Actuarial Valuation of the State of Alaska Long Term Care Program as of 5/31/2012

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Ms. Monica DeGraff
Consultant, Health and Productivity
Buck Consultants, an ACS company
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Denver, CO 80202

RE: VALUATION OF THE STATE OF ALASKA LONG TERM CARE PROGRAM

Dear Monica:

This report provides actuarial values and projections of the State of Alaska Long Term Care Program as of May 31, 2012.

Section I outlines the scope of and qualifications related to the analysis. Results are summarized in Section II. Key actuarial assumptions are provided in Section III. In Section IV, we reconcile the current results to those from the prior valuation completed as of June 2009. Results of sensitivity testing are provided in Section V.

Appendix A summarizes methodology, models and actuarial assumptions used in the analysis. Appendix B provides experience analysis of historical persistency and claims. Appendix C provides detailed projection results.

We are available to answer any questions regarding the assumptions and methods used to develop these projections. Please contact us with any questions.

Sincerely,

Peggy Hauser

Peggy L. Hauser, FSA, MAAA
Senior Vice President
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SECTION I

Introduction and Qualifications

Univita was retained by Buck Consultants to perform an actuarial analysis of the State of Alaska's long term care (LTC) program. Specifically, our assignment was to develop a projection of future cash flows and to evaluate the adequacy of current assets and premium levels based on those cash flows.

Univita is frequently engaged to prepare actuarial projections of LTC insurance products. The approach followed in this situation is consistent with methods we have generally employed in previous engagements.

This report has been prepared for Buck Consultants and the State of Alaska. Any distribution of this report must be in its entirety.

The validity of these cash flow projections depends on how well future experience conforms to our assumptions. Assumptions for future morbidity, persistency, expenses, investment return, and other actuarial factors are based upon our evaluation of recent experience and anticipated future trends for this block of business. The assumptions are selected to be best estimate assumptions with no margin for conservatism. Actual experience may be more or less favorable than the assumptions underlying the amounts provided in this report. To the extent actual experience is different from the assumptions underlying this report, so will actual results differ from the results in this report.

Valuation Approach

We have generated expected future cash flows for the current inforce block and compared the present value of those future net cash flows to current assets. We have not generated liabilities and reserves consistent with statutory reporting requirements as this self-funded plan is not subject to such requirements.

Data Reliance

We relied on data and information supplied by State of Alaska personnel. In addition, since Univita administers the claims for these policies, we also relied on data and information supplied by Univita data services personnel. We have not audited or independently verified the information furnished to us. Although we have no reason to suspect the integrity of the underlying data, to the extent that the data is materially flawed, the results of our analysis may be materially impacted. The principal materials relied upon that were provided by State of Alaska and Univita personnel include:

1. Census of State of Alaska members (LTC CENSUS Data for Univita 06132012.xls).

2. Data extracts from Univita administrative system.

3. Financial statements.

4. Plan descriptions.

5. Premium and claim summaries (FY12 LTC-Premiums&ClaimsPaid.xls).

SECTION II

Summary of Results

Valuation Summary

Table 1 summarizes the results of our analysis of the State of Alaska LTC Program as of May 31, 2012. Results presented include the present value of future cash flows for the current inforce. The net cash flow is compared to current total assets to evaluate the adequacy of current assets and premiums. Present values are based on 65 years of projected cash flows.

Table 1 State of Alaska Long Term Care Program Summary of Actuarial Values as of May 31, 2012 (in thousands of dollars)	
Present Value of future:	**@4%**
Collected premiums	**$255,668,628**
Paid claims	**570,351,176**
Administrative expenses	**12,199,954**
Net Cash Flow	**$(326,882,501)**
Comparison to Total Assets	
Total Assets (as of 4/30/12)	**$256,007,618**
Surplus/(Deficit)	**$(70,874,883)**
As a % of future premiums	**(27.7%)**

Our analysis indicates that if experience conforms to our best estimate assumptions, the current assets and rate structure are not sufficient to fund future claims and expenses for the next 65 years.

Summaries of assumptions and experience analyses are provided in Appendices A and B, respectively. Detailed yearly cash flows and projected asset balances are provided in Appendix C.

SECTION III

Summary of Key Assumptions

The Appendices describe the assumptions underlying the results illustrated in this report. The basis of the major assumptions is discussed below.

1. Expected claim costs were developed from Univita's expected LTC incidence rates and continuance tables, adjusted for State of Alaska's experience relative to Univita's expected costs. Actual experience is summarized in Appendix B. Adjustments were made to both the expected claim termination rates and to the future claim actual experience adjustment factor.

2. Lapse rates vary by duration as developed from historical experience through December 2011.

3. Ultimate mortality rates are assumed equal to 85% of the 1994 Group Annuitant Mortality table. We grade into the 85% adjustment over a period of 10 years starting at 45% in the first policy year. This mortality level is consistent with the 2009 valuation and with mortality rates observed on other LTC insurance blocks of business.

