# 8/11/2016

# Actuarial Guideline LTC

**THE APPLICATION OF THE HEALTH INSURANCE RESERVES MODEL REGULATION FOR TESTING THE ADEQUACY OF LONG-TERM CARE INSURANCE RESERVES**

**Background**

The *Health Insurance Reserves Model Regulation (#010)* contains requirements for calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and reasonableness of LTC reserves. For instance, the *Model Regulation* states, “a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts”; however, other wording in the *Model Regulation* creates confusion for some people on whether the test of adequacy is required at the major block of contract level. In the absence of uniform guidance, some insurers may not be determining adequacy of LTC reserves to the same degree as others, resulting in a non-level playing field and concerns that reserve adequacy is not being appropriately tested by each insurer.

This guideline provides uniform guidance for insurers with a major LTC block of contracts. In particular, this guideline:

1. Requires asset adequacy analysis of an insurer’s major LTC block of contracts.
2. Specifies that the appropriate form of asset adequacy analysis may be in the form of a gross premium valuation or in a more robust form, such as cash-flow testing, with Actuarial Standards of Practice providing guidance in this area.
3. Requires a uniformity approach to assuming future rate increases.
4. Provides requirements on documentation of assumptions.

# Text

# Effective DateThis Guideline shall be effective for reserves reported in the December 31, 2017 and subsequent annual statutory financial statements.

# ScopeThis Guideline shall apply to all long-term care insurance contracts, whether directly written or assumed through reinsurance.

# Definition

# Major Long-Term Care Block of Contracts. A block of long-term care insurance contracts with over 1,000 inforce policyholders as of the valuation date will be considered major for purposes of applying this Guideline.

# 4. Asset Adequacy Analysis of a Major Long-Term Care Block of Contracts

# A. Reserves for a major long-term care block of contracts must be supported by an asset adequacy analysis specific to this block of contracts for valuations associated with the December 31, 2017 and subsequent annual statutory financial statements. The analysis shall comply with applicable Actuarial Standards of Practice, including standards regarding testing moderately adverse deviations in actuarial assumptions.

# B. Reserves for the major long-term care block of contracts shall be increased by any additional reserves required by the asset adequacy analysis, subject to a phase-in option described in Section 4.E.

# C. Where there are material asset risks, where liabilities have cash flows far out into the future, where there is a material risk of asset liability mismatch risk, or for other reasons, cash-flow testing may be the appropriate method unless the risks can be demonstrated to be appropriately captured in an alternative method such as a gross premium valuation. The method of analysis must be deemed appropriate based on Actuarial Standards of Practice.

# D. The analysis shall anticipate no premium rate increases unless a rate increase plan is documented to be supported and approved by management, is highly likely to be executed, and contains documented, realistic estimated approved amounts and times by jurisdiction.

# E. If additional reserves are required, a phase-in period of up to three years may be approved by the company’s domiciliary Commissioner. Such phase-in period shall only be permitted if the company is able to demonstrate to the satisfaction of the Commissioner that it would not be operating in a hazardous financial condition and that there is not adverse risk to its insureds.

# F. The asset adequacy analysis shall be in the form of an Actuarial Memorandum which contains documentation of the assumptions and results of the analysis and shall be submitted to the state of domicile of the company by the April 30 following the valuation date. The state of domicile shall provide a copy of the Actuarial Memorandum to any other state in which the company is licensed.

# 5. Documentation of Assumptions Underlying Long-Term Care Insurance Asset Adequacy Analysis to be Provided in the Stand-Alone Actuarial Memorandum

# A. Assumptions on mortality shall be documented to state the reference standard valuation table, if applicable, and explicitly site adjustments, select factors, and mortality improvement factors, where applicable. If a reference standard valuation table is not used in setting the mortality assumption, then a table of rates for sample issue ages shall be provided. A summary of experience or other justification of expectations shall be documented.

# B. Assumptions on lapse shall be documented in table format by duration band and by other factors impacting the lapse assumption, where applicable. A summary of experience or other justification of expectations shall be documented.

# C. Assumptions on morbidity shall be documented and justification of the assumption shall be provided. If an outside source is used as the basis for morbidity assumptions, then the rationale for the applicability of that source and any adjustments to the factors from that source shall be documented.

# D. Assumptions on investment returns and interest rates shall be documented. If a simplified approach is applied, such as implicit reflection of projected investment returns through the use of discount rates in a gross premium valuation, then justification shall be provided.

# E. Assumptions on future rate increases shall be documented, by rate increase percentage assumed and jurisdiction; and the documentation and justification stated in Section 4.D. shall be provided.

# F. Documentation of other material assumptions shall be provided.

# G. Documentation shall be provided for assumptions that have significantly changed from the prior year’s analysis.