

# GLTD Valuation Table Proposal to the Health Actuarial Task Force (HATF)

Academy/Society of Actuaries  
Group Long Term Disability Work Group

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# American Academy of Actuaries

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# GLTD Valuation Table Proposal

The GLTD Valuation Workgroup requests the following actions by HATF:

➤ Amend the GLTD Model Regulation as follows:

1. Add reference to the 2012 GLTD Valuation Table for GLTD reserves.
2. Clarify distinction between Group LTD and other disability products.
3. Replace split between use of own experience and the Valuation Table by credibility-weighted blending of experience with margin, according to terms defined in an Actuarial Guideline.

➤ Develop Actuarial Guideline:

Key content provided in this presentation (slide 4) and in accompanying memo



# GLTD Valuation Table Proposal

## 2012 GLTD Valuation Table

Based on 2008 Experience Table with adjustments for mortality improvement and margin:

-Margin is added by reducing terminations by 15 percent in all durations  
(*Lower terminations equal higher reserves*)

## Actuarial Guidelines

- Statutory reserves are based on a credibility-weighted blending of the 2012 GLTD Valuation Table and the company experience with margin.
- Credibility is based on expected terminations and defined for four duration groups.
- Company Experience Margin: The reduction in margin ranges between a 5 percent and 15 percent reduction depending on the number of expected terminations.
- Own Experience Termination Study: Based on five years of termination experience.



# GLTD Valuation Table Proposal

## Limitations on application of new standard

1. Very Small Carriers: For carriers with fewer than 50 open claims disabled in the last two years and fewer than 200 open claims disabled more than two years ago, there is no requirement for an experience adjustment.

- These carriers use 100 percent of the GLTD Valuation Table.

2. Carriers with very high terminations (low reserves):

- Carriers' reserves in total must be at least as high as what would be produced by using no more than 130 percent of the Valuation Table terminations.

3. Carriers with very low terminations and low credibility (high reserves):

- Carriers that meet the size threshold (bullet 1) must use total reserves at least as large as what would be produced by using 100 percent of their own experience.



# GLTD Valuation Table Proposal

## To which claims does the new standard apply?

Recommended change to model regulation introduces a definition of “Group Long-Term Disability Claims.” The new table applies specifically to these claims. Prior regulation references only “Group Disability.”

2012 Table and Actuarial Guidelines (new standard) will apply automatically to GLTD claims incurred in 2014 and later.

For GLTD claims incurred prior to 2014, carriers have the option beginning in 2014 to move to the new standard. This transition can happen at *any time*, but must be occur *all at once*, and *cannot be reversed*.

Other group disability claims will remain on the existing standard.



# GLTD Valuation Table Proposal

## Reserve Balance Impacts:

- The 2012 GLTD Valuation Table produces lower reserves than the existing standard.
- The new table has more *explicit* margin (15 percent versus 10 percent of termination rates).
- The prior table has more *implicit* margin since current claim termination rates are much higher than what this table produces (death rates are lower but recovery rates are higher: *higher* terminations equal *lower* reserves).

## Estimated Reserve Impacts without considering experience adjustments\*

Claims Disabled > 2 Years: 5 percent to 6 percent reduction

Claims Disabled > 5 Years: 2 percent to 3 percent reduction

\*Actual change will depend on own experience adjustment, and how much margin was included in the existing own experience table.



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## Impact on Solvency

Impact on GLTD Balance is minor (-2 percent to -6 percent) and is much less than total surplus and total liability due to all products.

Ratios of GLTD reserves to total reserves is variable depending on what other products are sold. The following estimates are based on 2011 annual statements

<b>Ratios of GLTD Reserves to Total Reserves</b>	<b>Range</b>
LTD carriers selling group products and individual disability	15% to 20%
LTD carriers selling group products and medical insurance	5% to 10%
LTD carriers selling group products and individual life and annuities	< 3%





# Academy/SOA Group Long Term Disability Work Group Members

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