

Appendix 2

Comments on the Exposure Draft and Task Force Responses

The proposed revision to Actuarial Standard of Practice (ASOP) No. 18 was exposed for review in May 1998, with a comment deadline of September 1, 1998. Fourteen comment letters and twenty-two comment postcards were received. The Long-Term Care Task Force of the ASB carefully considered all comments received. Summarized below are the significant issues and questions contained in the comment letters, printed in roman type. The task force's responses are in **boldface**.

Comment Postcard

As stated above, twenty-two comment postcards were received. There were four choices for responses given on the postcard, as follows: (1) I have no comments (eleven checked this box); (2) I concur with the content of the proposed ASOP (ten checked this box); (3) Except as indicated in the attached written comments, I concur with the content of the proposed ASOP (one checked this box); and (4) The proposed ASOP should be changed significantly as indicated in the attached written comments (none checked this box).

General Observations

Many helpful comments were offered in the letters received, and all were read and discussed by the task force. Most commentators seemed quite pleased with the draft. Those comments that, in the task force's opinion, provided suggestions that improved the proposed standard are reflected in this revised edition as appropriate.

However, several commentators addressed issues that did not seem appropriate for an actuarial standard of practice, but seemed better suited for a practice note. For example, there were suggestions to include LTC tables of data from the Society of Actuaries, methods for pricing contingent nonforfeiture benefits, procedures for including risk-based capital in pricing, and even a request for a discussion of the risks and rewards of self-insurance. **The task force believes it would be best for these topics to be examined in more detail elsewhere, such as perhaps in practice notes or some other such forum.**

Transmittal Memorandum Questions

In the transmittal memorandum, the task force posed seven questions, which have been condensed in this appendix. Commentators' responses to the questions follow, as well as the task force's responses in **bold**.

Transmittal Memorandum Question #1—Does this exposure draft provide clear guidance on the subject of assumption setting? Two commentators responded to this question, both of them satisfied with the extent of guidance. One noted, “The intent of a standard of practice, in my opinion, is to provide general guidance. It should not be a cookbook.” **The task force did not make changes with regard to the level of detail already present.**

Transmittal Memorandum Question #2—Is it appropriate to require that claim incidence rates and claim termination rates be established separately for at least nursing home and home care benefits?

The issue of whether separate incidence and recovery rates should be required for nursing home and home care benefits elicited many comments. One commentator said that it is appropriate that rates be established separately. Others said that such separation should not be required in all instances, pointing out that such is a moot point for a product with only one of the benefits. It also is unnecessary for a product that triggers benefits only when the insured is judged disabled and the product doesn’t require that the insured incur reimbursable costs. **The task force made several changes to section 3.2.1, Morbidity Assumptions, to reflect these helpful comments. For example, in the first sentence of the second paragraph, the task force added the phrase, *costs of eligible benefits*, as another element the actuary should consider in addition to claim incidence rates and claim termination rates, where appropriate, in estimating total claim costs. Further, as noted in section 3.2.1(a–b), these claim cost elements will vary by type of benefit, and there is a possible substitution effect among the various benefits. Finally, the list of items to consider when setting assumptions for total claim costs was also lengthened.**

Transmittal Memorandum Question #3—Has this proposed revision adequately addressed the mix-of-business assumptions? Several commentators thought that section 3.2.7, Mix-of-Business Assumptions, could be clarified and strengthened by identifying several other dimensions to the mix, such as marital status. **The task force agreed and revised the section accordingly.**

Transmittal Memorandum Question #4—Has section 3.2.8, Change-over-Time Assumptions, clearly addressed the requirement that the actuary consider that actual experience may change materially over time? Should the actuary be required to reflect such changes in assumptions being set? Two commentators asked that this section remain as is and that they had no recommended changes. Two other commentators spoke to the need to clarify the section. **The task force agreed with those supporting the wording in the first exposure draft. No changes were made to this section.**

Transmittal Memorandum Question #5—What is your response to the standard’s requirement that the actuary not select unduly optimistic premium rate assumptions based on anticipated but undisclosed rate increases that are inconsistent with the premium rate schedule? One commentator observed the difficulty but importance of recommending premiums that are adequate though not redundant and recommended that no change be made to section 3.3, Premium Rate Recommendations. Another commentator asked that the task force address the offsetting pressures that state regulators may place upon actuaries who are pricing, and another asked that loss ratios be addressed here. Finally, one commentator stated that the last sentence of the first paragraph, *It is appropriate, however, to include provision for adverse deviation in any*

recommendation, should be deleted. **The task force continues to believe that the subjects of loss ratios and state regulations should not be addressed in this ASOP. However, two changes were made to the sentence regarding provision for adverse deviation, which now reads, *It may be appropriate, however, to include provision for adverse deviation in assumptions.***

Transmittal Memorandum Question #6—What areas of actuarial practice have been omitted that should be addressed? One commentator suggested the standard observe that tax-qualified plans have different reserve requirements than nontax-qualified plans. Another suggested the standard address the NAIC’s new contingent nonforfeiture benefit, and another suggested the standard address loss ratios. **Recognizing that these subjects are matters of state regulatory compliance, the task force does not believe they should be covered in an actuarial standard of practice. Regarding the suggestion for tax-qualified plans, the task force revised section 3.2.5, Tax Assumptions, to read as follows: *Tax assumptions should reflect the tax reserve basis of the plan and the premium, income, or any other applicable tax rates of the entity.***

