Draft date: 3/1/24

2024 Spring National Meeting
Phoenix, Arizona

HEALTH ACTUARIAL (B) TASK FORCE
Friday, March 15, 2024
2:30 – 4:00 p.m.
Valley of the Sun Ballroom C-E - Sheraton - Level 2

ROLL CALL

Anita G. Fox, Chair - Michigan
Jon Pike, Vice Chair - Utah
Mark Fowler - Alabama
Ricardo Lara - California
Michael Conway - Colorado
Andrew M. Mais - Connecticut
Michael Yaworsky - Florida
Gordon I. Ito - Hawaii
Dean L. Cameron - Idaho
Amy L. Beard - Indiana
Doug Ommen - Iowa
Vicki Schmidt - Kansas
Robert Carey - Maine
Kathleen A. Birrane - Maryland
Grace Arnold - Minnesota

Chlora Lindley-Meyers - Missouri
Eric Dunning - Nebraska
D.J. Bettencourt - New Hampshire
Justin Zimmerman - New Jersey
Judith L. French - Ohio
Glen Mulready - Oklahoma
Michael Humphreys - Pennsylvania
Alexander S. Adams Vega - Puerto Rico
Cassie Brown - Texas
Jon Pike - Utah
Scott A. White - Virginia
Mike Kreidler - Washington

NAIC Support Staff: Eric King

AGENDA

1. Consider Adoption of its Feb. 20 Minutes—Kevin Dyke (MI) Attachment One

2. Receive an Update from the Long-Term Care Actuarial (B) Working Group—Fred Andersen (MN)

3. Hear an Update on Society of Actuaries (SOA) Research Institute Activities—Kate Eubank and Achilles Natsis (SOA)

4. Hear a Presentation on SOA Education Redesign—Ann Weber (SOA)

5. Hear an Update from the Federal Center for Consumer Information and Insurance Oversight (CCIIIO)—(CCIIIO)
6. Hear an Update from the American Academy of Actuaries (Academy)  
   Health Practice Council — Matthew Williams (Academy)

7. Hear an Academy Professionalism Update—Lisa Slotznick, Kevin Dyke,  
   and Shawna Ackerman (Academy)

8. Discuss Any Other Matters Brought Before the Task Force  
   — Kevin Dyke (MI)

9. Adjournment
The Health Actuarial (B) Task Force met Feb. 20, 2024. The following Task Force members participated: Anita G. Fox, Chair, represented by Kevin Dyke (MI); Jon Pike, Vice Chair, represented by Ryan Jubber (UT); Mark Fowler represented by Sanjeev Chaudhuri (AL); Michael Conway represented by Eric Unger (CO); Andrew N. Mais represented by Paul Lombardo (CT); Michael Yaworsky represented by Kyle Collins (FL); Gordon I. Ito represented by Max Tang (HI); Doug Ommen represented by Klete Geren (IA); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Kathleen A. Birrane represented by Brad Boban (MD); Timothy N. Schott represented by Marti Hooper (ME); Grace Arnold represented by Julia Lyng (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-Min Eom (NJ); Judith L. French represented by Craig Kalman (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Dave Yanick (PA); Alexander S. Adams Vega represented by Carlos Valles (PR); Cassie Brown represented by Aaron Hodges (TX); and Mike Kreidler represented by Lichiou Lee (WA).

1. **Adopted its 2023 Fall National Meeting Minutes**

Muldoon made a motion, seconded by Lombardo, to adopt the Task Force’s Nov. 30, 2023, minutes (see NAIC Proceedings – Fall 2023, Health Actuarial (B) Task Force). The motion passed unanimously.

2. **Adopted an AG 51 Proposal**

Dyke introduced a proposal received from the Long-Term Care Actuarial (B) Working Group (Attachment XX) to add language to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) that clarifies that regardless of which annual statement blank an insurer files, it must make an AG 51 filing if the AG 51 filing requirement criteria are met.

Leung made a motion, seconded by Schallhorn, to adopt the proposal. The motion passed unanimously.

Dyke said the proposal will be forwarded to the Long-Term Care Actuarial (B) Task Force for its consideration.

