

Draft date: 2/23/24

2024 Spring National Meeting
Phoenix, Arizona

LONG-TERM CARE ACTUARIAL (B) WORKING GROUP

Friday, March 15, 2024

1:00 – 2:30 p.m.

Valley of the Sun Ballroom C-E - Sheraton - Level 2

ROLL CALL

Paul Lombardo, Co-Chair	Connecticut	Michael Muldoon	Nebraska
Fred Andersen, Co-Chair	Minnesota	Jennifer Li	New Hampshire
Sanjeev Chaudhuri	Alabama	Bill Carmello	New York
Sarah Bailey	Alaska	David Yetter	North Carolina
Ahmad Kamil	California	Laura Miller	Ohio
Stephen Flick	District of Columbia	Andrew Schallhorn	Oklahoma
Benjamin Ben	Florida	Timothy Hinkel	Oregon
Weston Trexler	Idaho	Jim Laverty	Pennsylvania
Scott Shover	Indiana	Carlos Vallés	Puerto Rico
Nicole Boyd	Kansas	Aaron Hodges	Texas
Marti Hooper	Maine	Tomasz Serbinowski	Utah
Kevin Dyke	Michigan	Joylynn Fix	West Virginia
William Leung	Missouri	Shelly Knorr	Wisconsin

NAIC Support Staff: Eric King

AGENDA

1. Consider Adoption of its Feb. 20 and 2023 Fall National Meeting Minutes—*Fred Andersen (MN) and Paul Lombardo (CT)* Attachment A
2. Hear an Update on a Single Long-Term Care Insurance (LTCI) Multistate Rate Review Approach—*Fred Andersen (MN) and Paul Lombardo (CT)* Attachment B
3. Discuss Any Other Matters Brought Before the Working Group—*Fred Andersen (MN) and Paul Lombardo (CT)*
4. Adjournment

Draft: 3/4/24

Long-Term Care Actuarial (B) Working Group
Virtual Meeting
February 20, 2024

The Long-Term Care Actuarial (B) Working Group of the Long-Term Care Insurance (B) Task Force met Feb. 20, 2024. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sarah Bailey (AK); Ahmad Kamil (CA); Stephen Flick (DC); Scott Shover (IN); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); David Yetter (NC); Michael Muldoon (NE); Jennifer Li (NH); Frank Horn (NY); Craig Kalman and Laura Miller (OH); Timothy Hinkel (OR); Jim Laverty (PA); Aaron Hodges and R. Michael Markham (TX); Tomasz Serbinowski (UT); Rebecca Rebholz (WI); and Tim Sigman (WV).

1. Considered Adoption of its Fall 2023 National Meeting Minutes

Lombardo presented the Working Group's Nov. 30, 2023, minutes (*see NAIC Proceedings—Fall 2023, Health Actuarial (B) Task Force*) and asked the Working Group to consider their adoption. Markham said he would like to add "Markham's concern that a rate increase above the Texas Method supported rate increase will permit companies to realize an immediate profit by releasing contract reserves while implementing a rate increase," after "Markham said Texas will be more supportive of the Minnesota approach if it can be demonstrated that the supported rate increase is below the rate increase determined by the Texas approach in most cases." Lombardo tabled consideration of adopting the minutes until the Working Group's March 15 meeting.

2. Discussed a Single Long-Term Care Insurance Multistate Rate Review Approach

Lombardo presented a draft document (**Attachment XX**) with recommendations after receiving regulator feedback on a single long-term care insurance (LTCI) rate increase review methodology for use in multistate actuarial (MSA) filing reviews.

