

Update to the NAIC Health Actuarial Task Force (HATF)

Academy/Society of Actuaries
Group Long Term Disability Work Group

August 23, 2011



American Academy of Actuaries

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, practice, and professionalism standards for actuaries in the United States.



Objectives

- Background of proposed work
- Summary of project structure and timeline
- 2008 valuation table structure
- Update on other work streams
- Appendix
 - Work group members
 - Table structure outlines



Background

- August 2009—SOA Group Disability Experience Committee (“SOA Committee”) study produces and publishes 10-year claim termination experience report.
 - More than 1 million claims; 680K terminations; 2.4 million life years exposed; 72 percent of Long Term Disability (LTD) industry covered
 - November 2010—SOA Committee produces base experience table.
- June 2011—Base experience table and accompanying report published.
- March 2011—SOA committee presents to HATF at NAIC Spring Meeting. This results in the following charge:
 - The Health Actuarial Task Force asks the American Academy of Actuaries to develop a Valuation Table to replace the 1987 Commissioners Group Disability Table (CGDT). In developing this table, the Academy shall communicate monthly with the Health Actuarial Task Force on this work. If possible, a recommendation would be received by HATF at its meeting the first week of November 2011.



Summary of Work

- Academy Long-Term Disability Work Group (“the Work Group”) formed with first meeting in May 2011. The work group has formed four subgroups with specific focus areas:
 1. Table Structure – Compare structure of 2008 experience table to structure of existing valuation table (1987 CGDT) and develop and recommend a structure for the 2008 valuation table
 2. Company Experience – Develop and recommend methodology for incorporating company experience into termination rates
 3. Margins – Develop and recommend margins to be included in the valuation table and, if applicable, company experience
 4. Implementation – Implement above recommendations into NAIC model regulation
- The work group is targeting a final recommendation to be made by March 2012



Table Structure

- 1987 CGDT structure – Total termination rates vary by gender, age, elimination period, and duration of claim
 - Table developed with 40K claims
- Over the past 20 years the LTD industry has seen many advances in healthcare and technology:
 - Advances in health care have resulted in continued mortality improvements
 - Improvements in claim adjudication processes and technology focused on return to work approaches have resulted in improved recovery rates
 - Differences in recovery and mortality rates by diagnosis of claim have emerged as a significant variables
 - Industry has matured, resulting in significantly more claims available to study – over 1.2 million claims in the 2008 study allowing us to recognize significant plan provision differences
 - Similar findings in the Individual Disability (IDI) industry as well



Table Structure, continued

- 2008 proposed valuation table structure – Separate basic termination rates for recovery and death that vary by age, gender, diagnosis, and duration of claim
- Basic recovery rates further modified by:
 - Elimination period
 - Gross monthly benefit
 - Transition of “own occupation” to “any occupation” definition of disability
 - Claim duration for “any occupation” disability claims
- Basic death rates further modified by:
 - Elimination period
 - Gross monthly benefit split by cancer/non-cancer before and after 84 months of duration
- The work group recognizes that the resulting valuation table is more complex than the existing valuation table (1987 CGDT); however, we believe that this added variability will lead to a more robust statutory reserve calculation



Company Experience

- **Purpose:** Develop and recommend methodology for incorporating company termination experience
- **Rationale:** Based on 2008 SOA LTD study, there are wide and statistically significant variations in termination experience between companies. It is important to reflect company-specific experience to the extent credible. This is consistent with the current GLTD and Life Waiver valuation approaches



Company Experience, continued

- **Considerations/Issues:**

1. Claim durations for which company-specific experience are to be used
2. Reflection of plan design, claim practices, and valuation methods
3. Blend of valuation table vs. complete use of company experience table
4. Definition of credibility
5. Minimum floor for termination rates
6. Frequency of experience study and length of study period
7. Domiciliary commissioner approval
8. Guidance in A/E calculation for use of own experience

- **Progress:** Subgroup continues to make progress on individual issues. Target date for recommendation–December 2011



Table Margins

- **Purpose:** Develop and recommend margins for valuation table and company experience
- **Rationale:** 2008 basic table replicates history over a 10-year period. Under statutory valuation standards, margins are applied to ensure coverage for individual company variations to cover unseen adverse trends and to cover statistical variations for which experience data is limited.



