To: Mr. Michael Batte, Chair
   Accident and Health Working Group of the NAIC Life and Health Actuarial Task Force

From: Mr. Bob Yee, Chair
   American Academy of Actuaries Long-Term Care Reserve Work Group

September 10, 2003

Dear Mr. Batte,

During the June NAIC meeting, the American Academy of Actuaries Long-Term Care (LTC) Reserve Work Group presented our report in support of your Working Group’s effort to revise the statutory valuation standards for LTC. Since then, a proposed valuation model regulation was published and initially discussed during a conference call on August 18. Our Work Group is ready to assist in evaluating the reserve impact of the proposed regulation.

Specifically, this study will illustrate the anticipated impact of various hypothetical changes in the mortality, voluntary lapse, interest and morbidity valuation assumptions on net renewal valuation premiums and contract reserves by policy duration. Our intention is to demonstrate the sensitivity of results to the choices of assumptions. In no way is the Academy representing the expected reactions in the marketplace if the proposed valuation standards were adopted.

An outline of the insurance plans to be modeled, the calculation specifications and the time frame is attached. We understand that a number of companies participating in this analysis will work through Bill Weller to address the potential effects on gross premiums under certain calculation specifications in the outline.

We would appreciate any questions or comments your Working Group may have.

attachment

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1 The American Academy of Actuaries is the public policy organization for 14,000 actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the actuarial profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.
American Academy of Actuaries Long-Term Care Reserve Work Group

PROPOSED IMPACT STUDY OF PROPOSED LTC VALUATION STANDARDS

September 10, 2003

I Model Plan Cell Description

1. Individual integrated benefit plan covering facility stays and 100% home health care
2. $100 daily maximum benefit, 90 day elimination period, 5 year benefit period (or dollar equivalent)
3. Married male and female
4. No inflation protection and 5% compounded
5. Issue ages 55, 65 and 75

II Calculation Specifications

1. Calculate net renewal valuation premiums and contract reserves by policy Duration: 3, 8, 13, 18, 23 and 28
2. Set A - Tabular Baseline (1 run):
   - Company’s morbidity assumption (no morbidity improvement)
   - 4.5% interest
   - Voluntary lapse rates: 8% (years 1-4) and 4% thereafter
   - 1983 GAM Static Table
3. Set B - Changes to Tabular Assumptions (3 runs):
   - Set A but with voluntary lapse rates: 6% (year 1), 4% (years 2-4) and 2% thereafter
   - Set A but with 1994 GAM Static Table
   - Set A but with 1994 GAM Static Table and voluntary lapse rates: 6% (year 1), 4% (years 2-4) and 2% thereafter
4. Set C - Company Current Practice (1 run):
   - 4.5% interest
   - Company’s current valuation assumptions under current valuation standards
   - If morbidity improvement assumption is used, company must disclose the corresponding changes in other assumptions, if any
5. Set D - Changes to Reserve Assumptions (9 runs):
   - Set C but with revised voluntary lapse assumption under proposed voluntary lapse standards
   - Set C but with revised voluntary lapse assumption under a minimum of 6% (year 1), 4% (years 2-4) and 3% thereafter
− Set C but with revised voluntary lapse assumption under proposed voluntary lapse standards and without the 80% of pricing after 4 policy years
− Set C but with 1994 GAM Static Table
− Set C but with Annuity 2000 Table
− Set C but with proposed morbidity standards (i.e. no morbidity improvements)
− **Current NAIC Proposal**: 4.5% interest, lapse rates lesser of 80% of pricing and 6% (year 1), 4% (years 2-4), 2% thereafter, Annuity 2000 Table and no morbidity improvement
− **Academy’s Understanding of Industry Proposal**: 4.5% interest, lapse rates lesser of 80% of pricing (years 1-4), 100% thereafter and 6% (year 1), 4% (years 2-4), 2% thereafter, 1994 GAM Static Table and no morbidity improvement
− **Alternative Proposal**: Industry Proposal but with 5.0% interest and Annuity 2000 Table

6. Notes:
− Participating companies will be identified
− Results will not be identified by company

### III Time Frame

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 15th</td>
<td>Run specification finalized</td>
</tr>
<tr>
<td>October 15th</td>
<td>Tester completed work</td>
</tr>
<tr>
<td>October 31st</td>
<td>Draft report from AAA completed</td>
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<tr>
<td>November 10th</td>
<td>HIAA incorporated gross premium results</td>
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<tr>
<td>November 15th</td>
<td>Report delivered to NAIC</td>
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