Andersen said the draft contains concepts that the Working Group needs to discuss to determine if there is consensus on their inclusion in a single MSA approach. He said the first concept is limiting rate increases for advanced-age, high-duration policyholders. He said there seems to be agreement with this among Working Group members and other regulators. He said an issue that has been raised with accomplishing this is how its implementation will be administered and how to avoid discrimination. He said a possible way of addressing these concerns is to adjust the methodology for older blocks with older policyholders that have had substantial past rate increases, instead of differentiating rate increases by age within a block. He said comments were received indicating that advanced-age, high-duration policyholders have benefited the most from underpriced premiums and have paid more underpriced premiums than younger, shorter-duration policyholders. He said these advanced-age, high-duration policyholders tended to have been the most surprised by the magnitude of cumulative rate increases compared to what they expected when the policy was issued. No member of the Working Group disagreed that this is an issue that should be addressed by a single approach.

Ray Nelson (America's Health Insurance Plans – AHIP) said AHIP understands the issue and agrees that it is desirable to address it, but it is unclear if a single actuarial approach can adjust for it, or if it is something that needs to be politically adjusted for on a block-by-block basis after the actuarial evaluation has been conducted. He said AHIP wants to work on making progress towards resolving this issue. Lombardo asked Nelson if his question is whether the adjustment will be handed through the rate review process or will it be handled outside of the rate review process. Nelson said that was correct. Andersen said one way to handle the adjustment is to

identify an age or range of ages and durations, and if these have been exceeded, the methodology may need to be adjusted to reduce rate increases for this cohort. He said another way could be considering the age of the block itself and adjusting rate increases for the entire block based on its age. Lombardo said a bill being considered by the Connecticut legislature proposes eliminating rate increases for policyholders who have had cumulative rate increases of 400% or greater and are aged 85 or older. Miller asked if there will be a clear definition of “high-duration” policy, such as in force for a specified number of years, and would the approach request a distribution of attained ages within the block or at least an average attained age. Andersen said he would like to see a structure that perhaps those aged 90 and above realize the full benefit of any rate increase reduction, and policyholders between 80 and 90 years old are given a partial reduction. He said he prefers that whatever solution is implemented, it will not have a cliff where there is a drastic difference in rate increase between any two attained ages.

Miller asked if there would be a difference in the adjustment used for individual and group blocks since group policies are generally sold at younger issue ages but tend to have longer policy durations. Andersen said this should be considered. Muldoon said he thinks it will be easier to make the adjustment on a block-by-block basis, rather than adjust rates within a block for different attained ages. He said he thinks it is preferable to make the adjustment within the actuarial methodology rather than make the adjustment on a political basis after the actuarial evaluation. Serbinowski suggested developing an adjustment methodology based on at what point in time a person is along the expected lifetime of their policy. He said it may be preferable to adjust rate increases on an individual policyholder basis rather than using an aggregate method for the entire block. Lombardo said he does not think anyone has said that they do not think anyone has said that the issue of adjusting rate increases for advanced-age, high-duration policyholders is not worthy of efforts to resolve.

Andersen said the general consensus received from Working Group members and regulators is to not dismiss aspects of proposals labeled as “non-actuarial” by the American Council of Life Insurers (ACLI), and that the Working Group should consider all proposals made thus far regarding incorporation into a single actuarial approach. Lombardo said he has received feedback from regulators that these should be considered new actuarial techniques and not necessarily non-actuarial. He said going forward, such things can be considered actuarial in nature even if historically they were not.

Andersen said the concept of balance between consumer protection and preventing further financial distress for insurers is one the Working Group will be continually evaluating to ensure the weighting between the two does not become skewed too far in either direction.

Andersen said there is general consensus among Working Group members and regulators that a single MSA approach should continue to include a catch-up provision for attaining a similar rate level between states. He said this concept is based on the former Long-Term Care Insurance (EX) Task Force’s goal to eliminate cross-state rate subsidies. He said there is a range of options for accomplishing this, going from each state having the same rate increase regardless of what their past rate increase approval history was to what he terms the balance sheet approach, where not only do the states that had lower rate increases in the past have to catch up to the rates of the other states, but they also have to make up for past rate increase deficiencies compared to other states so that the lifetime loss ratio for each state is equal. He said out of practical considerations, a decision was made that the current goal is to just get every state to the same rate, provided it is actuarially justifiable. He said the MSA pilot project reviews and the post-pilot project reviews included charts showing the total increase needed to get to the average level of the other states.

