## Comment #17 – 3/22/17 – 5:10 p.m.

These comments are mine and do not represent the opinion of my employer, The California Department of Insurance. I believe this draft is too generic. Pricing and reserving assumptions are critical because overstatement of decrements can produce lower estimated costs.

Actuaries often use excessive assumptions because resulting rate levels were in line with competition. Further, actuaries fail to include adequate provision for adverse deviation. They failed to consider selection by new applicants. Pricing actuaries relied on the guaranteed renewability feature of LTC and to allow future rates to be increased to make up for faulty initial pricing assumptions.

- Paragraph 1.2 should refer to consumer behavior and decision criteria when making choices that are in their best interest. I suggest including examples so actuaries get a better understanding of what they should consider. Consumers have a sense of their exposure to insurance risks. They know from experience with family members and friends when and if they are likely to claim. Consumers realize; when they are driving too fast, when their dwelling is more exposed to a loss, when they are not well, what caused family members to have an insurance claim, and when they can no longer do the things that came naturally in the past. Pricing assumptions may fail to consider there is significant self-selection by the consumer. Appropriate recourse was to use consumer selection graded out over an appropriate duration.

- Section 2 should add relevant definitions for “best estimate”, “professional judgement”, and “reasonable” which are frequently used in this ASOP so are otherwise subject to interpretation by a reader.

- Paragraph 3.1.3 could list sources of assumptions including; company history, consultant or industry experience and other appropriate indicators. Great care should be taken to ensure each assumption is appropriate and appropriately adjusted. As an example, actuaries should use logical sources of information and not merely rely on others. he most comparable coverage to LTC is not a health insurance but rather is Whole Life and for which ultimate lapse data is readily available. Actuaries frequently attribute their assumptions as recommended and used by other pricing actuaries.

- Paragraph 3.1.5 should require that the actuary make specific inquiry whether there have been any changes. Actuaries should not merely wait to be told about changes in underwriting requirements, claims procedures, or mix of business. Actuaries should consider the effect of selection and classification. Actuaries should know age-specific accept/reject statistics and claim incidence data.

- Paragraph 3.4 and 3.5 should require the actuary to disclose the effect and amount of making an acceptable assumption. This result should be compared to the result when using an assumption prescribed by the principal or another professional. Those persons may not understand the effect and magnitude and an recommendations on the actuarial report.