Table Margins, continued

- **Considerations/Issues:**
 1. Level and structure of margins to be included in the basic table
 2. Margin considerations for use with company experience
 3. Other margin considerations including overall reserve adequacy measures
- **Progress:** Subgroup has to-date primarily focused on the level and structure of margins to be included in the valuation table
 - Structure of margins will be by claim duration and will apply to both recovery and death rates
 - Mortality improvements will be included to recognize long-term secular improvements in mortality
 - Similar to annuities, mortality improvement means higher reserves
 - Target date for final recommendation–December 2011



Next Steps

- Subgroups will continue to work on specific considerations as outlined in this presentation
- The work group will continue to provide periodic updates to HATF to discuss interim findings and recommendations
- The work group welcomes any feedback from HATF at any time throughout the process



Appendix



Work Group Members

Darrell Knapp-Co-Chair

Roger Martin-Co-Chair

Barry Allen

John Bettano

John Davenport

Alex Faynberg

Geoffrey Gerow

Alex Kogan

Rick Leavitt

Foon Lew

Allen Livingood

Jacob McCoy

Steve Ostlund

Eric Poirier

Matt Silverstein

Ray Siwek

Bram Spector

Aaron Stoeger

Patrick Wallner

John Winter

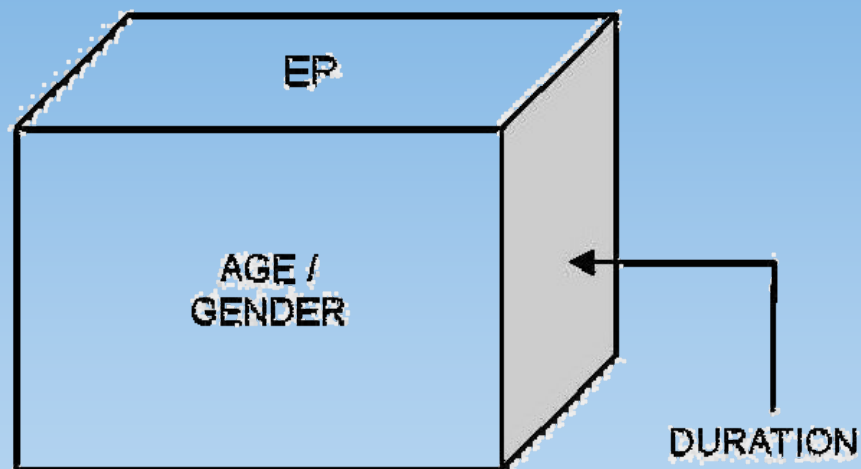
Ali Zaker-Shahra

Feng Zhao



1987 GLTD Table Structure

Combined Recovery and Death Rates



Rates by age / gender,
duration, and EP



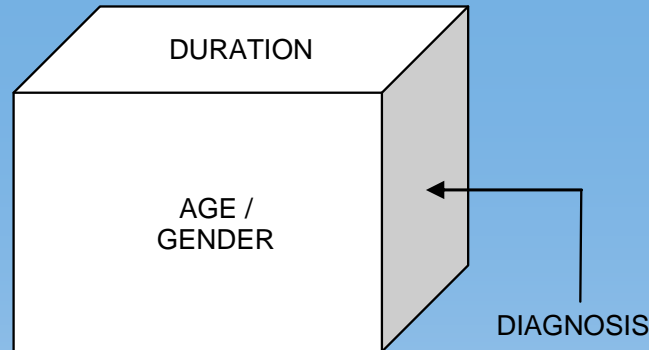
2008 Valuation Table Structure

<u>Table #</u>	<u>Description of Table</u>
Recovery Rate Tables	
1R	Basic Recovery Rates - varies by age at disability, duration and diagnosis
2R	Recognizes effect of elimination period - Factors vary by duration
2M	Used for Maternity claims less than 37 months in duration - varies by duration since end of elimination period. This table is to be used instead of Tables 2R-5R for these claims
3R	Recognizes effect of Gross Monthly Benefit (GMB) - Factors vary by gross monthly benefit
4R	Any Occupation Period Modifiers – Duration factors for “any occ” period
5R	Recognizes additional recoveries when definition of disability changes from "Own Occ" to "Any Occ"
MN1	Used for claims with Mental or Nervous Diagnosis. This table identifies the probability of termination at the contractual Mental and Nervous limit date and should replace the recovery rates generated from tables 1R-5R in the month when the limit applies
Death Rate Tables	
1D	Basic Death Rates - varies by age at disability, duration and diagnosis
2D	Recognizes effect of <13 month elimination period
3D	Recognizes effect of Gross Monthly Benefit (GMB) - Factors vary by duration and diagnosis (Cancer vs. all other)