Andersen said there is general agreement among Working Group members and regulators that states should be encouraged to participate in the MSA process using a single actuarial approach.

Andersen said although not unanimous, most Working Group members and regulators approved of the concept of pre-approval and phase in of rate increases over a reasonable period of time as opposed to requiring annual refilings. He said one reason for application of this concept is the issue of efficiency for both for industry and the states by eliminating the need to review a filing each year. He said another reason is that given the vast majority of cases where there is a reduced benefit option available to policyholders, it's much more helpful that a policyholder knows they will either receive, for example, an 80% rate increase tomorrow or it will be applied as a 22% per year increase for the next three years, as opposed to thinking there will only be a 15% or 20% rate increase but not have certainty about what rate increase will occur in the following year.

Andersen said there was no clear consensus among Working Group members and regulators concerning the weighting of the if-knew and makeup premiums and additional cost-sharing considerations as used in the Minnesota approach or maintaining the flexibility of having a solvency provision as a consideration in a single approach. He said he believes a solvency provision component is a very important item to consider and would like to further discuss this at the Working Group's March 15 meeting.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

Meetings/Member Meetings/B CMTE/HATF/2024_Spring/LTCAWG/2-20 LTCAWG/LTCAWG Minutes 02-20-24.docx

Draft Pending Adoption

Attachment --
Health Actuarial (B) Task Force
12/dd/23

Draft: 12/11/23

Long-Term Care Actuarial (B) Working Group
Orlando, Florida
November 30, 2023

The Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met in Orlando, FL, Nov. 30, 2023. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sarah Bailey (AK); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Kyle Collins (FL); Weston Trexler (ID); Scott Shover (IN); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Bill Carmello (NY); Laura Miller (OH); Andrew Schallhorn (OK); Timothy Hinkel (OR); Jim Laverty (PA); Anamaria Burg (SC); R. Michael Markham (TX); Tomasz Serbinowski (UT); Shelly Knorr (WI); and Allan L. McVey and Joylynn Fix (WV).

1. Adopted its Summer National Meeting Minutes

McVey made a motion, seconded by Dyke, to adopt the Working Group's Aug. 12 minutes (*see NAIC Proceedings – Summer 2023, Health Actuarial (B) Task Force*). The motion passed unanimously.

2. Adopted its Oct. 2 Minutes

Lombardo said the Working Group met Oct. 2. During this meeting, the Working Group took the following action: 1) discussed a referral from the Health Risk-Based Capital (E) Working Group 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; and 2) discussed development of a single Long-Term Care Insurance (LTCI) Multistate Rate Review Approach.

McVey made a motion, seconded by Dyke, to adopt the Working Group's Oct. 2 (Attachment XX) minutes. The motion passed unanimously.

3. Adopted an AG 51 Proposal

Andersen introduced a proposal (Attachment XX) to add language to 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. He said the Working Group exposed a request for comments on the proposal, and no comments were received.

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

Andersen said the proposal will be forwarded to the Health Actuarial (B) Task Force for its consideration.

4. Heard an Update on the Development of a Single LTCI Multistate Rate Review Approach.

Lombardo said the Working Group has continued to discuss the development of a single LTCI multistate rate review approach for use in use in multistate actuarial (MSA) filing reviews to replace the currently used Minnesota and Texas approaches. He said the loss ratio approach is also considered in the MSA review process. Lombardo

Draft Pending Adoption

Attachment --
Health Actuarial (B) Task Force
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said representatives from the Texas Department of Insurance (TDI) and the Minnesota Department of Commerce will give presentations on the Texas and Minnesota approaches.

