January 26, 2017

Perry Kupferman, Chair
Long-Term Care Valuation (B) Subgroup
National Association of Insurance Commissioners

Re: Asset Treatment for Stand-Alone LTC Asset Adequacy Analysis

Dear Mr. Kupferman:

On behalf of the Health Financial Reporting and Solvency Committee of the American Academy of Actuaries,[1] we appreciate the opportunity to offer comments to the Long-Term Care Valuation (B) Subgroup on whether assets should be explicitly projected for asset adequacy analysis of stand-alone long-term care (LTC) insurance plans.

We believe there is sufficient existing actuarial guidance on asset adequacy testing (AAT), which includes both cash flow testing (CFT) and gross premium valuation (GPV). In particular:

1. Section 3.3.2 of ASOP No. 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*, includes discussion of the various methods for asset adequacy analysis and the situations in which use of a given method is appropriate. Methods other than CFT test the moderately adverse deviations in actuarial assumptions such as morbidity, lapse, and mortality. The choice of an appropriate testing method is based on the professional judgment of the actuary.

2. Section 3.6 in ASOP No. 18, *Long-Term Care Insurance*, states "the actuary should consider cash flow testing as a potentially important part of any LTC insurance plan's financial analysis." Section 4.1 in ASOP No. 18 states that "the actuary should document the assumptions, processes used, and the general sources of the data in sufficient detail such that another actuary could use the documentation where appropriate." Therefore, CFT already is to be considered for LTC insurance and the actuary's reasoning for not conducting CFT is to be documented.

3. Section 3.2.6 of ASOP No. 18 states: "The expected investment return used should be consistent with the initial and reinvestment returns on assets supporting the LTC insurance benefit promise." Therefore, the actuary should be able to document how the discount rate used in a GPV calculation complies with this guidance.

We would note that there is divergence in practice among companies with LTC insurance blocks of business, so it is not possible to compare companies' AAT reserves. Requiring AAT testing does not remove this incomparability. For example:

[1] The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

- Only companies subject to the Actuarial Opinion and Memorandum Regulation (AOMR), which are life insurance companies, are required to perform AAT. If a company with an LTC block of business is not a life insurance company, it may only perform premium deficiency analysis using a GPV on its LTC block of business. These companies would only hold premium deficiency reserves (PDR) if needed in addition to their contract reserves.
- Some companies perform premium deficiency analysis using a GPV first and then perform AAT. These companies are likely holding a PDR in addition to their contract reserves and may have an AAT reserve of $0.
- Some companies only perform AAT on their LTC block of business, instead of first calculating a PDR. These companies are likely holding an AAT reserve if needed in addition to their contract reserves and do not have a PDR.
- Finally, some companies have petitioned their regulators and have received permission to increase their contract reserves, which may remove the need for PDR and possibly reserves from AAT.

We also note that for many companies, LTC insurance may not have a separately defined asset portfolio and, therefore, assigning specific assets to the LTC liabilities may not be feasible. In addition, the LTC product does not generally have embedded options and may not be sensitive to asset cash flows.

We have some additional comments on the scope of the proposed asset adequacy analysis:

1. Section 3.3.4.c of ASOP No. 22 states "For a reserve or other liability to be reported as 'not analyzed,' the actuary should determine that the reserve or other liability amount is immaterial." (Section 6A(2) of the AOMR indicates that the statement of actuarial opinion should describe the scope of the actuary's work, including a tabulation delineating the reserves and related actuarial items that have been analyzed for asset adequacy and the method of analysis, and identify the reserves and related actuarial items covered by the opinion that have not been analyzed.) Guidance on materiality is provided in the Preamble to Codification, Section VII (i.e., "Is this item large enough for users of the information to be influenced by it?"). Therefore, we would recommend that you use a percentage, such as where LTC is more than 5 percent of the total reserves, in addition to the set number of 1,000 policies.

2. Does this "stand-alone LTC asset adequacy analysis" include combo-products? Combo products are usually grouped with the base policy (UL) instead of being part of the LTC block of business. The committee believes that combo products should not be included with stand-alone LTC but with the base policy product to follow the Statements of Standard Accounting Practice 54 guidance of grouping policies by how they are marketed, serviced, and measured.

*****

We appreciate the opportunity to provide these comments. If you have any questions or would like to discuss further, please contact David Linn, the Academy's health policy analyst, at 202-785-6931 or linn@actuary.org.

Sincerely,

Laurel Kastrup, MAAA, FSA
Chairperson, Health Financial Reporting and Solvency Committee
American Academy of Actuaries