2008 Valuation Table Structure – Recovery Rates

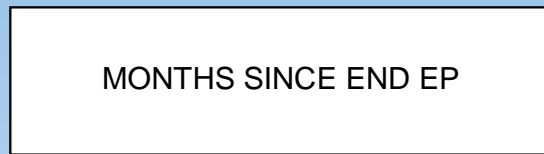
Table 1R



Rates by age / gender, duration, and diagnosis

X

Table 2R



Factors by EP and number of months since end EP (1-36)

X

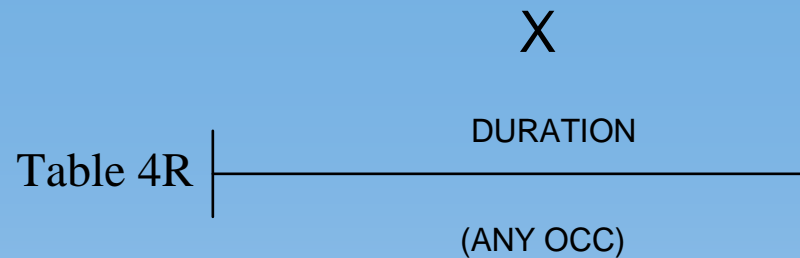
Table 3R



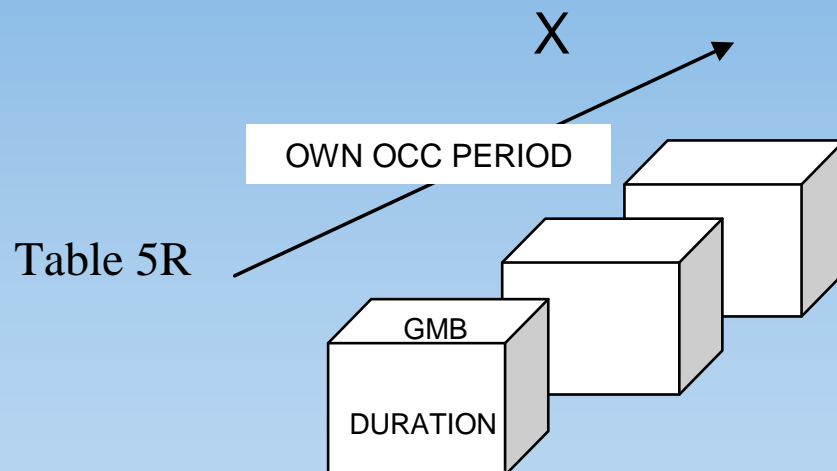
Factors by gross monthly benefit



2008 Valuation Table Structure – Recovery Rates



Duration factors for any occ period

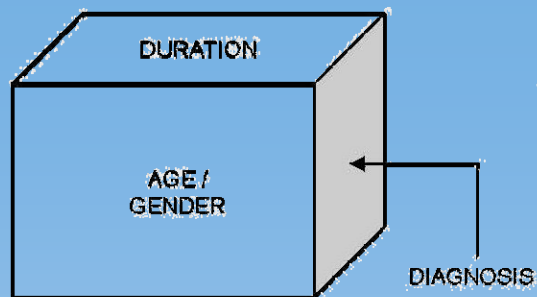


Factors by gross monthly benefit and change in definition of disability (“own occ” to “any occ”)



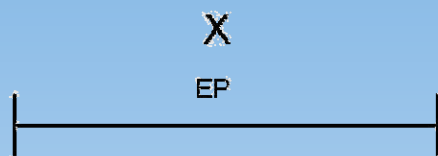
2008 Valuation Table Structure – Death Rates

Table 1D



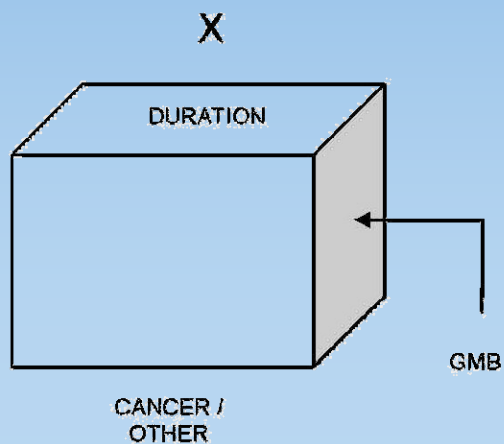
Base Table: Death rates by duration, age / gender and diagnosis (months 1-84)

Table 2D



Adjustment Table 1
EP (<13 months from end EP)

Table 3D



Adjustment Table 2:
GMB duration and cancer / other



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