Markham gave a presentation (Attachment XX) on the Texas approach. Serbinowski said he thinks there are significant drawbacks to the Texas approach. He said he has an issue with the approach, stating it does not recognize past losses, as there is no good definition of past losses. He gave an example of an LTCI product with no claims and no lapses in the first 10 years of the product's lifetime. Serbinowski said fewer lapses than expected may qualify as adverse experience, but the Texas approach will not allow a rate increase even though the deviation from expected lapses may qualify as adverse experience. He said the Texas approach is very unforgiving for certain types of adverse experience.

Serbinowski said in the case of shrinking blocks of business, the Texas approach only considers future experience. He gave an example of a block with a future expected loss ratio of 500%, with future claims much higher than future premiums. He said when only looking at the block prospectively, an error of 10% in estimating future claims results in an error of 50% in required future premiums. Serbinowski said that because of this sensitivity, the approach is doomed to failure for shrinking blocks of business. He said the approach relies heavily on being able to calculate future projections based on prior assumptions, and to the extent the company changes any of its modeling procedures, it is not easy to produce reliable future projections. Trexler said he agrees with the issues identified by Serbinowski. Markham said the Texas approach is based on assumptions, not experience, and when credibility is low for a company, assumptions are the main factor. He said the Texas approach can produce excessive rate increases in later years, but the TDI also considers the state of the block, and the company will likely be approved for only a small fraction of the increase indicated by the Texas approach. Muldoon asked if the Texas method could be adjusted to address the shrinking block issue, similar to the Minnesota approach. Markham said an appropriate adjustment is being researched.

Andersen gave a presentation (Attachment XX) on the Minnesota approach. Muldoon asked if the Minnesota method allows a company that realizes the granted increase is insufficient to request the additional increase when a phased-in rate increase is implemented. Andersen said the Minnesota method generally employs an "end game" approach but will consider exceptions if there are credibility issues with the company's morbidity data. He said a company will not be able to request an increase unless they can demonstrate adverse expectations going forward. Muldoon asked if it is possible for a state to replicate the results of the Minnesota approach as used in an MSA review. Andersen said prior to use in the MSA process, the Minnesota approach relied on a seriatim analysis with approximately 30 Excel worksheets to perform the calculation. He said an aggregate methodology that is simpler and more elegant has been developed for use in the MSA process. He said the MSA process relies on this transparent aggregate method that can be replicated by others. However, he still performs the prior seriatim methodology as a check.

Leung said he thinks there may need to be a limit placed within the LTCI Multistate Rate Review Framework (LTCI MSA Framework) upon cumulative rate increases, after which no future rate increases will be allowed. Serbinowski said it needs to be considered whether the block being reviewed is legacy business or future blocks of business where experience may not materialize due to the move toward hybrid products. He said that, in general, he advocates finding a way to close certain blocks to future rate increases depending on the amount of premium that has been collected and that is expected to be collected in the future.

Andersen said the Working Group has been charged by the Long-Term Care Insurance (EX) Task Force to develop a single LTCI multistate rate review approach for use in use in MSA filing reviews. He asked the Working Group what additional information it needs before forming an opinion on how the Working Group should move forward

Draft Pending Adoption

Attachment --
Health Actuarial (B) Task Force
12/dd/23

with this task. Markham said Texas will be more supportive of the Minnesota approach if it can be demonstrated that the supported rate increase is below the rate increase determined by the Texas approach in most cases. Lombardo said the MSA Team has seen divergent results produced by the Texas and Minnesota approaches through the MSA filing reviews. He said commissioners have commented on how the Texas and Minnesota approaches develop dramatically different recommendations when the MSA reviews are conducted.