3. **Discussed an Academy/SoA 2013 IDIVT Update Proposal**

Jay Barriss (Lincoln Financial) said the Society of Actuaries (SOA) Individual Disability Insurance Experience Committee (IDIEC) plans to put together an experience study that would involve both claim termination rates and claim incidence rates in order to update its current experience study that reflects experience only through 2007. He said the proposed study would be used to update the 2013 Individual Disability Income Valuation Tables (IDIVT) used as a reserving standard. He said recent experience indicates lower mortality rates and claim termination rates that are 40%–50% lower than those in the experience the 2013 IDIVT was based on. Barriss said lower claim termination rates imply that disabled life reserves calculated using the 2013 IDIVT may not be sufficient. He said the IDIEC hopes to implement a study in 2024 using experience data through 2023. He said active life reserves are also impacted by newer experiences, and incidence rates have improved in the industry over the last 15–20 years. Barriss said there is an expectation that the active life reserves are excessive compared to the 2013 IDIVT, and the current incidence experience is probably 30%–40% better than in those tables. He said most of the liability is on
the disabled life reserve side and thinks that, in the aggregate, once the study is completed, we will see an increase in the disabled life reserves and a decrease in the active life reserves, with an increase in the total reserves needed.

Barriss said the SOA is still in the funding stage of the project and has reached out to solicit carriers to participate in the study. He said that given the new SOA funding requirements, there would need to be enough carriers willing to buy the final report for approximately $25,000 each to begin the work on the report. He said the SOA has been unable to obtain sufficient companies interested in buying the report to fund the study. Dyke said if Barriss can provide a list of companies that have been identified as likely participants, the Task Force could perhaps reach out to them to discuss the opportunity. He said the Task Force can also discuss the issue with the SOA in the future.

4. **Discussed an SOA VM-26 Credit Disability Update Proposal**

Dyke presented an amendment proposal form (APF) (Attachment XX) to revise VM-26, Credit Life and Disability Reserve Requirements, Section 3.B. Contract Reserves for Credit Disability Insurance, and supporting documents according to the changes (Attachment XX, Attachment XX). Christopher Hause (Hause Actuarial Solutions) gave an overview of the APF and supporting documents. He said the 2023 study shows a significant redundancy relative to the current valuation standards.

Dyke said the APF and supporting documents will be exposed for public comment until March 22.

Having no further business, the Health Actuarial (B) Task Force adjourned.
American Academy of Actuaries
Health Practice Council Updates
Spring 2024

March 15, 2024
Health Actuarial (B) Task Force (HATF) Meeting

Matthew Williams, JD, MA
Senior Health Policy Analyst, Health
American Academy of Actuaries
The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.

The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit: www.actuary.org
Policy Priorities for 2024

• Health equity
• Public health challenges
• Insurance coverage and benefit design
• Health care costs and quality
• Medicare sustainability
• Long-term services and supports
• Financial reporting and solvency
• Professionalism
Activity Since Fall National Meeting

Public Comments

• HHS/CMS’ proposed 2025 Notice of Benefit and Payment Parameters rule
• CMS/CCIIO’s Draft 2025 Actuarial Value Calculator Methodology
• DOL/EBSA’s proposed rescinding of Definition of Employer—Association Health Plans
• Senate HELP Committee access to gene therapies for patients with an ultra-rare disease RFI
HRBC (E) Working Group Meeting (February 22)

- Verbal updates shared on the H2-Underwriting Review project
- Discussed comments received on the Nov. 8, 2023, H3—Health Care Receivables Presentation
Questions?

Matthew Williams, JD, MA
Senior Health Policy Analyst, Health
American Academy of Actuaries
williams@actuary.org
Presentation Disclaimer

The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented.
Calculated Risk: Driving Decisions Using the 5/50 Research

Can you answer these questions?

• What is the probability you will lose more than $1 million?

• If you missed a projection by over $1 million, was it because the projection was wrong or because of random variation?

The TRA Framework

Total Risk

Projection Risk

Random Variation Risk

Total Risk Analysis (TRA) provides a framework for consistently answering questions like these.
The Total Risk Analysis (TRA) Process

Step 1
Choose a cost distribution

Step 2
Develop the projection risk table

Step 3
Calculate risk measures

Step 4
Develop the TRA table
What Is a Cost Distribution?

