**AG 51 GUIDANCE DOCUMENT – YEAR-END 2018 [with 1/9/2019 CLARIFICATION – see II.i.]**

Below is a request for information related to companies’ long-term care insurance (LTC) asset adequacy testing that is being sent to each company filing an Actuarial Guideline 51 (AG 51) Memorandum. The request is related to a Valuation Analysis Review Group of the National Association of Insurance Commissioners project to review AG 51 reserve analysis. For each of the items below, please provide an answer or point to the section and page in the AG 51 filing where the item is addressed. The same confidentiality standards will apply to this information as applied to the AG 51 memorandum.[[1]](#endnote-1) The response should be sent as separate section of the AG 51 filing on the AG 51 filing due date.

**I. Inforce**

a. Provide charts containing the distribution of business (number of lives) by issue age band, issue year, coverage type, inflation protection, benefit period, and premium payment period. For premium payment period, distinguish between inforce policyholders with lifetime premium periods, inforce policyholders with limited-pay premium periods but still paying premiums, and inforce policyholders no longer paying premiums. In these charts, please exclude policyholders on claim.

**II. Morbidity**

In this context, morbidity refers to claim incidence rates, length of claim, and claim utilization.

a.  Provide the year of the most recent morbidity study applied to support the company’s morbidity assumptions and provide the data period covered in the study.

b. Discuss the general trend in morbidity experience and expectations over the past year and past several years at the company.

c.  Discuss the relevance of outside morbidity data applied to support the company’s morbidity assumptions, along with how that data was adjusted to fit the company’s circumstance and how the fit was determined to be appropriate.  Explain how validation to historical company experience was performed.

d. Discuss whether and how the morbidity assumptions were compared with industry-average morbidity rates, such as a Society of Actuaries’ study.  Is there a reason for company assumptions to be higher or lower than industry average experience, such as benefits provided, policy provisions, underwriting standards, or claims practices?

e.  Discuss how morbidity assumptions for attained ages 85 and over were set in light of potential gaps in availability, credibility, and relevance of supporting data.

f.  Discuss whether the company expects changes in morbidity assumptions in upcoming years as older-age experience develops.  Describe how the company added margin to the morbidity assumption to address a potential increase in morbidity expectations.  Does any sensitivity testing of the impact of adverse developments in morbidity appropriately address the level of potential increase?

g.  Discuss assumed morbidity improvement (if applicable) and the basis for that assumption. Is the assumption supported by company experience?

h. Where applicable, provide an overview of changes in morbidity assumptions from those used in the previous AG 51 filing, including the basis for any changes.

i. To help in understanding the morbidity assumption, calculate the present value of future benefits as of policy duration 10 of the following set of policies, each with $150 initial daily benefits, 2 ADL or severe cognitive impairment trigger, and 85- to 105-day elimination period:

i. Female, issue age 55, lifetime benefits, 5% compound inflation

ii. Female, issue age 70, lifetime benefits, 5% compound inflation

iii. Female, issue age 55, lifetime benefits, no inflation

iv. Female, issue age 70, lifetime benefits, no inflation

v. Female, issue age 55, 3-year benefits, 5% compound inflation

vi. Female, issue age 70, 3-year benefits, 5% compound inflation

vii. Female, issue age 55, 3-year benefits, no inflation

viii. Female, issue age 70, 3-year benefits, no inflation

For each calculation, use the following pricing assumptions for the following factors:

- Ultimate, annual voluntary lapse of 0.5%

- 2012 IAR mortality applied to active lives **[CLARIFICATION 1/9/2019 – SEE APPENDIX 1]**

- 4% discount rate

- Assume the most preferred underwriting classification that contains at least 30% of the lives

- Assume a single female with no partner discount.

Use the company’s assumptions on claims’ incidence, length of claim, benefit utilization, and any other morbidity-related aspect.

**III. Reinsurance treaty information**

a. Provide information on any new LTC-related reinsurance transactions or significant changes to existing LTC-related treaties that occurred in 2018.