Lombardo said the MSA Team considers the specific block's characteristics, such as the nature of the business, attained age distributions, average age, and other features, before developing a weighted approach that blends the two approaches' results. He said the commissioners then ask how the weights are determined, and this question is where the gaps lie in the MSA process. Lombardo said this is a significant motivation for the Working Group to develop a single approach that all stakeholders in the MSA process are comfortable with. He said he does not think it can be guaranteed that the Minnesota approach will result in a rate increase lower than that from the Texas approach because the MSA Team has seen instances where this is not the case. He said the Working Group seeks input from interested parties and hopes that an agreed-upon single methodology can be developed soon. Lombardo said he hopes that once the Working Group has received input from all stakeholders and discusses all relevant information, it can develop a single approach that more states can support. He said the Working Group needs to solve the issue related to reductions in recommended rate increases for older attained-age policyholders who have experienced large cumulative rate increases over the life of their policies. He said this is an issue commissioners have asked the Working Group to resolve. McVey said he would like to see a solution developed sooner rather than later.

Leung suggested a methodology that uses the lower of the results produced by the Texas and Minnesota approaches, with a limit placed upon cumulative rate increases, after which no future rate increases will be allowed. Serbinowski said that experience with a cumulative rate increase cap in Utah proved to not be feasible. He said, however, that anything the Working Group can develop that is uniform among the states will be beneficial. Lombardo said the Working Group will schedule a meeting to continue discussion of developing a single approach.

Jan Graeber (American Council of Life Insurers—ACLI) said there will always be adjustments that need to be made to any methodology due to certain situations. She asked if there is the possibility of revisiting the initial charge from the Long-Term Care Insurance (EX) Task Force to inform the work of the Working Group. She suggested the MSA Team develop a recommendation for each specific block and then work with the company to address any special situations.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/HATF/2023_Fall/11-30-23 LTCAWG/LTCAWG Minutes 11-30-23.docx

Recommendation on a single MSA actuarial approach after regulator feedback:

Recommendations based on apparent consensus:

1. Generally have lower rate increases for those at very advanced ages with high-duration policies that have had substantial past rate increases.

Appropriate implementation to avoid administrative and discrimination concerns may be to adjust the method for older blocks (which tend to have older policyholders that have been subject to substantial past rate increases) instead of differentiating rate increases by age within a block.

Recognize that high-duration policyholders have:

- tended to have the most benefit from what proved to be underpricing due to the number of underpriced premiums paid;
- tended to have been the most surprised by the magnitude of cumulative rate increases compared to any that could have been expected when the policy was issued.

2. Do not dismiss aspects of proposals labeled as “non-actuarial” by the ACLI.

Consider all proposals made thus far regarding incorporation into a single actuarial approach.

3. Balance between consumer protection and preventing further financial distress for insurers.

Further analysis may be necessary to assess certain attractive proposal aspects how they maintain this balance.

4. Continue including a catch-up provision in a single actuarial approach for attaining a similar rate level between states.

Align with actuarial soundness, consumer fairness, insurers’ financial sustainability, and regulatory considerations.

5. Continue to encourage buy-in from states on the MSA actuarial approach.

Perhaps LTC Task Force leadership could have individual meetings with states that tend to approve the lowest rate increases, providing information and addressing questions.

Acknowledge that some states that perform detailed reviews of state filings will tend to review and consider their own method and compare with the MSA recommendation; some states are committed to following the MSA recommendation. States that aren’t able to perform detailed reviews are more likely to rely on the MSA.

6. Pre-approve and phase in rate increases over a reasonable period of time as opposed to requiring annual re-filings.

Part of the reason is pre-approved phased-in rate increases transparently enable policyholders to make well-informed decisions about their LTC policy based on the most likely future rates.

Also, pre-approved phase-ins eliminate work effort for companies and regulators that often provides little value.

Recommendations, but split views among regulators:

7. If-knew weighting and additional cost-sharing considerations

Study impacts on rates and solvency of various weights (including the Utah proposal) as well as the potential effects of eliminating an explicit cost-sharing provision.

8. Maintain the flexibility of having a solvency provision but continue having the application be very rare.

Texas Responses:

I'll respond item by item, comments in blue.