Transmittal Memorandum Question #7—Are the coverage and plan features discussed in the appendix (now appendix 1) clear, and do they include the significant aspects an actuary encounters? One commentator suggested there were several omitted coverage and plan features: (1) assisted living facilities; (2) tax-qualified status of benefits; (3) care management; and (4) Medicare. **The task force responded to these four items as follows. As for the first point, the task force added a definition for *assisted living facility* (see section 2.3), and referenced it in section 3.2.1 (see the second paragraph) and in appendix 1 (see item (2) under the section, An Evolving Type of Coverage). As for the second point, the task force revised section 3.2.5, Tax Assumptions, and mentioned in appendix 1 (see the second to last paragraph under the section, An Evolving Type of Coverage) that both tax-qualified and nontax-qualified plans are sold. However, the task force doesn’t believe a standard should attempt to fully address this constantly changing, unclear, and essentially nonactuarial matter.**

As for care management, the task force added a new section 5(d) (see appendix 1, under the section, An Evolving Type of Coverage), as an example of another coverage feature; however, the task force believes that treatment of this subject feature and its many possible elements is not warranted in an ASOP. Finally, the task force believes that the subject of Medicare continues to be adequately treated as a consideration for actuaries in section 3.2.1(d).

Section 2. Definitions

Two commentators suggested adding a definition for *assisted living facility*. **The task force agreed; see section 2.3.**

Section 2.10, Instrumental Activities of Daily Living (now section 2.11)—One commentator suggested adding the phrase *managing medications* to the examples of IADLs. **The phrase was added.**

Section 2.14, Long-Term Care Insurance Plan (now section 2.15)—One commentator observed that this definition does not describe the entities that may write such a plan, asking if an HMO or PPO might write such a plan. **This section defines the LTC insurance plan; it does not address which entities may write such plans. The task force intended not to limit such entities. All are covered by the standard.**

Section 3. Analysis of Issues and Recommended Practices

Section 3.2.1, Morbidity Assumptions—Several commentators addressed this section. One suggested that “the underwriting process” be added to the list of considerations. **The task force believes that this process is covered in section (d) (now section (f)).** Another suggested the phrase *elimination period* be added as another item to consider. **The task force believes this issue is addressed in the first paragraph of the section by the phrase, *the plan’s benefit eligibility criteria*.**

One commentator questioned whether another ingredient of total claim costs isn’t the cost of eligible benefits. Three others questioned the necessity of always establishing incidence and termination rates separately for different benefits, especially for reserves. Another pointed out the interrelationship among different benefits, with possible substitution effects among them. **As for the first point, the task force agreed and added *cost of eligible benefits* to the incidence and termination rates. As for the latter, the task force agreed that these were good points, and revised the second paragraph of the section to make it clear that the separation of claim costs between benefits is not mandatory but should be done where appropriate. In addition, two new items (see items (a) and (b)) were added to those considerations the actuary should make when setting assumptions for total claim costs. The intention of the task force when drafting this section was to permit the actuary flexibility when working with different types of plans but also to provide the actuary with a list of considerations.**

Section 3.2.3, Voluntary Termination (Lapse) Assumptions—Several commentators suggested some additional considerations be added to those that affect lapse rates, including changes in policy design that may increase rates. **The task force agreed. Several other examples were included, and a sentence was added to note that the effect on lapses from any rate change should also be considered.**

Section 3.2.7, Mix-of-Business Assumptions—**In response to two comment letters, the task force added *marital status* and *distribution system* to the list of characteristics to consider, but does not believe a standard of practice should address such assumptions in further detail. However, the task force agreed that this section needed to be clarified as to under what circumstances the business mix is material and did so by adding the lead-in phrase, *To the extent total financial results could be affected materially by the mix of business*.**

Section 3.2.8, Change-over-Time Assumptions—One commentator questioned whether this section is addressing the inclusion of a provision for adverse deviation. Another noted that the use of the phrase *actual experience* in the second sentence is misleading. **As for the first question, the answer is no; this topic is covered in section 3.3, Premium Rate**

Recommendations. As for the latter comment, the task force agreed and deleted the word *actual*.

Section 3.3, Premium Rate Recommendations—One commentator suggested replacing the phrase *any recommendation* at the end of the first paragraph with the word *assumptions*. **The task force made the change.** Another commentator suggested addressing *loss ratios* in this section. **The task force believes it is not appropriate to address this topic in this ASOP. No change was made.** One commentator suggested eliminating the last sentence of the first paragraph concerning the inclusion of a provision for adverse deviation. **As noted above, the task force did not delete the sentence but revised it to state that it may be appropriate to include provision for adverse deviation. The subject of how to price LTC insurance is not an easy activity to articulate in an actuarial standard of practice; indeed, it is not the proper role of a standard to do so. The task force stands by the carefully chosen words of this section.**

Section 3.4, Reserve Determination—One commentator suggested expanding the second paragraph to require the actuary to also be familiar with valuation methods and assumptions discussed in the actuarial literature. Another commentator suggested adding references to ASOP Nos. 7 and 14. **As for the first comment, the task force disagrees, believing that an actuarial standard of practice is not the place to reference sources in the actuarial profession or to treat any references on this subject in detail. Similarly, references to other ASOPs should be held to a minimum, since an actuary is bound by all standards.**

Section 3.6, Cash Flow Testing—One commentator suggested this section emphasize asset-liability management and not cash flow testing. **The task force believes that cash flow testing is appropriately a responsibility of the actuary, whereas asset-liability management often is at least partly beyond the scope of the actuary's responsibilities.**

The task force appreciates the many comments received by those practicing in LTC insurance and earnestly trying to help create the best standard of practice possible. The input was helpful in developing this revised edition of ASOP No. 18.