

Health Actuarial Task Force (HATF) Meeting

Academy/SOA Individual Disability Table Work Group (IDTWG) Update

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American Academy of Actuaries

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Agenda

- Project background
- Report
- Valuation table
- Margin
- Use of own experience
- Adoption
- Timeline going forward



Background

- Dec. 2012 – HATF charge:
 - HATF asks the American Academy of Actuaries to develop a Valuation Table to replace the 1985 Commissioners Individual Disability Table A (85CIDA) and the 1985 Commissioners Individual Disability Table C (85CIDC). In developing this table, the Academy shall communicate monthly with Health Actuarial Task Force on this work. If possible, a recommendation should be received by HATF at its December, 2013 meeting.
- Feb. 2013 – formation of Individual Disability Table Work Group (IDTWG)



Background (cont.)

- IDTWG used the Group Long-Term Disability Work Group (GLTDWG) process as a guide
 - Tables – with the experience table as a starting point, developed and recommended a structure for the proposed valuation table
 - Margins – developed and recommended the level of margins to be included in the valuation table
 - Credibility – developed and recommended methodology for incorporating company experience into the valuation table
 - Implementation logistics – mapped out the steps needed to deliver proposed valuation tables and changes to the NAIC model regulation
 - The new tables are intended to be used for active life reserves (ALRs) and disabled life reserves (DLRs)



Report

- The IDTWG has prepared the following:
 - Report that documents and recommends use of new tables as well as guidance on using own experience
 - Appendix that contains draft language for use in Health Insurance Reserves Model Regulation
 - Draft Actuarial Guideline
 - All documents follow the format used by the GLTDWG



Valuation Table

- Represents industry individual disability income (IDI) experience from 1990 to 2007
- Introduced a new occupation class for medical occupations
- Expanded elimination period: 60, 180, 360, 720 days
- Revised structure of claim durations: Months 1-60, annual thereafter (no weekly claim durations)



Valuation Table (cont.)

- Claim termination rates in older durations (years 11+):
 - Vary between medical and non-medical occupations
 - 31-49 percent of 85CIDA for attained ages 60-84
 - Equal to 125 percent of 2008 valuation basic (mortality) table ages 85+
- Biggest impact is on DLRs for claims with lifetime benefit period



Valuation Table (cont.)

- Claim incidence modifiers:
 - Smoker status
 - Benefit period: lifetime, to Age 65-70, short term
 - State of issue: CA, FL, NY (separate modifiers for these states), all other
 - Market: employer sponsored, individual billed (including associations)
 - Overhead expense policies



Valuation Table (cont.)

- Claim termination modifiers (for claim years 1-10):
 - Benefit period and cost of living adjustment (COLA)
 - State of issue (FL, all other)
 - Diagnosis (for DLR's only)
 - Overhead expense policies



Valuation Table (cont.)

- Limitations of new table
 - Data limitations
 - Claim termination rates not separated between deaths and recoveries
 - Could not isolate differences by definition of disability
 - No mortality improvements assumed
 - Address these restrictions in future IDEC studies
- Valuation table and comparisons to 85CIDA and 85CIDC (will be posted to SOA website soon)



Margin

- The valuation table (base table + margins) should be sufficient to cover most companies
 - Sufficiency is defined such that the valuation tables cover 10 out of 12 companies (approximately 85 percent - same as group LTD)
- Incidence margin added was a 5 percent flat load to incidence rates



Margin (cont.)

- Termination margin added was a 5 percent decrease in termination rates in the first claim year, and a 15 percent decrease in the claim years 2+
 - Durational margins were necessary since a flat 6 percent margin would have generated sufficient terminations in the aggregate, but left too many companies with insufficient valuation terminations rates in the claim years 2+
- By comparison, the 85CIDA/85CIDC had the following margin:
 - Incidence margin added was a 5 percent flat load to incidence rates
 - Termination margin added was a 5 percent decrease in termination rates in the first claim year, but only a 5 percent decrease grading to 0 percent in claim months 13-18 thereafter



Use of Own Company Experience

- Use of own company experience for DLRs and not ALRs
- Follows GLTD approach; limited fluctuation credibility
- Required unless very small block of claims
- Credibility formulas are applied by claim duration segments: years 1, 2, 3-5, 6-10 and 11+
- Company experience can increase reserves above the industry table and can decrease it subject to a minimum level



Adoption

- First major table change in many years – new table reflects much more recent experience than 85CIDA/85CIDC
- Propose allowing retroactive use of tables for both ALRs and DLRs
 - DLRs will probably be higher than under the 85CIDA/85CIDC
 - ALRs will probably be a mix of higher and lower – incidence is lower than 85CIDA, but so are terminations
- Propose exposing report and tables to industry for six month period (Jan 1 – June 30, 2014)
- Followed by state legislative cycle
- Propose two-year transition period to adopt tables – allows time for companies and vendors to modify systems



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