Recommendation on a single MSA actuarial approach after regulator feedback:

Recommendations based on apparent consensus:

1. Generally have lower rate increases for those at very advanced ages with high-duration policies that have had substantial past rate increases.

Appropriate implementation to avoid administrative and discrimination concerns may be to adjust the method for older blocks (which tend to have older policyholders that have been subject to substantial past rate increases) instead of differentiating rate increases by age within a block.

Recognize that high-duration policyholders have:

- tended to have the most benefit from what proved to be underpricing due to the number of underpriced premiums paid;
- tended to have been the most surprised by the magnitude of cumulative rate increases compared to any that could have been expected when the policy was issued.

Texas shares this concern. Though rates are determined by issue age, and there is a concern that the younger policyholders will bear an unfair burden of the financial costs and violate Texas Insurance Code 560.002 (c) (3) (B) regarding unfairly discriminatory rates.

(3) unfairly discriminatory if the rate:

(A) is not based on sound actuarial principles;

(B) ***does not bear a reasonable relationship to the expected loss and expense experience among risks;*** or

(C) is based wholly or partly on the race, creed, color, ethnicity, or national origin of the policyholder or an insured.

Texas supports both the MN Approach of limiting rate increases by remaining lives or the UT approach of limiting rate increases by remaining policy years.

2. Do not dismiss aspects of proposals labeled as “non-actuarial” by the ACLI.

Consider all proposals made thus far regarding incorporation into a single actuarial approach.

No Comment

3. Balance between consumer protection and preventing further financial distress for insurers.

Further analysis may be necessary to assess certain attractive proposal aspects how they maintain this balance.

Texas agrees with the comment. Texas has the concern that the underlying seriatim models may be unsustainable particularly in regards to inflation protection, which will support ever increasing rate increases.

4. Continue including a catch-up provision in a single actuarial approach for attaining a similar rate level between states.

Align with actuarial soundness, consumer fairness, insurers' financial sustainability, and regulatory considerations.

Texas agrees with the comment.

5. Continue to encourage buy-in from states on the MSA actuarial approach.

Perhaps LTC Task Force leadership could have individual meetings with states that tend to approve the lowest rate increases, providing information and addressing questions.

Acknowledge that some states that perform detailed reviews of state filings will tend to review and consider their own method and compare with the MSA recommendation; some states are committed to following the MSA recommendation. States that aren't able to perform detailed reviews are more likely to rely on the MSA.

Addressed in detail below.

6. Pre-approve and phase in rate increases over a reasonable period of time as opposed to requiring annual re-filings.

Part of the reason is pre-approved phased-in rate increases transparently enable policyholders to make well-informed decisions about their LTC policy based on the most likely future rates.

Also, pre-approved phase-ins eliminate work effort for companies and regulators that often provides little value.

Texas supports this position.

Recommendations, but split views among regulators:

7. If-knew weighting and additional cost-sharing considerations

Study impacts on rates and solvency of various weights (including the Utah proposal) as well as the potential effects of eliminating an explicit cost-sharing provision.

8. Maintain the flexibility of having a solvency provision but continue having the application be very rare.

No comment at this time.

Regarding Point 5 regarding a single approach.

Texas is not opposed to moving towards a single method, but have the following concerns:

1. Rate increases are intended to strengthen contract reserves for future liabilities. Since the TX method specifically addresses the deficiency in contract reserves, a rate increase above the TX method would most likely result in an immediate profit to insurers through the release of contract reserves.
2. There are times when a rate increase above the TX Method is justified. Primarily when even with the TX Method rate increase, rates would be below the marginal (aka if-knew) rate.
3. Texas has concerns that the following assumptions used for lifetime loss ratio type approaches may result in significantly higher rate increases than under the Texas Method:
 - Use of low discount rates – assuming rates below pricing and market yields will support larger increases, and
 - Assuming the initial pricing target loss ratio for future experience - this is contrary to the NAIC LTC Model Regulation (Rate Stabilization 58/85) and applies initial policy (acquisition) costs to rate increases. A similar adjustment should also be made in the determination of the “if-knew” premium to off-set initial administrative costs.

