AMERICAN ACADEMY *of* ACTUARIES

Actuarial Guideline for the 2012 Group Long-Term Disability (GLTD) Valuation Table as proposed by the American Academy of Actuaries' Group Long-Term Disability Work Group Presented to the National Association of Insurance Commissioners' Health Actuarial Task Force

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A. Background

The purpose of this actuarial guideline is to provide an instruction for the use of the 2012 Group Long-Term Disability (GLTD) Valuation Table that is referenced in the Health Insurance Reserves Model Regulation. Changes were provided by the Academy to the National Association of Insurance Commissioners (NAIC) in August 2012 for consideration as changes to the Health Insurance Reserves Model Regulation. This guideline pertains to Group Long-Term Disability claims consistent with the conditions defined in the model regulation, and governs the selection of claim termination rates for the purpose of calculating GLTD claim reserves. This guideline does not address reserve adequacy, which remains the concern of the group insurer according to the terms expressed in the model regulation.

When the insurer follows the instructions modeled in this guideline, the selected claim termination rates automatically should meet the minimum valuation standard defined in the model regulation.

B. Valuation Table Modifications

If not invoking the small company exception specified in Section D, a company must use a credibility-weighted combination of its own claim termination experience with the 2012 GLTD Valuation Table to create its specific valuation table.

i. The valuation termination rates shall be computed using the termination rates from the 2012 GLTD Valuation Table (S) multiplied by experience adjustment factors (T) that are calculated separately for five different duration groups.

   Valuation Termination Rate = T x S

The duration groups are defined as follows:

Group 1: duration <= 3 month

Group 2: duration > 3 months and duration <= 24 months

Group 3: duration > 24 months and duration <= 60 months

Group 4: duration > 60 months and duration <= 120 months

Group 5: duration > 120 months

a) S shall be the sum of recovery and death rates from the 2012 GLTD Valuation Table; and

b) *T* shall be computed as $T = [Z \text{ x } F * (1-M) + (1 - Z)]$.

1) Z shall be a credibility weighting factor, between 0 and 1, developed for each duration group according to the following specifications:

Group 1: $Z = 1.0$

Group 2-5: $Z = Min\left(\sqrt{N/K}, 0\right)$

2) *N* is the number of expected recovery and death counts from the 2012 GLTD Valuation Table.

3) *K* is a set of constants defined by duration group as follows:

Group 2: $K = 3{,}300$ Group 4: $K = 2{,}100$

Group 3: $K = 2{,}500$ Group 5: $K = 1{,}700$

4) *F* shall be the ratio of the company's actual total of recovery and death counts to the expected recovery and death counts for the 2012 GLTD Valuation Table for each duration group specified above;

5) *M* is the company experience margin, determined for each duration group according to the following formula:

$$M = Min\left(15\%, Max\left(5\%, 3\% + 1.65 * \sqrt{A/N}\right)\right)$$

6) A is a set of constants defined by duration group as follows:

Group 2: $A = 4.0$	Group 4: $A = 2.5$
Group 3: $A = 3.0$	Group 5: $A = 2.0$

ii. In addition, there are two additional checks that limit the level of the adjusted table:

a) The company shall not use termination rates that produce total reserves less than the reserves produced by computing T as $T = F$; and

b) The company shall not use termination rates that produce total reserves for claims disabled for more than two years that are less than the reserves produced for these claims by computing T as $T = 1.30$. The company can limit this test to claims disabled for more than five years if the company experience includes at least 5,000 terminations in the third through fifth years of claim duration in the applicable own experience measurement period.

Henceforth, T shall be referred to as the Valuation Table Modification Factor.

C. Company Specific Experience–Own Experience Measurement

In computing values F and S to comply with section B above, the appointed actuary shall:

i. Segment the company claim termination experience into any major subgroups that may produce significantly different results (e.g., market niches, claims operations, unique benefit designs, etc.);

ii. Combine affiliated statutory entities and assumed reinsurance, where claims management is under a common structure, when considering company experience. It is also appropriate to evaluate experience separately when specific blocks of company business have distinct claims-management practices or significantly different risk characteristics.

iii. Include all relevant experience the company is capable of providing for as many of the last five years as possible (not including the lag period described below).

iv. Include a suitable lag period to allow for a full resolution of claim status. The recommended lag period based on the 2008 GLTD Study is 12 months. However, the appointed actuary may use a different lag period based on his or her company experience. The five-year period mentioned above does not include the lag period.

v. Measure actual (A) to expected (E) terminations based on claim count, where the E is based on monthly expected recoveries and deaths from the 2012 GLTD Valuation Table. Claim count is also used in the measurement of credibility.

vi. Update the valuation basis in accordance with section B above at least once every five years. In addition, the valuation basis also must be updated whenever the company's annual own experience study produces, in accordance with section B, a value T that is 10 percent (in absolute value) higher than the one used in the current valuation basis for any of the five duration groups.

vii. Take advantage (when appropriate) of any flexibility built into the 2012 GLTD Valuation Table, such as not utilizing diagnosis-specific termination rates when the information is deemed unreliable.

viii. Don't count as terminations claims those that are closed due to settlement (i.e., a lump sum replacing a series of potential future payments), or that have reached the end of the maximum benefit duration, or that are closed due to a contractual limit, such as a mental and nervous limit. Due to a change in definition, maximum benefit duration does not include those claims closed because of disability.

ix. Use experience that is otherwise relevant in accordance with the professional judgment of the appointed actuary.

x. Don’t use experience that the commissioner deems inappropriate or likely to produce significantly inadequate reserves.

In the above paragraphs, the expression term “company” refers to a single company or a group of legally related companies subject to the same claim management

D. Own Experience Measurement Exemption

If, at the time of valuation, a company has fewer than 50 open claims disabled within two years of the effective date of the valuation, and fewer than 200 open claims disabled more than two years prior to the effective date of the valuation, the carrier is exempt from the requirement that the 2012 GLTD Valuation Table be modified by the company’s own experience. Said company will use 100 percent of the 2012 Valuation Table for calculating claims termination rates in order to comply with the minimum valuation standard.