

Nov. 2, 2011

This report is intended to update HATF on the work that the joint Group Long Term Disability Work Group has completed since the project's beginning and also to present a new valuation framework to be considered for adoption with the new valuation table.

Charge and Timeline:

- March 2011 HATF charge—HATF asks the Academy to develop a valuation table to replace the 1987 Commissioners Group Disability Table (CGDT).
- The work group is formed and holds its first meeting in May 2011.
- The work group presents its first update to HATF on Aug. 23, 2011, with a subsequent follow up discussion on Sept. 15, 2011.
- The work group currently is targeting a final recommendation to be made by March 2012

Summary of Subgroup Work:

1. Table Construction Subgroup—Compare structure of 2008 experience table to structure of existing valuation table and recommend structure for new valuation table.

Status: Work completed and recommendation presented on Aug. 23 HATF call.

2. Company Experience Subgroup—Develop and recommend methodology for incorporating company experience into termination rates. Areas of focus include:
 - Claim durations for which company-specific experience are to be used;
 - Reflection of plan design, claim practices, and valuation methods;
 - Blend of valuation table vs. complete use of company experience table; use of unfavorable company experience;
 - Definition of credibility;

¹ The American Academy of Actuaries is a 17,000 member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also set qualifications, practice, and professionalism standards for actuaries in the United States.

- Minimum reserves expressed in terms of reserves produced by maximum termination rates;
- Frequency of experience study, length of study period, relevance of data;
- Domiciliary commissioner approval;
- Guidance in actual-to-expected calculation for use of own experience.

Status: Subgroup continues to make progress on individual issues. Recent focus has been on the definition of credibility. Target date for recommendation is December 2011.

3. Table Margins Subgroup—Develop and recommend margins for valuation table and company experience. Areas of focus include:

- Level and structure of margins to be included in the basic table;
- Margin considerations for use with company experience;
- Other margin considerations including overall reserve adequacy measures.

Status: Subgroup continues to make progress. Recent focus has been on the framework definition.

Valuation Framework: The work group recommends that HATF adopt the group life framework applied in a group long-term disability valuation setting recognizing the additional complexities within group long-term disability valuation. The following is recommended by the work group:

- Valuation table includes margin to account for statistical fluctuations and company variations.
- Each company will be allowed to use its own experience including a margin.
- Credibility formulas will be used to blend valuation table and company experience with margins.
- Minimum reserves according to maximum termination rates are to be expressed in terms of the valuation table.
- Frequent review by a company of its own relevant experience will be required to prevent blind application of the table.
- Circumstances under which use of unfavorable company experience will be required.
- For applicability of new standard and future new company experience reviews, there will be no application to prior incurrals without consent or unless required.

Key Topics to be Addressed by the Work Group Regarding This Project:

- Level of margin to build into basic table.
- Level of margin to build into company experience.

- Credibility formula to be used to blend the basic table and company experience— aggregate, by duration, all durations, or limited to first five or 10 years.
- How to determine minimum reserves.
- How to define experience studies and the applicability of the experience studies as it relates to the valuation framework.
- Applicability of new standard and new future company experience reviews.