Long-Term Care Texas Comments

March 15, 2024



Regulators face the challenge of a balanced approach to their review of rate increases that is fair to both insurers and policyholders.

A fair balance requires the following:

- An actuarial model that is sustainable over the entire lifetime of the product,
- Maintaining adequate contract reserves, and
- Timely moderate rate increases when assumptions deteriorate to keep contract reserves adequate.

TDI | Summary of the Texas Method

- The Texas Method passes the **contract reserve shortage (or deficiency) with the revised assumptions to the policyholder in future premiums.**
- Premiums are adjusted so that the insurer bears no loss due to a contract reserve shortage. **The policyholder bears the full brunt of the contract reserve shortage.**

TDI | Texas Method Features

- Implementation of the Texas Method from inception enhances the ability to maintain the marginal premium as the life of the block progresses.
- A negative result under the Texas Method identifies a company that is relaxing contract reserve restrictions, while at the same time requesting a rate increase. The release of reserves may lead to short-term profitability, but also imperil the long-term feasibility of the company.
- Approval of a rate increase larger than the results of the Texas Method permit the company to achieve an immediate profit through the release of contract reserves.

- If prior increases result in premiums below the marginal premium, then the justifiable rate increase may not be sufficient to sustain the block.
- As available premium shrinks, the Texas Method, as well as other methods, support excessive rate increases in the later durations.
- When prior increases vary by state, states that have approved lower increases will have larger gaps from the marginal premium. The company will have larger contract reserve deficits in these states, resulting in larger justifiable rate increases.

TDI | Texas Concerns Regarding Other Approaches

Texas has concerns that the following assumptions used for lifetime loss ratio type approaches may result in significantly higher rate increases than under the Texas Method:

- **Low discount rates** – lifetime loss ratio projections are highly sensitive to the discount factor. The assumption of interest rates below pricing and market yields supports larger increases (a minimum of 5% is recommended), and
- **Assuming the initial pricing target loss ratio for future experience** - this is contrary to the NAIC LTC Model Regulation (Rate Stabilization 58/85) and applies initial policy (acquisition) costs to rate increases. A similar adjustment should also be made in the determination of the marginal premium to off-set initial administrative costs.

The second bullet can be addressed by the following:

Minimum Loss Ratio Applicable to the Form – This value is set equal to $(.58 + .85 * C) / (1 + C)$, with C equal to cumulative rate increases *including* the recommended increase.

TDI | Addressing a Sustainable Actuarial Model

Unless the primary actuarial model is sustainable over the entire life of the product, no method is adequate to address deficiencies. Regulators are forced to balance (1) a fair premium to policyholders based on the age at policy issuance, and (2) a premium that insurers need to maintain the sustainability of the block.

Given the current state of LTC blocks, a premium that is fair to consumers might make the block unsustainable and may force insurers into bankruptcy if the company cannot sustain the loss. Approval of numerous, large rate increases may save the insurer, but force policyholders into dramatic benefit reductions, or to lapse coverage.

A major component of the unsustainable model is inflation protection that see increases in benefits without increases in premium.