4. Expenses are based on TPA fee invoices and State of Alaska Health Fund financial statements.

5. Future investment earnings rates are based on input from Buck Consultants and State of Alaska staff.

6. No rate increases or adjustments to the premium rate schedules are assumed in the projections.

7. The projections include inforce business only. Future new issues are not assumed.

Actual experience may differ from that assumed in the projections. To the extent actual experience is different from the assumptions underlying this report, so will actual results differ from the projected results shown here. Sensitivity of results to changes in assumptions is provided in Section V, Sensitivity Testing Results.

SECTION IV

Reconciliation to Prior Valuation Results

Univita evaluated the adequacy of the State of Alaska's LTC Program as of June 30, 2009. In this section we compare actual program experience since June 2009 to our prior projection values. In addition, we provide intermediate projection results to give insight into how various experience and assumption changes have impacted valuation results.

Comparison of Actual Experience to 2009 Valuation Projections

Table 2 compares actual premium and claim experience to projected values from Univita's valuation report as of June 2009.

Table 2
State of Alaska Long Term Care Program
Comparison of Actual Experience to June 2009 Projected Values
Dollar Values in $1,000s

	Actual Values		Projected Values		Actual/Projected	
Fiscal Year	Collected Premiums	Paid Claims	Collected Premiums	Paid Claims	Collected Premiums	Paid Claims
2010	$19,417	$4,405	$18,563	$5,407	1.05	0.81
2011	20,123	5,057	18,212	6,052	1.10	0.84
2012*	22,096	5,879	17,752	6,737	1.24	0.87
Total	$61,636	$15,341	$54,527	$18,196	1.13	0.84

*Actual FY 2012 values are extrapolated from results through March 2012.

The 2009 valuation was based on inforce lives as of 12/31/2009. The projections did not include any new issues. We find that current inforce includes 2,529 lives that were not inforce as of the previous valuation. As a result, projected premiums were less than actual. The 2009 valuation projected that 19,982 of the initial lives would be inforce at the end of fiscal year 2012. The projected value of 19,982 is slightly lower but very close to the actual surviving inforce of 20,132 from the initial cohort.

Actual paid claims have been less than projected. In 2009 we did not ascribe full credibility to the block's historical experience. At that time, actual experience had been 71% of Univita's expected assumptions. We adjusted future claim experience by a factor of 0.85 to partially recognize program experience. These results indicate that paid claims have continued to be significantly below Univita's original expected assumptions. However, we note that paid claims in a given year represent payments not only for claims that began in the given year, but also for claims that started in a prior year and continue into the given year. Results of our experience analysis by year of incurral (year that a claim begins) indicate that experience for more recent incurral years has been closer to Univita expectations. Therefore, although claim payments have been lower than previous projections, we have increased future claim projections based on the analysis described in Appendix B and summarized in Table 3.

Waterfall Analysis of Projection Results

Table 3 provides intermediate projection results to demonstrate the impact that various experience and assumption changes have had on valuation results. Each scenario is described in detail after the table.

Table 3
State of Alaska Long Term Care Program
Waterfall Analysis of Projection Results
Dollar Values in $1,000s

Scenario Description	Based on Lives as of	PV(Prems)	PV(Claims)	PV(Exps)	Assets	Surp/(Def)	Surp /(Def) as % of Prems
2009 Projection	12/2009	$209,494	$351,571	$10,246	$155,621	$3,298	1.6%
Revised Start Dates	12/2009	209,443	310,503	10,243	155,621	44,318	21.2%
Only FY 2013+	12/2009	183,735	341,175	9,172	217,917	51,304	27.9%
Actual Continuing Lives	5/2012	185,801	343,029	9,035	256,008	89,745	48.3%
New Issues Since 2009	5/2012	48,494	42,967	2,089	0	3,438	7.1%
Continuing plus New	5/2012	234,295	385,996	11,124	256,008	93,203	39.8%
Update Morbidity	5/2012	234,137	470,120	11,118	256,008	8,907	3.8%
Investment Earnings = 4%	5/2012	255,669	570,351	12,200	256,008	(70,875)	(27.7%)

Description of Scenarios:

2009 Projection – Values are consistent with results reported in our previous valuation study.

Revised Start Dates – This scenario recognizes a correction to the 2009 projection related to the treatment of members that have converted coverage. For the 2009 projections, we set each member's coverage issue date to the earliest coverage effective date for all units of coverage held by the member. This treatment inadvertently caused the projection model to overstate inflation benefits for the Gold and Platinum members. To illustrate, consider a member who originally purchased Bronze coverage in 1990 and converted to Platinum coverage in 2000. When the issue date for the Platinum coverage is set to 1990, the projection software set the maximum daily benefit to be \$310 in calendar year 2000 (=\$200 * 1.05^9) rather than to the actual maximum daily benefit of \$200. This correction improved the valuation results due to a reduction in future claims for the Gold and Platinum plans.