**Cost Distribution**

<table>
<thead>
<tr>
<th>Distribution of Member Months</th>
<th>Allowed Cost Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 50%</td>
<td>44% 1%</td>
</tr>
<tr>
<td>Top 25% to 50%</td>
<td>27% 7%</td>
</tr>
<tr>
<td>Top 10% to 25%</td>
<td>17% 15%</td>
</tr>
<tr>
<td>Top 5% to 10%</td>
<td>6% 13%</td>
</tr>
<tr>
<td>Top 5%</td>
<td>6% 63%</td>
</tr>
<tr>
<td>Combined</td>
<td>100% 100%</td>
</tr>
</tbody>
</table>

**Claims Probability Table**

<table>
<thead>
<tr>
<th>Distribution of Member Months</th>
<th>Allowed Cost Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 50%</td>
<td>44% $15</td>
</tr>
<tr>
<td>Top 25% to 50%</td>
<td>27% $125</td>
</tr>
<tr>
<td>Top 10% to 25%</td>
<td>17% $446</td>
</tr>
<tr>
<td>Top 5% to 10%</td>
<td>6% $1,162</td>
</tr>
<tr>
<td>Top 5%</td>
<td>6% $5,335</td>
</tr>
<tr>
<td>Combined</td>
<td>100% $500</td>
</tr>
</tbody>
</table>

- A cost distribution is a **type** of probability distribution function, like a binomial distribution.

- A claims probability table is a specific probability distribution function where the defining parameter is the expected mean, in this case a candidate key value.
### How Can You Lose $1 Million?
- Your projection could be wrong or

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Population Distribution</th>
<th>Expected PMPY</th>
<th>Actual PMPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>200</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>$1 - $5,000</td>
<td>700</td>
<td>$3,000$</td>
<td>3,600</td>
</tr>
<tr>
<td>$5,001 - $10,000</td>
<td>50</td>
<td>$7,000$</td>
<td>8,400</td>
</tr>
<tr>
<td>$10,001 - $100,000</td>
<td>40</td>
<td>$32,875$</td>
<td>39,450</td>
</tr>
<tr>
<td>$100,001 - $1,000,000</td>
<td>9</td>
<td>$15,000$</td>
<td>18,000</td>
</tr>
<tr>
<td>Over $1,000,000</td>
<td>1</td>
<td>$1,100,000$</td>
<td>1,320,000</td>
</tr>
<tr>
<td>Combined</td>
<td>1,000</td>
<td>$5,000$</td>
<td>6,000</td>
</tr>
</tbody>
</table>

Both the actual and expected numbers assume the same distribution of members.
Or...It Could Be Due to Random Variation!

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Population Distribution</th>
<th>Expected PMPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Col. 1.</td>
<td>Col. 2.</td>
<td>Col. 3.</td>
</tr>
<tr>
<td>$0</td>
<td>199 $</td>
<td>$ -</td>
</tr>
<tr>
<td>$1 - $5,000</td>
<td>700 $</td>
<td>3,000 $</td>
</tr>
<tr>
<td>$5,001 - $10,000</td>
<td>50 $</td>
<td>7,000 $</td>
</tr>
<tr>
<td>$10,001 - $100,000</td>
<td>40 $</td>
<td>32,875 $</td>
</tr>
<tr>
<td>$100,001 - $1,000,000</td>
<td>9 $</td>
<td>15,000 $</td>
</tr>
<tr>
<td>Over $1,000,000</td>
<td>2 $</td>
<td>1,100,000 $</td>
</tr>
<tr>
<td>Combined</td>
<td>1,000 $</td>
<td>6,100 $</td>
</tr>
</tbody>
</table>

**Bottom line:** Risk is 2-dimensional and total risk must consider both dimensions
Cost Per Member Trend Highest for Top spenders

- **Top Spender Trend**
  - Specialty drugs
  - Long-haul COVID

- **Adjustments**
  - Some adjustment may be necessary, even for stable, credible populations
Transition Probabilities Measure Movement by Spending Category

**Commercial Transition Probabilities for Top 5%**

- About 25% of top 5% of spenders in one year are also in the top 5% the next year
- Consistent with the theoretical basis
- Persistent top spenders
  - Multiple sclerosis
  - HIV
  - Cystic fibrosis
  - Cancer
Source Distributions Track Where Top Spenders Come From

**Source distributions for Top 5%, Commercial**

- About 26% of top 5% in any year were also top spenders in the prior year
- Many top spenders were not in the plan the previous year
Step 1: Choose a Cost Distribution

