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December 18, 2007

AGENDA ITEM 9c

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Fiscal Year 2007-2008 First Quarter Long-Term Care Valuation Report

II. PROGRAM: Long-Term Care Program

III. RECOMMENDATION: Information Only

IV. ANALYSIS:

Summary of 2007 First Quarter Report

The annual valuation as June 30, 2007 includes "base case" scenario results both before and after the project impact of rate actions recently adopted by the Board of Administration (Board). The results of these "base case" scenarios referenced above are as follows:

- Before Rate Increase: Projected deficit of approximately 42.9 percent of the present value of future premiums or $822.6 million.
- After Rate Increase: Projected deficit of approximately 5.7 percent of the present value of future premiums or $147.7 million.

A number of assumptions had to be made in order to develop the "After Rate Increase" scenario. The primary purpose of updating the annual valuation using inforce data as of September 30, 2007, was to substitute actual data/information for many of the assumptions used.

The Program's outside actuary, United Health Actuarial Services (UHAS), utilized the 2007 annual valuation assumptions and process with the following exceptions:

- The UHAS substituted inforce data as of September 30, 2007 for the corresponding inforce data as of June 30, 2007; and
- For each of the policies on claim as of June 30, 2007 that lapsed on or before September 30, 2007, UHAS transferred their claim reserve into the corresponding incurred-but-not-reported liability. The UHAS wanted to make sure that no valuation claim dollars were "lost" through the updating process.

Updating the valuation in this manner allowed UHAS to more accurately reflect the impact of the recently implemented rate actions. For example:

- Instead of making one or more assumptions with respect to shock lapses (i.e., lapses directly resulting from the rate increase), UHAS could reflect the impact of the actual lapses occurring between June 30, 2007 and September 30, 2007.
- Instead of making one or more assumptions with respect to benefit changes, UHAS could reflect the impact of actual benefit changes occurring between June 30, 2007 and September 30, 2007.
- Instead of making one or more assumptions with respect to the ultimate impact on rate-levels of the implemented rate increase, UHAS could reflect the impact of actual inforce rate levels as of September 30, 2007 (i.e., three months after nearly all of the rate increases were implemented).

The updated deficit is lower than the corresponding projected deficit in the annual valuation report given the assumptions and methodology described above – it has decreased to approximately 1.5 percent of the present value of future premiums or $38 million. As a reminder, the Board approved rate increase was not expected to restore "base case" valuation results to a non-deficit position in the short-term, but rather, over time.

V. STRATEGIC PLAN:

This Item relates to Strategic Goal 10: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VI. RESULTS/COSTS:

Information Only

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Attachment