Only FY 2013+ - This scenario does not actually represent a new projection run. Rather, for this scenario present values are calculated using the same projections as the prior scenario; however we only include values for fiscal years 2013 and later in the present value calculations. This scenario provides a snapshot of what the 2009 valuation projections expected the current valuation results to be (as of fiscal year end 2012). Results indicate that the 2009 valuation anticipated that premium adequacy would increase between 2009 and 2012.

Actual Continuing Lives – For this scenario, we isolated the members that were included in the 2009 projection that remain in force as of May 2012. This scenario indicates that the persisting lives are very consistent with the lives that the 2009 projection assumed for future premiums, claims and expenses. The 2009 projection did not however predict the actual asset levels as of fiscal year end 2012. Actual asset levels are 17.4% higher than projected, which increases the premium adequacy to 48.3%.

New Issues Since 2009 – This scenario provides results for lives that are inforce as of May 2012, which were not inforce as of December 2009. Note that the future premiums for these lives are adequate to cover future benefits and expenses using 2009 valuation assumptions. As a result, we did not allocate any assets to this cohort of lives.

Continuing Plus New – This scenario is the sum of the prior two scenarios and provides results for the entire cohort of lives inforce as of May 2012 using assumptions from the 2009 valuation.

Update Morbidity – We made four changes to the morbidity assumptions for the 2012 valuation:

- Updated claim termination rates based on actual experience.
- Revised actual to expected factors based on actual experience.
- Recognized that Bronze home health care benefits are payable up to \$200,000.
- Recognized that benefits for Bronze care provided outside of Alaska are payable at reduced daily benefit amounts but for potentially longer periods of time.
- Recognized changes in the availability of licensed HHC agencies that are willing to provide custodial care services.

These changes are documented in more detail in Appendices A and B. In aggregate these changes cause future claims to increase by 21.8% and premium adequacy to decrease from 39.8% to 3.8%.

Investment Earnings = 4% – The 2009 projections assume an investment earnings rate of 5%. This rate was decreased to 4% for the 2012 valuation based on input from program staff. This change also has a significant impact on premium adequacy, which decreased from 3.8% to (27.7%). Lower than anticipated investment earnings have been a common challenge to LTC insurance carriers.

SECTION V

Sensitivity Testing Results

We analyzed the sensitivity of asset adequacy levels to changes in assumptions with respect to morbidity, voluntary lapses, mortality, and investment earnings. Table 4 illustrates the impact of changes to the base assumptions on asset adequacy levels.

Results are highly sensitive to the assumptions underlying the calculations. While these tests indicate outcomes under each of these scenarios, they do not indicate the likelihood of each scenario. Thus, this testing does not indicate the probability that projected values will be realized.

Each of these tests is independent. We have not tested the impact of multiple assumptions deviating from expectations.

Table 4
State of Alaska Long Term Care Program
Sensitivity Testing Asset Adequacy (Deficiency) Results
Surplus (Deficit) = Current Assets plus the Present Value of Net Cash Flows
(in thousands of dollars and as a % of future premiums)

Scenario	Surplus (Deficit)	As a % of Future Premium
Base case scenario	$(70,875)	(27.7%)
Increase in morbidity of 10%, all years	(127,994)	(50.1%)
Decrease in morbidity of 10%, all years	(13,755)	(5.4%)
Voluntary lapse = 200% of best estimate	988	0.4%
Voluntary lapse = 50% of best estimate	(114,364)	(42.6%)
Mortality = 100% of 1994 GAM	(17,363)	(7.1%)
Mortality = 70% of 1994 GAM	(140,153)	(52.4%)
Investment earnings = 3.0%	(176,883)	(62.9%)
Investment earnings = 3.5%	(120,064)	(44.8%)
Investment earnings = 4.5%	(28,198)	(11.5%)
Investment earnings = 5.0%	8,907	3.8%

Long Term Care Model and Assumptions

Model

The State of Alaska LTC program includes four plan offerings: Bronze, Silver, Gold and Platinum. Table 5 describes benefits included in each plan.

Table 5
State of Alaska Long Term Care Program
Benefit Summary by Plan Option

Benefit	Bronze	Silver	Gold	Platinum
Lifetime Maximum	$200,000 (HH is limited to $50,000)*	$400,000	$300,000	$300,000
Inflation Protection	None	None	5% Simple until attained age 85	5% Compound until attained age 85
Elimination Period	90 Day	90 Day		
Benefit Trigger	2 of 5 ADLs	2 of 6 ADLs or cognitively impaired		
Nursing Home Daily Benefit	$125 in-state $75 out-of-state	$200		
Assisted Living Facility Daily Benefit	If approved	$150 (75% of NH)		
Home Health Care Daily Benefit	$75 in-state $40 out-of-state	$125 (62.5% of NH)		
Hospice Daily Benefit	Not covered	$125 (62.5% of NH)		
Respite Benefit	Not covered	Up to $200 daily Up to 14 days per calendar year		

*Although the benefit description booklet limits Home Health Care benefits to a lifetime maximum of $50,000, we understand that the State of Alaska LTC program has elected to expand HHC benefits up to the $200,000 lifetime maximum. Expected claim costs and claim reserves reflect this benefit change.

