

# MEMORANDUM



**To:** Eric King  
**Date:** September 21, 2016  
**From:** Steven Clayburn  
**Subject:** 2012 LTD Valuation Table – State Analysis – Including Ask from 9-20-2106 Call

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide its analysis of what can happen come January 1, 2017 and the 2012 LTD Valuation Table.

First, here is my updated analysis on states and the implementation of the 2012 LTD Valuation Table and my view of what will occur as of January 1, 2017 (operative date of the Valuation Manual).

When the 2012 Group LTD Table was adopted by the NAIC and the Accounting Practices and Procedures Manual (Appendix A-010) was updated to include the most recent Model Regulation #10 (Minimum health reserve standards), I had created a state chart listing those states that have regulations that need to be updated and those that would defer to the APPM. I used that chart for this analysis.

With the effective/operative date of the Valuation Manual being 1/1/2017 – **for policies issued on or after 1/1/2017** – something had to be done with Valuation Manual, Section 25 (VM-25), the health reserves section. Up until just recently, VM-25 was the ‘old’ Model Regulation #10 language (pre-2012 LTD Valuation table update). Now VM-25 points to the APPM – Appendix A and Appendix C. So for states that point to the current APPM, whether by regulation, bulletin, or default, the 2012 LTD Table can be used for incurred claims.

The current issue is for those states that have specific statutes/regulations that need to be updated. The reason being is that the 2012 Group LTD Table is not recognized yet and thus cannot be used for claims incurred on policies issued before 1/1/2017 – ***the Standard Valuation Law points to commissioner rule making for the prior to 1/1/2017.*** Without states updating their regulations, companies will not be able to ultimately revalue all inforce claims with the new valuation table.

Here are categories of states and my interpretation of the current situation (red is must update regulations if 2012 LTD table can be used for prior policies):

States that have adopted the amended SVL and also its regulations for Model #10  
FL

States that have adopted the amended SVL; however, have not updated their regulations to the current Model Reg. #10

AL, AR, CA\*, CO, CT, ME, MI, MN, NJ, NM, NC, OH, OR, PA, RI, SC, TN, TX, VA, WA, WV, WI  
\*I could not find a listing of specific tables in its regulations

States that have adopted the amended SVL and use the current APPM whether by default, bulletin or regulation  
AZ, DE, GA, HI, ID, IL, IN, IA, KS, KY, LA, MD, MS, MO, MT, NE, NV, NH, ND, OK, SD, UT, VT

American Council of Life Insurers 101 Constitution Ave, NW, Suite 700, Washington, DC 20001-2133

States that have yet to adopt the amended SVL and have not adopted the latest Model Reg. #10  
AK

States that have not adopted the amended SVL; however, adopted the most recent Model Reg. #10  
NY

States that have not adopted the amended SVL; however, use the latest APPM  
DC, MA, WY

With VM-25 now pointing the APPM, here is my analysis as of what happens as of 1/1/2017. By having VM-25 point to the APPM, this still would leave the situation where states that have specific regulations would have to do additional work. I have copied the categories below and in red have indicated what appears would need to occur to avoid any non-ideal situations:

Category (and states that appear to fall in each category):

States that have adopted the amended SVL as well as updated their regulations (if any) to the current Model Reg. #10  
FL  
VM-25 points to APPM then no foreseen issues with states in this category.

States that have adopted the amended SVL; however, have not updated their regulations to the current Model Reg. #10  
AL, AR, CA\*, CO, CT, ME, MI, MN, NJ, NM, NC, OH, OR, PA, RI, SC, TN, TX, VA, WA, WV, WI  
\*does not list specific tables in its regulations  
VM-25 points to the APPM, however, this still does not alleviate the potential issue of no retroactivity. In addition to VM-25 pointing to the APPM, states in this category would either have to update their regulations to be new Model Regulation #10, or repeal current regulations (the latter not desirable). Incurrals on policies issued prior to 1/1/17 would still follow the regulations of the states if another action is not done.

States that have adopted the amended SVL and use the current APPM whether by default, bulletin or regulation  
AZ, DE, GA, HI, ID, IL, IN, IA, KS, KY, LA, MD, MS, MO, MT, NE, NV, NH, ND, OK, SD, UT, VT  
VM-25 points to the APPM, these states are 'ok'

States that have yet to adopt the amended SVL and have not adopted the latest Model Reg. #10  
AK  
VM-25 points to the APPM, states (if not yet adopted the amended SVL) would also either have to update its regulations to be Model #10, or repeal them so that the APPM is used – if the current LTD tables are wanted to be used.

States that have not adopted the amended SVL; however, adopted the most recent Model Reg. #10  
NY  
I see no issues for this category if the scenario holds as is.

States that have not adopted the amended SVL; however, use the latest APPM  
DC, MA, WY  
Currently, it appears these states have no issues as they already point to the APPM so use of 2012 LTD is ok and when they adopt the amended SVL, they still should be ok.

So that is my analysis of what will occur focusing on how state regulations work.

The following is the contents of the “ask” email that I had sent to Steve Ostlund and you to be mentioned on the September 20<sup>th</sup> HATF call:

I am writing you two to see if you would mention on next Tuesday’s HATF call that there are several states that have specific regulations about valuation and that if the states want to recognize the 2012 LTD Valuation table for claims occurred prior to 1/1/2017 that these regulations need to be updated to point to the 2012 LTD Valuation Table. I count about 16 members (of 23 states that need to update regulations) are on HATF that have specific regulations that need to be updated. I have not had the best luck in getting the attention that is needed and thought a reminder/communication from you would help kick-start any updates.

That being said, in working with Mike B. (TX) and Felix S. (NJ) on their respective state updates for the 2012 LTD Valuation Table, we discussed the following approach that would eliminate a re-write of the regulations (that is, provide a short cut in drafting regulations) and work with the Valuation Manual as well as claims incurred on policies issued prior to 1/1/2017.

In Model Regulation #10 - In Section 2. Claims Reserves, A. General (1), the current language is as follows:

(1) Claim reserves are required for all incurred but unpaid claims on all health insurance policies.

By editing this particular section, one might avoid all the other necessary edits to incorporate the new 2012 LTD Valuation Table.

An example of the suggested edits to the language is as follows (there would be slight differences depending on how a state’s regulation has been drafted previously):

(a) This subchapter applies to all insurers authorized to write health insurance in this State. These standards apply to all individual and group health insurance coverages issued prior to 1/1/2017. In addition, claim reserves for such coverages issued prior to 1/1/2017 for claims incurred on and after 1/1/2017 shall follow the requirements in the NAIC Accounting Practices and Procedures Manual (APPM), Appendix A, A-010. For all such coverages issued on and after 1/1/2017 the standards and reserve requirements provided in the Valuation Manual apply.

These standards do not apply to ~~except~~ credit insurance.

This might be an avenue that states might want to explore if they are going to update their regulations this year to acknowledge the 2012 LTD Valuation table. I show at least 23 states that have specific regulations to be updated. This avenue would also take into consideration any new valuation tables that would be implemented after adoption by HATF (and the NAIC as an entire body) – for example, the new 2013 IDI Valuation Table would be ‘good to go’ once the APPM manual is updated as the language above includes any future tables. Thus the cancer claims cost valuation table would be ok once adopted in the future.

Again, this is just a suggestion that states who need to update its regulations might consider.

As always, I am available to help assist insurance departments with any updates.

Regards,

Steve