**Comment #3 – 7/1/17 – 11:31 a.m.**

First of all, thank you to all of those involved with developing the proposed revision. That is obviously a difficult and thankless process.

As context, most of my comments are based on my experience as an actuarial examiner on behalf of state insurance departments. In this role, I have seen a lot of various practices across a myriad of insurance entities.

1. <u>Needed clarification regarding PDRs and the exposure units to be used for future contract periods</u>

   Even though 3.5.1 states "The actuary may need to estimate a premium deficiency reserve for a block of business where a premium deficiency exists even if the contract period has not started" and even though 3.5.3 states "The actuary should consider reasonable increases and decreases in exposure units over the time period of the calculation in the premium deficiency reserve calculation" I have seen a wide range pf practice concerning whether new exposure units should be used for the future contract period.

   I have always interpreted the above two standards as requiring that new exposure units must be included, while I have seen many companies only include the persisting exposure units in the PDR calculation.

   For example, in an ACA block of business where next year's rate was expected to be deficient a Company only applied the expected pmpm loss to the ~3,000 persons from the 2016 block to persist. They did not apply the expected pmpm loss to the expected new members who would purchase the policies. After January, as a result of the low, deficient premium the actual membership was significantly higher than just the renewing members.

   If a PDR as defined in 2.9 is "established when future revenues and current reserves are estimated to be insufficient to cover future claims and expenses" then all future revenues and future claims expenses should be considered.

   This was not an isolated incident. This is a practice that I have seen multiple times.

   I recommend that additional language be added to 3.5.3 to clarify what exposure units should be included.
   My recommendation would be to add something like this to the end "This assumption should include all expected persisting exposure units as well as all expected new exposure units for the contract period even if the contract period has not started."

2. <u>Clarification for Claims Adjustment Expenses</u>

   A prevalent issue is whether all UCAE should be included in the reserve or just the portion of the UCAE that relates to paying claims in a run out situation. I believe additional language should be added for clarification.

3. <u>Follow Up Studies</u>

It amazes me the number of companies/actuaries that do not perform follow-up studies. If these are standards of practice, I believe that actuaries "should" conduct these studies to confirm that their methods have held up over time. I recommend that the language be changed to "The actuary should conduct…."

4. Provision for Adverse Deviation

   I have seen multiple cases where the use of the word "may" has caused actuaries to believe that a margin is not required is not required. I would clarify the language to include situations where a margin may be required by either statute, regulation, etc.

   I recommend the following language, "For example, in certain situations, a provision for moderately adverse deviation may be appropriate or may be required."

Thank you for the opportunity to provide these comments.

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