The cash flow results are based on a seriatim projection of 22,705 inforce lives as of 5/31/2012. Current projections do not include any new issues.

Long Term Care Model and Assumptions

Distributions of Business – The following tables outline the distributions of business for the existing in-force business as of 5/31/2012:

Table 6a: Distribution of Inforce by Issue Age		
Issue Age Group	**Lives**	**Distribution**
<40	198	0.9%
40-44	681	3.0%
45-49	2,487	11.0%
50-54	5,958	26.2%
55-59	8,120	35.8%
60-64	3,747	16.5%
65-69	1,087	4.8%
70+	427	1.9%
Total	22,705	100.0%
Average	55.8	

Table 6b: Distribution of Inforce by Current Attained Age		
Attained Age Group	**Lives**	**Distribution**
<50	292	1.3%
50-54	987	4.3%
55-59	3,420	15.1%
60-64	5,577	24.6%
65-69	5,392	23.7%
70-74	3,595	15.8%
75-79	1,989	8.8%
80+	1,453	6.4%
Total	22,705	100.0%
Average	66.6	

Table 6c: Distribution of Inforce by Benefit Option		
Benefit Option	**Lives**	**Distribution**
Bronze	8,201	36.1%
Silver	8,103	35.7%
Gold	4,512	19.9%
Platinum	1,889	8.3%
Total	22,705	100.0%

Long Term Care Model and Assumptions

Table 6d: Distribution of Inforce by Marital Status		
Coverage Type	**Number of Lives**	**Distribution**
Single	6,398	28.2%
Married Person, however spouse is not covered	4,604	20.3%
Married Couples, where both persons are covered	11,703	51.5%
Total	22,705	100.0%

Table 6e: Distribution of Inforce by Gender		
Gender	**Lives**	**Distribution**
Male	10,292	45.3%
Female	12,413	54.7%
Total	22,705	100.0%

Table 6f: Distribution of Inforce by Calendar Year of Issue		
Issue Year	**Lives**	**Distribution**
<1990	1,514	6.7%
1990-1994	1,860	8.2%
1995-1999	4,054	17.9%
2000-2004	7,874	34.7%
2005	887	3.9%
2006	872	3.8%
2007	1,057	4.7%
2008	1,042	4.6%
2009	942	4.1%
2010	1,073	4.7%
2011	1,266	5.6%
2012	264	1.2%
Total	22,705	100.0%

Assumptions

Morbidity – Claim costs were developed from Univita's expected LTC incidence rates and continuance tables. The claim costs vary by plan option (e.g., Bronze, Silver), gender and attained age.

Long Term Care Model and Assumptions

We made two adjustments to claim cost calculations for the 2012 valuation:

- First, we recognized that the program has expanded the lifetime maximum benefit for home health care under the Bronze plan to $200,000. The $50,000 inside limit is no longer applied.
- Second, we recognized that Bronze care provided outside of Alaska is subject to lower daily benefit maximums. In addition, we recognized that if care is provided outside of Alaska, claimants will take a longer period of time to exhaust benefits due to the lower daily benefit. To illustrate this point, a nursing home claim within Alaska could exhaust the $200,000 lifetime maximum in 1,600 days (=$200,000/$125). On the other hand, a nursing home claim outside Alaska will take at least 2,667 days to exhaust the $200,000 lifetime maximum.

Expected claim costs were adjusted to recognize State of Alaska program experience relative to Univita's expected costs. The analysis of program claim experience is documented in Appendix B. Based on that analysis we adjusted Univita claim termination rates and also adjusted expected claim costs by a factor of 0.95 for attained ages less than 80 and by a factor of 1.10 for attained ages 80 and over in the cash flow projections.

The attained age claim costs are adjusted to reflect automatic inflation protection. Specifically, the maximum daily benefits increase by 5% of the initial daily benefit each year for the Gold plans. The maximum daily benefits increase by 5% on a compound basis for the Platinum plans. For both the Gold and Platinum plans inflation increases stop after attained age 85.