Coefficient of Variation

Our choice: 2017 Commercial trended to 5.0 coefficient of variation
### Step 4. Develop the TRA Table

<table>
<thead>
<tr>
<th>Row</th>
<th>Scenario Description</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Scenario Description</td>
<td>2+ Std Devs</td>
<td>1 to 2 Std Devs</td>
<td>+/- 1 Std Dev From Mean</td>
<td>1 to 2 Std Devs</td>
<td>2+ Std Devs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Below Mean</td>
<td>Below Mean</td>
<td>From Mean</td>
<td>Above Mean</td>
<td>Above Mean</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Scenario Probability</td>
<td>2.3%</td>
<td>13.6%</td>
<td>68.3%</td>
<td>13.6%</td>
<td>2.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>c.</td>
<td>Candidate Value</td>
<td>$460</td>
<td>$479</td>
<td>$500</td>
<td>$521</td>
<td>$537</td>
<td>$500</td>
</tr>
<tr>
<td>d.</td>
<td>Expected Gain/Loss</td>
<td>$52.74</td>
<td>$33.96</td>
<td>$12.81</td>
<td>(8.34)</td>
<td>(24.13)</td>
<td>$12.87</td>
</tr>
<tr>
<td>e.</td>
<td>Probability of Exceeding the Budget</td>
<td>0.0%</td>
<td>0.2%</td>
<td>15.3%</td>
<td>73.9%</td>
<td>96.4%</td>
<td>22.7%</td>
</tr>
<tr>
<td>f.</td>
<td>Probability of Losing &gt; $6 Million</td>
<td>0.0%</td>
<td>0.0%</td>
<td>2.1%</td>
<td>37.5%</td>
<td>80.7%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

**Step 1: Choose a cost distribution**

**Step 2: Develop the projection risk table**

**Step 3: Calculate risk measures**

**Step 4: Develop the TRA table**
Available on SOA website

https://www.soa.org/resources/research-reports/2023/calculatedrisk-using-550research/
Focus on Long-Term Care Experience Studies

• Discussions continue on ways to partner with industry and regulators on the next LTC Experience Study
  • Looking to do an updated comprehensive LTCI experience study on claim incidence, claim continuance, and claim utilization
  • Education program provided by SOA to NAIC and state regulatory staff on LTCI experience trends and impact of the COVID era on LTCI claims
• Access to SOA staff and LTC Experience Committee on key LTCI experience trends
Additional Health Research
<table>
<thead>
<tr>
<th>Project Name</th>
<th>Objective</th>
<th>Expected Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Weather Extremes - California Precipitation February 3 - 7, 2024</td>
<td>Highlight observations for extreme weather events across North America</td>
<td><a href="https://www.soa.org/resources/research-reports/2019/weather-extremes/">https://www.soa.org/resources/research-reports/2019/weather-extremes/</a></td>
</tr>
<tr>
<td>Calculated Risk: Driving Decisions Using the 5/50 Research</td>
<td>Validate the 5/50 Premise through % of total costs and average allowed annual costs by percentile grouping. Analyze ability to predict the 5% based on prior claims and risk factors. Calculate Transition probabilities between different groups.</td>
<td><a href="https://www.soa.org/resources/research-reports/2023/calculatedrisk-using-550research/">https://www.soa.org/resources/research-reports/2023/calculatedrisk-using-550research/</a></td>
</tr>
<tr>
<td>HCCT152 - Healthcare Provider Shortage Impact to Morbidity</td>
<td>This research will study the impacts on growing provider shortages on the cost and utilization of healthcare</td>
<td><a href="https://www.soa.org/resources/research-reports/2023/provider-consolidation-shortage/">https://www.soa.org/resources/research-reports/2023/provider-consolidation-shortage/</a></td>
</tr>
<tr>
<td>Reimagining Pharmacy Financing</td>
<td>A follow-up to the Reimagining Pharmacy gathering in the Spring, this research will look to define and measure the value of different drugs for the same drug class and then also suggest methodologies for rewarding value.</td>
<td>3/8/2024</td>
</tr>
<tr>
<td>Modeling of Reform Proposals for LTC System Improvements</td>
<td>Assesses the impact of reform proposals for LTC system changes on stakeholders including consumers.</td>
<td>5/15/2024</td>
</tr>
</tbody>
</table>