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# Individual Disability Tables Work Group Update to Health Actuarial Task Force

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October 30, 2014



# American Academy of Actuaries

The American Academy of Actuaries is an 18,000+ 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.



# Progress Since December 2013

- Report on individual disability table exposed to the industry from Jan. 1, 2014 to June 30, 2014
- 10 comment letters received from nine industry sources
- Also raised other issues for Individual Disability Tables Work Group (IDTWG) to discuss
- All comments reviewed, leading to various report and workbook changes
- Report resubmitted for HATF comments
- IDTWG Workbook has been revised



# IDTWG Objectives

- Goal to have statutory morbidity table that reflect the current environment and provide adequate reserves with a high level of confidence. The table recommendation includes the following:
  - Additional complexity relative to CIDA
  - Use of own company experience
  - Ability to apply retroactively to all inforce policies
- Potential impacts of implementation
  - Additional complexity for implementation – this will take time
  - Potential tax issues have been raised and considered
- IDTWG is not recommending significant changes to the original report, but addresses items noted on next slides



# Comment Themes/IDTWG Responses

Theme	Specific Items	IDTWG Response
Scope	<ul style="list-style-type: none"> <li>Requested exclusion short-term disability worksite policies</li> <li>Requested clarification on handling of certain riders</li> </ul>	<ul style="list-style-type: none"> <li>Draft model regulation modified to exclude worksite policies</li> <li>Scope modified to clarify this report is about morbidity tables only, not the handling of riders</li> </ul>
Table complexity	<ul style="list-style-type: none"> <li>Concern over the time needed to analyze and implement new tables</li> </ul>	<ul style="list-style-type: none"> <li>Additional complexity reflects experience that has emerged over time that is already reflected in pricing. Also, between the state legislative cycle and transition period, companies have 4-5 years to implement</li> </ul>
Tax issues	<ul style="list-style-type: none"> <li>Modify model regulation to help clarify existing tax issues</li> <li>Beware of tax issues caused by new table – are these worth the trade-off?</li> </ul>	<ul style="list-style-type: none"> <li>Modifications to draft model regulation to help clarify tax treatment, where applicable</li> <li>Other tax issues considered, but didn't lead to modifications (e.g., retroactivity, use of company experience)</li> </ul>



# Comment Themes/IDTWG Responses

Theme	Specific Items	IDTWG Response
Occupations	<ul style="list-style-type: none"> <li>• Concern over mapping of occupations to classes</li> <li>• Concern over medical occupation class – ranging from don't have or have more</li> </ul>	<ul style="list-style-type: none"> <li>• Added guidance on mapping</li> <li>• No change – stayed with one medical occupation class – felt it was needed based on volume and morbidity differences, but data does not support multiple medical occ classes</li> </ul>
Table modifiers	<ul style="list-style-type: none"> <li>• Are all of the modifiers needed?</li> <li>• Clarification on optionality of modifiers</li> <li>• Various consistency issues (e.g. diagnosis code mapping)</li> <li>• Buy-out modifiers?</li> <li>• Accident or sickness-only</li> </ul>	<ul style="list-style-type: none"> <li>• Kept all others, again, to be reflective of the emerging experience</li> <li>• Clarified modifiers are not optional</li> <li>• Tables modified accordingly, no major changes; diagnosis grouping looks more like group LTD</li> <li>• Not enough experience to justify separate modifier</li> <li>• Added modifiers for these coverages</li> </ul>
State modifiers	<ul style="list-style-type: none"> <li>• Are these really needed? Concern over some states adopting, some not</li> </ul>	<ul style="list-style-type: none"> <li>• Dropped state modifiers, but added guidance; this caused other termination modifiers to change</li> </ul>

# Comment Themes/IDTWG Responses

Theme	Specific Items	IDTWG Response
Level of margin	<ul style="list-style-type: none"> <li>Concern margin may be too high</li> </ul>	<ul style="list-style-type: none"> <li>Margin recommendations reviewed in light of comments; what IDTWG recommended was still appropriate – no change</li> </ul>
Own experience usage	<ul style="list-style-type: none"> <li>Concern that use of own experience was not worth the effort</li> </ul>	<ul style="list-style-type: none"> <li>Concerns discussed, but IDTWG concluded that what was in the report was appropriate</li> </ul>
Own experience Usage clarification	<ul style="list-style-type: none"> <li>Several questions/comments requesting clarification/correction of certain points</li> </ul>	<ul style="list-style-type: none"> <li>Report modifications made to be more clear and more correct</li> </ul>
Retroactivity	<ul style="list-style-type: none"> <li>Request to have flexibility over how far back can a company go</li> <li>Should we limit the period of time companies can exercise retroactivity?</li> </ul>	<ul style="list-style-type: none"> <li>Point of discussion with HATF – concern that flexibility could lead to manipulation</li> <li>Limited period of time to the transition period, although in practice, a company can strengthen reserves anytime, and implement at least DLR termination rates retroactively at any time</li> </ul>
Other regulation changes	<ul style="list-style-type: none"> <li>Request to include reference to VM-25</li> </ul>	<ul style="list-style-type: none"> <li>Added</li> </ul>



# Recommended Next Steps

- HATF/IDTWG conference call 10/30
  - Discuss when HATF wants to discuss responses with commenters
  - Discuss what HATF would like to have accomplished at NAIC meeting 11/15
  - At some point, IDTWG report should be re-exposed to industry for short period of time (30 days?)





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