Claim payment distributions - Claim costs by incurral year are allocated to payment years using the following factors:

Table 7: Claim Payment Distribution Assumptions

Claim Duration (in years)	Plan Option			
	Bronze	Silver	Gold	Platinum
1	0.076	0.073	0.069	0.060
2	0.288	0.278	0.275	0.250
3	0.200	0.194	0.201	0.192
4	0.145	0.140	0.152	0.153
5	0.106	0.103	0.115	0.120
6	0.057	0.072	0.070	0.077
7	0.039	0.046	0.039	0.045

Long Term Care Model and Assumptions

Table 7: Claim Payment Distribution Assumptions				
Claim Duration (in years)	Plan Option			
	Bronze	Silver	Gold	Platinum
8	0.029	0.033	0.026	0.032
9	0.017	0.017	0.021	0.027
10	0.013	0.013	0.018	0.024
11	0.010	0.010	0.015	0.021
12	0.008	0.008	0.000	0.000
13	0.004	0.006	0.000	0.000
14	0.002	0.005	0.000	0.000
15	0.002	0.002	0.000	0.000
16	0.001	0.000	0.000	0.000
17	0.001	0.000	0.000	0.000
18	0.001	0.000	0.000	0.000
19	0.001	0.000	0.000	0.000
20	0.001	0.000	0.000	0.000

Lapses – Univita studied the policy termination experience of the State of Alaska LTC Program. Appendix B provides the results of the termination study.

Table 8: Voluntary Lapse Assumptions	
Policy Duration	Lapse Assumption
1	2.6%
2	1.5%
3	1.3%
4	1.1%
5+	1.0%

Mortality – Ultimate mortality is equal to 85% of the 1994 Group Annuity Mortality table. This mortality assumption is based on experience we have observed in other blocks of LTC insurance. In addition, we grade to the ultimate mortality basis using the following selection factors.

Long Term Care Model and Assumptions

Table 9: Mortality Selection Factors	
Policy Duration	Selection Factor
1	0.45
2	0.50
3	0.55
4	0.60
5	0.70
6	0.70
7	0.75
8	0.80
9	0.80
10+	0.85

Net Investment Earnings – 4.0% earned on total assets. Present values are also calculated assuming a 4.0% discount rate.

Expenses –

- Claims administration and care management: $0.75 per member per month in 2012 inflating at 3.0% each calendar year
- Percentage of premium: 3.5% all years

Sensitivity Tests

Table 10: Sensitivity Tests		
Variance	**Increase**	**Decrease**
Morbidity	10% all years	10% all years
Voluntary lapse	50% of best estimate	200% of best estimate
Mortality	70% of 1994 GAM	100% of 1994 GAM
Discount rate	50 bps 100 bps	50 bps 100 bps

State of Alaska LTC Program
Experience Analysis

Persistency Experience

Census data provided insight into policyholder lapse behavior. We did not receive complete termination reason codes for all terminations. As a result, we studied total policy terminations. We then assumed mortality would be equal to 85% of the 1994 Group Annuitant Mortality table and subtracted expected mortality from the total policy termination rates to derive experience lapse rates.

The persistency results below recognize a correction to the 2009 study related to the treatment of members that have converted coverage. For the 2009 study, we set each member's coverage issue date to the earliest coverage effective date for all units of coverage held by the member. For the 2012 study, each unit of coverage uses its coverage effective date. This revision shifts policy exposure to earlier policy durations. This change was necessary due to inflation benefits for the Gold and Platinum plans and to ensure that the persistency study was consistent with our projection model. It did not however, cause a material change in the overall experience lapse rates from the 2009 study.

Table 11 provides the resulting policy termination experience.

Table 11: Persistency Experience					
Policy Year	Exposure	Policy Terminations	Total Termination Rate	Assumed Mortality*	Voluntary Lapse Rate
1	32,501	947	2.9%	0.3%	2.6%
2	30,011	521	1.7%	0.4%	1.4%
3	27,926	423	1.5%	0.4%	1.1%
4	25,908	368	1.4%	0.4%	1.0%
5	24,144	300	1.2%	0.5%	0.8%
6	22,516	308	1.4%	0.5%	0.8%
7	21,051	269	1.3%	0.6%	0.7%
8	19,658	247	1.2%	0.7%	0.6%
9	18,333	264	1.4%	0.8%	0.7%
10	16,849	308	1.8%	0.9%	1.0%
11	15,245	293	1.9%	1.0%	0.9%
12	12,749	253	2.0%	1.0%	0.9%
13	9,371	205	2.2%	1.1%	1.1%
14	7,820	187	2.4%	1.3%	1.1%
15	6,524	187	2.8%	1.4%	1.4%

*Based on 85% of 1994 Group Annuitant Mortality

State of Alaska LTC Program
Experience Analysis

Claim Experience

As of July 5, 2012, the block has experienced 844 requests for claim of which 575 have been approved for benefits. The following sections describe our analysis of actual experience.

Claim Termination Analysis - We studied the block's claim termination experience by comparing actual claim termination rates to Univita expected claim termination rates. 567 claims contributed exposure to the claim termination study (we only included approved claims with incurral dates before 4/5/12). Table 12 shows the ultimate disposition of each of the 567 claims.

Table 12: Current Claim Status for Claims included in Claim Termination Study

Current Status	Count of Claims
Open	197
Closed due to Benefit Exhaustion	23
Closed due to Recovery	91
Closed due to Death	256
Total	567

Claims that close due to benefit exhaustion contribute exposure to the claim termination study, but are not counted as a claim termination. Table 13 provides results of our claim termination study of this block of business. The table also provides final adjustments used for the 2009 valuation.

