

I Don't Have to Worry About PBR for Health Insurance, Right?

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Well, we hate to say it, but that is not correct. While it may be true that, in general, the current post-PBR standards are similar to the pre-PBR standards at the moment, the truth clarifies that health insurance is indeed impacted by the revisions to the Standard Valuation Law (SVL) adopted by the National Association of Insurance Commissioners (NAIC) in 2009.

Perhaps the first thing to note about the acronym PBR, which stands for principle-based reserves. This acronym is typically associated with the new statutory reserving standards that the NAIC has developed that specify the requirements for a principle-based valuation for life insurance products and the preparation of a PBR Report. However, it is important to note that these standards for life insurance were developed pursuant to the 2009 revisions to the SVL noted above that have been adopted by the vast majority of states.

The truth is that health insurance is indeed impacted by the revisions to the Standard Valuation Law (SVL) adopted by the National Association of Insurance Commissioners (NAIC) in 2009.

The 2009 revisions to the SVL set forth a new framework for establishing statutory reserves for all policies that are subject to the SVL (i.e., life insurance contracts, annuity and pure endowment contracts, accident and health insurance contracts, and deposit type contracts) starting with policies issued in 2017. Specifically, the new framework includes the development of a valuation manual (VM) which prescribes the minimum required standards of valuation for all policies subject to the SVL that are issued on or after the operative date of the VM, which is Jan. 1, 2017, in all states that have adopted the 2009 revisions to the SVL to date. For accident and health insurance policies that are issued on or after Jan. 1, 2017, the minimum required standards of valuation will now be established by the VM rather than state laws or

regulations for companies that are domiciled in states that have adopted the 2009 revisions to the SVL with a couple of exceptions that we will touch on briefly below. Thus, in general, issuers will need to adhere to the standards prescribed in the VM rather than prior state standards in developing reserves for accident and health insurance for policies issued on or after Jan. 1, 2017.

The good news is that, in general, the standards prescribed in the VM for accident and health insurance (i.e., the post-PBR standards) are similar to the existing state standards (i.e., the pre-PBR standards). Specifically, the 2009 revisions to the SVL require the VM to specify which policies or contracts are subject to a principle-based valuation and the minimum valuation standards for those policies. For policies not subject to a principle-based valuation (as defined in the valuation manual regardless of the extent of PBR-like use of a combination of company assumptions and industry data) the minimum standard must: 1) be consistent with the standard of valuation prior to the operative date of the valuation manual; or 2) develop reserves that quantify the benefits, guarantees and funding associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring. With respect to the exceptions we noted above, a commissioner may prescribe a minimum valuation standard in the absence of a specific valuation requirement or if he or she is of the opinion that a specific requirement of the VM is not in compliance with the SVL. The latter would be considered a prescribed practice to be communicated in the footnotes. The commissioner may also require a company to change any assumption or method as deemed necessary to comply with the VM or the SVL.

The VM is updated regularly and a new edition of the VM is published to reflect the updates. In general, any changes are effective Jan. 1 of the year following the changes. The current version of the VM is titled the "Jan. 1, 2018 Edition." Section II of the VM provides the minimum reserve requirements by type of product. The 2018 edition of the VM states that the minimum reserve requirements for accident and health insurance contracts, other than credit disability, are those required by VM-25, "Health Insurance Reserves Minimum Reserve Requirements," and VM-A and VM-C requirements, as applicable.

VM-25 states that the requirements for individual accident and health insurance policies issued on or after the valuation manual operative date are applicable requirements found in the Accounting Practices and Procedures Manual (APPM),

Appendix A, which includes A-010, "Minimum Reserve Standards for Individual and Group Health Insurance Contracts"; and applicable requirements found in APPM Appendix C, which includes "Actuarial Guideline XXVIII—Statutory Claim Reserves For Group Long-Term Disability Contracts With a Survivor Income Benefit Provision (AG 28)"; "Actuarial Guideline XLIV—Group Term Life Waiver of Premium Disabled Life Reserves (AG 44)"; "Actuarial Guideline XLVII—The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table (AG 47)"; and "Actuarial Guideline L—2013 Individual Disability Income Valuation Table (AG 50)". It also includes a clarification to ensure that the maximum interest rate for claim reserves remains unchanged from the current requirement. VM-A and VM-C include applicable reserve requirements from Appendix A and Appendix C of the APPM which are to be used for policies issued on or after the operative date of the VM.

Credit disability is defined in Section II of the VM. The minimum reserve requirements for credit life, credit disability and other credit related insurance issued on or after the operative date of the VM are provided in VM-26, "Credit Life and Disability Reserve Requirements." The requirements in VM-26 are intended to emulate the existing treatment of credit life and disability products in the APPM including requirements applicable to credit insurance in SSAP 59, "Credit Life and Accident and Health Insurance Contracts"; A-010, "Minimum Reserve Standards for Individual and Group Health Insurance Contracts"; and A-818, "Determining Reserve Liabilities for Credit Life Insurance Model Regulation."

Section III of the VM states that the requirements regarding the actuarial opinion and memorandum pursuant to the SVL are provided in VM-30, "Actuarial Opinion and Memorandum Requirements." Currently VM-30 states that it is the intent to allow the annual statement instructions to address all issues relating to the actuarial opinion and memorandum for the health annual statement or the property and casualty annual statement.

As noted above, the VM is updated regularly, and the NAIC's Health Actuarial Task Force (HATF) is currently considering in which part of the VM should "Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51)" be incorporated and whether existing reserving mortality table requirements need to be updated to reflect reserving standards for short-term and long-term care policies. Also, there are complexities that are being discussed related to the fact that the VM standards are applicable to policies issued on or after the operative date of the VM whereas standards for claim reserves for disability income contracts vary depending on the claim incurred date.

In summary, for states that have adopted the 2009 revisions to the SVL, standards for accident and health insurance contracts will be established by the VM rather than state laws and regulations. The current standards specified in the VM for accident and health insurance contracts are based on existing NAIC model laws, regulations and standards in the APPM and annual statement instructions. So, to the extent a state has adopted the most recent versions of applicable NAIC models without exception and does not have any state specific accident and health insurance requirements or permitted or prescribed practices that differ from the standards in the APPM or other differences, the impact on companies domiciled in those states is relatively minor. The companies that will feel the most impact will be those that are domiciled in states that have different standards for accident and health insurance reserves than those contained in the current NAIC standards.

So, we would argue that you do need to worry about PBR for health insurance. If your company is domiciled in a state that has adopted the 2009 revisions to the SVL, we would encourage you to identify any differences in state standards applicable to accident and health insurance contracts prior to the operative date of the VM and the current NAIC standards. We would also encourage you to monitor the activities of the NAIC as they relate to the development of reserving standards for accident and health insurance contracts since these standards, particularly the standards developed by HATF, will very likely be applicable to your company once they are adopted by the NAIC. Finally, it is certainly possible at some future date that the valuation manual could apply PBR requirements to accident and health insurance contracts (e.g., specific credibility rules for use of company experience, data collection for industry experience when company data is not fully credible, the continual updating of reserve assumptions and inclusion of health insurance in the PBR Report). So, we would encourage you to keep abreast of the evolving standards and deliberations.



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