August 29,2022

Mr. Eric J. King, FSA, MAAA
Senior Health Actuary, Research & Actuarial Services, NAIC
1100 Walnut Street, Suite 1500
Kansas City, MO, 64106-2197

RE: Comments Regarding Recommended Mortality and Lapse Tables for Valuation of Long-Term Care Insurance Liabilities

Dear Mr. King:

In November of 2021, in response to an earlier request by the NAIC Long-Term Care Actuarial (B) Working Group (LTCAWG), the American Academy of Actuaries (Academy) and the Society of Actuaries Research Institute submitted a report recommending new mortality and lapse tables for use in valuation of long-term care insurance liabilities. On July 6, 2022, the LTCAWG sent out an email inviting task force members, interested regulators, and interested parties to comment on the recommended tables, with particular emphasis on certain identified areas (items 1-5 below).

As an interested party, RRC appreciates the opportunity to offer our comments. Should you have any questions, we would be happy to discuss with you and the LTCAWG members at your convenience.

RRC Comments

- General comments:

  o   We observed that the experience data was restricted to calendar years 2008-2011 to capture more recent trends. It is unclear whether consideration was given to the impact of the 2008 financial crisis on mortality and lapse experience. If not, we suggest considering the potential impacts which could cause the data period to be less appropriate for setting long term assumptions.

  o   We observed that significant reliance was placed on certain individuals for calculating exposures, identifying statistical significance of predictive variables, and developing the mortality tables. Given the broad financial impact of this work, it would seem prudent to acknowledge whether a peer review was conducted and indicate whether the party that performed the review possessed the requisite experience and technical expertise.

- o Although the report acknowledges that there is currently no known industry study on LTC mortality trends with respect to improvement, it isn't clear whether consideration was given to constructing a mortality table directly from LTC raw experience as opposed to developing a table based on the 2012 IAM as its foundation. If such a discussion were included in the report, it would afford the reader an appreciation as to whether due consideration was given to other potentially viable alternatives.

- o The report states that an observation count of 1,082 (271) corresponds to full (partial) credibility as it corresponds to a 90% probability that the observed rate is within 5% (10%) of the true underlying rate. However, the report does not mention that these credibility parameters are premised on the assumption that both mortality and lapse will exhibit a normal distribution. It would therefore seem prudent to identify this underlying assumed distribution and discuss why this is considered reasonable and appropriate for both mortality and lapse.

- o Figures 11 and 12 (pages 29 and 30 of the report) display chart axes, but they do not appear to show the actual smoothed curve associated with each issue age group cohort.

- o With respect to the "Assumptions" tab of the mortality table spreadsheet, we would recommend:

  - Use of a drop down to select "Active" or "Total" in cell F4 as opposed to manual entry by the user; and

  - Incorporating a toggle to include or exclude the effects of mortality improvement.

- o Although statutory guidance as to how the subject mortality and lapse tables are to be applied in determining contract reserves is perhaps beyond the scope of feedback that is being sought at this time, we thought that the following comments might prove to be helpful to the LTCAWG prospectively:

  - With respect to lapse rates, it is not clear whether there is an expectation that they be capped at the lesser of the proposed table rate and the voluntary lapse rate used in the calculation of the gross premium. We believe that it would be appropriate and consistent with current valuation considerations to cap the lapse rate at 100% of the voluntary lapse rate used in the calculation of the gross premium; and

  - Since current valuation mortality tables used for LTC are not expressed on both an active and total life basis, it would seem appropriate to include guidance as to which basis should be used, and whether once determined, the selection is "locked-in" for the life of the contracts.

- Specific comments related to areas of emphasis identified by LTCAWG:

1. *The Academy recommendation includes optional use of adjustment factors for marital status and risk class. However, the Academy is not recommending specific factors. Should only the aggregate mortality and lapse tables be adopted, or should the use of marital status and risk class adjustments be allowed?*

   Consistent with the gradual migration toward principle-based reserve (PBR) approaches for other products, we believe that the use of such adjustments should be permitted. However, consistent with PBR philosophy generally, the rationale for and supporting analysis justifying such adjustments should be documented and certified by a qualified actuary (as further discussed in response to #2 below).

2. *If regulators allow for the use of the adjustments for marital status and risk class, what guardrails should be put in place, if any, for the use of these factors? What kind of testing, certification, and/or demonstration should be required to support the use of such factors?*

We believe that documentation of the factor development, including supporting rationale and how the factors meet moderately adverse conditions, should be required, similar to what is in place today for PBR and cash flow testing.

3. *If regulators allow the use of the adjustments for marital status and risk class, should companies be required to use them for all blocks of LTCI, or should companies be given a choice to use aggregate tables for some blocks and tables with adjustments for marital status and/or risk class for other blocks?*

We believe that companies should have discretion to use different approaches for different blocks of business based on documented objective criteria, e.g., materiality. Requiring specific documentation of the objective criteria would mitigate the potential for "cherry-picking" that could otherwise be used to treat two similar blocks of business differently with the intent of minimizing reserves.

4. *If regulators allow the use of the adjustments for marital status and risk class, should companies be required to use them consistently for mortality and lapse (either use the aggregate table for both mortality and lapse, or use adjusted table for both mortality and lapse)?*

We believe that companies should have discretion to use different approaches for mortality vs. lapse based on documented objective criteria, e.g., application of the adjustment is material for mortality, but not for lapse. Choices that are made just to minimize reserves should not be allowed.

5. *The valuation mortality table recommended by the Academy includes 11 years of mortality improvement from the middle of the experience period (2008-2011) through year-end 2020. Should valuation use a static table, or would it be more appropriate to use generational mortality, including future mortality improvements, similar to the valuation tables used for annuities?*

We support the use of generational mortality, including future mortality improvements. We also believe that morbidity improvement could be considered if mortality improvement is used (with appropriate margins to cover moderately adverse conditions).

Thank you for the opportunity to provide comments on this important initiative. Please don't hesitate to contact us if you or other LTCAWG members have any questions.

Sincerely,

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