Table 13: State of Alaska LTC Program Experience
Claim Termination Study
Including Claims Incurred on or before 4/5/12

Claim Duration (months)	# of Exposure Months	# of Claim Terms	Univita Expected	Act / Exp	Credibility Weighted Adjustments	
					2012	2009
1	550	28	45.2	0.62	0.92	0.94
2-3	1,014	35	76.9	0.46	0.85	0.92
4-6	1,351	45	74.8	0.60	0.90	0.92
7-12	2,184	65	74.6	0.87	0.97	0.96
13-24	3,025	84	74.6	1.13	1.03	0.97
25-48	3,273	49	75.1	0.65	0.91	0.92
48+	2,169	41	48.1	0.85	0.97	1.04
Total	13,566	347	469.3	0.74	0.95	0.95

State of Alaska LTC Program
Experience Analysis

For the most part claims are terminating at a slower rate than Univita's expected assumptions. We have not fully recognized the lower termination rates due to the credibility of the data. The 2012 column in Table 13 indicates the adjustments we applied to Univita's claim termination rates to generate disabled life reserves and claim costs for the State of Alaska's LTC program.

Claim Reserve and Incurred Claim Analysis - The following table summarizes paid claims and claim reserve estimates as of 7/5/2012. The table includes incurral periods from 1998 through the end of calendar year 2011. Actual incurred claim estimates are compared to expected incurred claims which were derived by applying expected claim costs to program exposures.

Table 14
State of Alaska LTC Program Experience
Claim Reserve and Incurred Claim Estimates as of 7/5/2012
Claim Values are Undiscounted and in Thousands

Calendar Incurral Year	Approved Claim Counts	Paid Claims	Disabled Life Reserve	Actual Incurred Claim*	Expected Incurred Claim	Actual/ Expected
1998	1	$200	$0	$200	$1,428	0.14
1999	3	324	0	324	1,621	0.20
2000	6	843	0	843	2,109	0.40
2001	5	880	47	927	2,588	0.36
2002	7	1,116	25	1,141	2,970	0.38
2003	16	2,550	0	2,550	3,395	0.75
2004	27	3,723	197	3,920	3,866	1.01
2005	34	3,624	250	3,874	4,407	0.88
2006	60	3,559	506	4,065	4,943	0.82
2007	77	3,592	506	4,099	5,573	0.74
2008	59	3,789	629	4,418	6,218	0.71
2009	67	3,073	1,786	4,859	6,942	0.70
2010	83	3,200	4,572	7,772	7,785	1.00
2011	101	1,450	7,181	8,630	8,604	1.00
Total	**546**	**$31,924**	**$15,699**	**$47,623**	**$62,450**	**0.76**
2007-09	203	10,454	2,921	13,376	18,733	0.71
2010-11	**184**	**4,650**	**11,753**	**16,402**	**16,389**	**1.00**

* Incurred Claims are equal to the sum of the Paid Claims plus Disabled Life Reserve; all values are summarized by date of incurral. Disabled Life Reserves include an estimate for IBNR claims.

Claim reserves in Table 14 are undiscounted. A 4% discount rate reduces the claim reserve to $14,410,000 for these incurral periods.

State of Alaska LTC Program
Experience Analysis

Table 14 shows that the block's historical experience has been somewhat lower than Univita's morbidity assumptions (using adjusted claim termination rates). However, in recent calendar years, the actual experience is consistent with Univita expected assumptions.

Impact of Changes to HHC Licensing Requirements – We believe the shift in claim experience during calendar year 2010 is partially driven by changes in the eligible home health care providers. The State of Alaska LTC Program contracts require that home health care must be provided by licensed home health agencies. In recent years, licensed home health care providers in Alaska and Nationwide have shifted their services away from the custodial care required by the LTC program claimants and toward more acute care services, which are covered by Medicare. This shift has made it difficult for program claimants to obtain custodial care from licensed HHC providers. As a result, on a case by case basis, the program has begun to authorize care provided by Agency Based Personal Care Assistant programs (ABPCAs) and where ABPCAs or licensed HHC agencies are not available, Independent Providers.

It is difficult to ascertain how much of the shift in experience can be attributed to the relaxation of the licensing requirement. We analyzed whether claim approval rates have increased since the protocol change. We found that claim approval rates since 9/1/2010 are actually lower than claim approval rates prior to 9/1/2010 (73.7% for decisions made on or after 9/1/2010 versus 79.0% for decisions before 9/1/2010). In addition, we analyzed whether the protocol change has caused an increase in the number of claims using HHC. In fact, the proportion of claims using HHC has declined from 26.2% to 22.9% before and after the protocol change.