**IV. Sensitivity Tests**

If the company performed cash-flow testing, provide the present value of ending surplus in a level interest-rate scenario using baseline assumptions. If the company performed a gross premium valuation, provide the resulting value using baseline assumptions. Also, provide the same values using all baseline assumptions except:

a. No morbidity improvement and no mortality improvement.

b. No morbidity improvement but with mortality improvement.

c. No future, non-approved premium rate increases.

d. Net yield pickup on existing and reinvestment assets capped at 150 basis points above Treasury yields at the time the asset was purchased or will be purchased. This cap applies as an average over the entire portfolio supporting the LTC block.

[CLARIFICATION – 1/9/2019]

**APPENDIX 1 – 2012 IAR APPLICATION**

Please use the following mortality rates in the Section II.i. present value of future benefits calculations. If a company has already performed the calculation using different mortality rates, that is fine as long as the approach used is clearly identified.

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| 2012 IAR | Policy issued | 1/1/2009 |
| Duration | Age 55 Female | Age 70 Female |
| 1 | 0.001950 | 0.009074 |
| 2 | 0.002154 | 0.009910 |
| 3 | 0.002399 | 0.010827 |
| 4 | 0.002700 | 0.011839 |
| 5 | 0.003014 | 0.012805 |
| 6 | 0.003371 | 0.013913 |
| 7 | 0.003765 | 0.015191 |
| 8 | 0.004184 | 0.016655 |
| 9 | 0.004621 | 0.018342 |
| 10 | 0.005091 | 0.020311 |
| 11 | 0.005608 | 0.022648 |
| 12 | 0.005900 | 0.025741 |
| 13 | 0.006257 | 0.029162 |
| 14 | 0.006692 | 0.033420 |
| 15 | 0.007197 | 0.038347 |
| 16 | 0.007755 | 0.043430 |
| 17 | 0.008360 | 0.049589 |
| 18 | 0.009015 | 0.056425 |
| 19 | 0.009729 | 0.063959 |
| 20 | 0.010523 | 0.071050 |
| 21 | 0.011434 | 0.079783 |
| 22 | 0.012484 | 0.087482 |
| 23 | 0.013687 | 0.097524 |
| 24 | 0.015073 | 0.106926 |
| 25 | 0.016691 | 0.120397 |
| 26 | 0.018612 | 0.134089 |
| 27 | 0.021477 | 0.149474 |
| 28 | 0.024332 | 0.167194 |
| 29 | 0.028311 | 0.181957 |
| 30 | 0.032981 | 0.202339 |
| 31 | 0.037353 | 0.218582 |
| 32 | 0.043301 | 0.237794 |
| 33 | 0.050020 | 0.265200 |
| 34 | 0.057562 | 0.286361 |
| 35 | 0.063945 | 0.317591 |
| 36 | 0.072896 | 0.340362 |
| 37 | 0.079931 | 0.362371 |
| 38 | 0.090460 | 0.384113 |
| 39 | 0.099181 | 0.400000 |
| 40 | 0.113372 | 0.400000 |
| 41 | 0.126265 | 0.400000 |
| 42 | 0.140752 | 0.400000 |
| 43 | 0.159826 | 0.400000 |
| 44 | 0.173939 | 0.400000 |
| 45 | 0.196353 | 0.400000 |
| 46 | 0.212115 | 0.400000 |
| 47 | 0.230760 | 0.400000 |
| 48 | 0.261249 | 0.400000 |
| 49 | 0.282095 | 0.400000 |
| 50 | 0.317591 | 0.400000 |
| 51 | 0.340362 | 1.000000 |
| 52 | 0.362371 |  |
| 53 | 0.384113 |  |
| 54 | 0.400000 |  |
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| 56 | 0.400000 |  |
| 57 | 0.400000 |  |
| 58 | 0.400000 |  |
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1. AG 51 provides uniform guidance for the asset adequacy testing applied to a company’s LTC block of contracts, and is effective for reserves reported with respect to the Dec. 31, 2017, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 51 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements, and continue to remain confidential in nature. [↑](#endnote-ref-1)