As a result, we cannot be certain that elevated claim levels in 2010 and 2011 can be attributed to the shift in HHC claim adjudication protocol. Nevertheless, we believe it is prudent to assume that claims will continue at this level until we see evidence to the contrary.

Experience Analysis by Attained Age - We also analyzed the historical claim experience by attained age. Table 15 provides actual to expected ratios by attained age for claim experience from calendar years 2010 through 2011.

State of Alaska LTC Program
Experience Analysis

Table 15 **State of Alaska LTC Program Experience** **Actual/Expected Claims by Attained Age** **Calendar Years 2010-2011** **Incurred Claim Values are Undiscounted and in Thousands**					
Attained Age	**Actual Incurred Claim**	**Expected Incurred Claim**	**Actual/ Expected**	**Number of Claims with Claim Payments**	**Credibility Adjusted Factor**
<60	$1,077	$1,113	0.97	5	NA
60-64	1,211	1,797	0.67	12	NA
65-69	1,582	2,200	0.72	12	NA
70-74	1,986	2,463	0.81	15	NA
75-79	3,043	3,419	0.89	30	NA
80-84	3,440	3,247	1.06	32	NA
85-89	3,321	1,645	2.02	38	NA
90+	741	621	1.19	10	NA
Total	**$16,402**	**$16,504**	**0.99**	**154**	**NA**
<80	**$8,899**	**$10,992**	**0.81**	**74**	**0.95**
80+	**7,502**	**5,512**	**1.36**	**80**	**1.10**

Recommended Claim Adjustment Factors - The claim experience is not fully credible. As a result, we dampened the actual to expected factors using the number of claims to determine credibility. We assigned full credibility to claim experience with 1,082 claims. Based on this incurred claim analysis we have adjusted Univita expected claim costs in our projections by a factor of 0.95 for attained ages less than 80 and 1.10 for attained ages 80 and over to recognize actual program experience. These adjustments compare to a factor of 0.85 assumed for all ages in the 2009 valuation.

State of Alaska Long Term Care Program
Summary of Yearly Cash Flows and Projected Asset Balances

Totals - Present Values	**255,668,628**	**570,351,176**	**12,199,954**	**(326,882,501)**
As a % of Premiums	**100.0%**	**223.1%**	**4.8%**	**-127.9%**

Asset Adequacy (Deficiency)	**(70,874,883)**
As a % of Premiums	**-27.7%**

Investment earnings rate/discount rate = 4.0%

Time Period	Lives	Collected Premium	Paid Claims	Expenses	Net Cash Flow	Investment Earnings	Total Assets
5/31/2012	22,705						256,007,618
Jun-12	22,656	1,806,952	562,589	80,272	1,164,091	840,006	258,011,715
FY 2013	22,074	21,380,993	7,335,121	952,846	13,093,026	10,579,762	281,684,503
FY 2014	21,484	20,825,001	8,425,775	934,019	11,465,207	11,494,436	304,644,146
FY 2015	20,882	20,262,504	9,516,584	914,715	9,831,205	12,380,462	326,855,813
FY 2016	20,265	19,688,882	10,628,428	894,725	8,165,729	13,235,946	348,257,488
FY 2017	19,634	19,101,842	11,795,664	873,935	6,432,243	14,057,683	368,747,414
FY 2018	18,988	18,501,169	13,042,530	852,314	4,606,325	14,841,120	388,194,858
FY 2019	18,328	17,887,158	14,387,432	829,851	2,669,875	15,580,668	406,445,402
FY 2020	17,656	17,261,198	15,846,614	806,581	608,003	16,269,857	423,323,262
FY 2021	16,973	16,624,469	17,430,662	782,533	-1,588,726	16,901,467	438,636,003
FY 2022	16,281	15,978,049	19,145,226	757,734	-3,924,911	17,467,712	452,178,804
FY 2023	15,580	15,323,673	21,000,578	732,234	-6,409,139	17,960,226	463,729,891
FY 2024	14,872	14,662,325	22,999,427	706,060	-9,043,162	18,370,106	473,056,835
FY 2025	14,159	13,995,030	25,142,007	679,241	-11,826,218	18,688,068	479,918,685
FY 2026	13,443	13,322,966	27,424,117	651,812	-14,752,963	18,904,581	484,070,303
FY 2027	12,724	12,647,507	29,821,124	623,820	-17,797,437	19,010,353	485,283,219
FY 2028	12,006	11,970,189	32,311,986	595,323	-20,937,120	18,996,692	483,342,791
FY 2029	11,290	11,292,700	34,868,184	566,386	-24,141,870	18,855,608	478,056,530
FY 2030	10,579	10,616,914	37,451,209	537,088	-27,371,383	18,580,201	469,265,348
FY 2031	9,875	9,944,919	40,016,606	507,519	-30,579,206	18,165,026	456,851,168
FY 2032	9,180	9,279,014	42,496,384	477,784	-33,695,154	17,606,751	440,762,765
FY 2033	8,498	8,621,638	44,821,284	447,999	-36,647,645	16,904,744	421,019,864
FY 2034	7,831	7,975,335	46,922,497	418,290	-39,365,452	16,061,205	397,715,617
FY 2035	7,182	7,342,736	48,727,344	388,792	-41,773,400	15,081,348	371,023,566
FY 2036	6,554	6,726,515	50,188,804	359,647	-43,821,936	13,973,097	341,174,727
FY 2037	5,949	6,129,355	51,238,463	331,002	-45,440,110	12,747,098	308,481,715
FY 2038	5,370	5,553,882	51,843,483	303,008	-46,592,609	11,416,553	273,305,659
FY 2039	4,819	5,002,621	51,972,501	275,816	-47,245,696	9,996,577	236,056,540
FY 2040	4,298	4,477,941	51,609,518	249,572	-47,381,149	8,503,930	197,179,321
FY 2041	3,809	3,981,960	50,751,753	224,418	-46,994,211	6,956,504	157,141,614
FY 2042	3,353	3,516,491	49,410,874	200,478	-46,094,861	5,372,806	116,419,559
FY 2043	2,931	3,082,987	47,624,004	177,870	-44,718,887	3,771,174	75,471,846
FY 2044	2,544	2,682,514	45,441,930	156,687	-42,916,103	2,168,968	34,724,711
FY 2045	2,192	2,315,715	42,926,556	137,006	-40,747,847	582,022	(5,441,114)
FY 2046	1,874	1,982,779	40,136,082	118,882	-38,272,185	(975,583)	(44,688,882)
FY 2047	1,590	1,683,419	37,147,419	102,344	-35,566,344	(2,491,908)	(82,747,134)
FY 2048	1,338	1,416,881	34,031,968	87,396	-32,702,483	(3,957,522)	(119,407,139)
FY 2049	1,117	1,181,970	30,857,982	74,017	-29,750,029	(5,365,452)	(154,522,621)
FY 2050	924	977,096	27,693,590	62,163	-26,778,657	(6,711,227)	(188,012,504)
FY 2051	759	800,331	24,597,652	51,768	-23,849,089	(7,992,805)	(219,854,399)
FY 2052	618	649,488	21,623,979	42,746	-21,017,237	(9,210,399)	(250,082,035)
FY 2053	499	522,198	18,816,015	34,999	-18,328,816	(10,366,263)	(278,777,114)
FY 2054	400	415,990	16,205,135	28,417	-15,817,562	(11,464,334)	(306,059,010)
FY 2055	317	328,370	13,818,011	22,883	-13,512,524	(12,509,961)	(332,081,495)
FY 2056	250	256,898	11,667,519	18,279	-11,428,900	(13,509,597)	(357,019,992)
FY 2057	196	199,249	9,756,899	14,491	-9,572,141	(14,470,365)	(381,062,498)
FY 2058	152	153,265	8,084,489	11,403	-7,942,627	(15,399,795)	(404,404,920)
FY 2059	117	116,984	6,640,105	8,912	-6,532,033	(16,305,557)	(427,242,510)
FY 2060	90	88,660	5,408,871	6,922	-5,327,133	(17,195,198)	(449,764,841)
FY 2061	69	66,771	4,370,998	5,348	-4,309,575	(18,075,940)	(472,150,356)
FY 2062	52	50,015	3,505,431	4,112	-3,459,528	(18,954,526)	(494,564,411)
FY 2063	39	37,303	2,791,566	3,150	-2,757,413	(19,837,184)	(517,159,008)
FY 2064	30	27,734	2,208,999	2,406	-2,183,671	(20,729,606)	(540,072,284)
FY 2065	22	20,579	1,737,696	1,834	-1,718,951	(21,636,933)	(563,428,169)
FY 2066	17	15,256	1,359,643	1,397	-1,345,784	(22,563,779)	(587,337,731)
FY 2067	13	11,313	1,058,718	1,065	-1,048,470	(23,514,273)	(611,900,474)
FY 2068	10	8,402	820,866	812	-813,276	(24,492,125)	(637,205,875)
FY 2069	7	6,256	634,227	621	-628,592	(25,500,684)	(663,335,151)
FY 2070	5	4,676	488,487	477	-484,288	(26,542,997)	(690,362,436)
FY 2071	4	3,511	375,213	367	-372,069	(27,621,866)	(718,356,371)
FY 2072	3	2,652	287,603	284	-285,235	(28,739,904)	(747,381,509)
FY 2073	2	2,016	220,167	221	-218,372	(29,899,585)	(777,499,466)
FY 2074	2	1,543	168,496	173	-167,126	(31,103,288)	(808,769,881)
FY 2075	1	1,190	129,052	136	-127,998	(32,353,330)	(841,251,209)
FY 2076	1	925	99,023	107	-98,205	(33,651,993)	(875,001,407)
FY 2077	1	723	76,184	85	-75,546	(35,001,552)	(910,078,505)