R. Michael Markham, FSA MAAA

Senior Actuary, Director, TDI

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Minnesota approach and MSA concepts

Fred Andersen, FSA, MAAA

Chief Life Actuary, Minnesota Department of Commerce

Consensus MSA concepts

1. “85/25” issue
2. Consider proposals labelled as “non-actuarial” by ACLI
3. Balance: consumer protection and preventing insurer financial distress
4. Include catch up to move towards a similar rate level between states
5. Encourage buy-in from states on the MSA actuarial approach
6. Pre-approve and phase in rate increases over a reasonable period of time

“85/25” issue

- Lower rate increases at very advanced ages with high-duration policies
 - When have had substantial past rate increases.
- MN approach, current
 - Weighting towards if-knew approach and additional cost-sharing partially address this issue
 - But still, rate increases for the 85/25 group appear “too high”
- MN approach, potential adjustment to address the issue
 - Increased cost-sharing for high cumulative rate increases (typically impacting the 85/25 blocks of business) could mainly address this.
 - Prevent cliff effect by perhaps grading in the impact between ages 85 & 90

Proposals labeled “non-actuarial” by ACLI

- Cost sharing, addressing 85/25 issue are examples
- MN approach, current
 - Aspects (blending, cost-sharing) have been accepted as part of the MSA approach
- MN approach, potential adjustment to address the issue
 - Further refinements should be considered if helpful to achieve desirable concepts

Balance: consumer protection and preventing insurer financial distress

- Methods resulting in excessive or inadequate rate increases may be in conflict with this concept
- MN approach, current:
 - Frequent vetting and many cases to ensure this balance
 - The 85/25 issue has been identified as a concern re: the MN approach
- MN approach, potential adjustment to address the issue:
 - Revise cost-sharing weights
 - Lower cost sharing when smaller cumulative rate increases
 - Reflective of younger block
 - Increase cost sharing when higher cumulative rate increases
 - Reflective of older block

Include catch up to move towards a similar rate level between states

- Movement towards a similar rate level between states has been a stated goal of the LTC Task Force
- MN approach, current:
 - A cumulative rate increase is determined and prior approved rate increases backed out to determine the current approvable rate increase
 - Can easily be applied to state specifics re: past rate increases to attain the rate increase to get to that similar rate level
 - Has been executed on all relevant MSA filings
- MN approach, potential adjustment to address the issue:
 - No adjustments needed

Encourage buy-in from states on the MSA actuarial approach

- Ideally, a single MSA approach would also be applied by many states for their state-specific reviews of non-MSA filings
- MN approach, current:
 - Adopted as one of the MSA approaches
 - Applied and fairly widely accepted regarding MSA filings in states
 - Heavily vetted for several years in regulator and public settings
 - Some concerns expressed re: handling of 85/25 issue
- MN approach, potential adjustment to address the issue:
 - Increased cost sharing at higher cumulative rate increases
 - Discussions with states to try to attain consensus, leading to the consensus concepts document

Pre-approve and phase in rate increases over a reasonable period of time

- Pre-approval and phase in is preferred by a consensus of members versus requiring annual re-filings
 - Allows policyholders to make RBO decisions based on all of the information the company and insurance department knows
 - Preserves resources
- MN approach, current:
 - Can be applied either with the full increase implemented at once or as pre-approval of a phased-in rate increase
 - 15% or 20% per year or higher depending on company financial concerns
- MN approach, potential adjustment to address the issue:
 - No adjustment needed

TBD MSA concepts

7. If-knew weighting
8. Additional cost-sharing considerations

If-knew weighting

- How to lessen the burden on the remaining block
 - Loss ratio or makeup approach would result in full burden for the remaining block
 - Premiums would exceed expected policy costs at later durations
 - If-knew approach would result in fairly minimal burden for the remaining block
 - Premiums would be well below expected policy costs at later durations
- MN approach, current:
 - Based on percentage of original policyholders remaining
 - Early durations: weighting more towards the makeup premium
 - Later durations: weighting more towards the if-knew premium
 - Gradual change of weighting by duration (gradual slope)
 - Blended method should result in premiums not exceeding expected policy costs
 - But remember that the additional cost-sharing formula further lessens the burden for policyholders, based on the cumulative rate increase amount
- MN approach, potential adjustment to address the issue:
 - Utah proposed steeper slope and elimination of additional cost sharing

Additional cost-sharing considerations

- MSA MN approach contemplates, in rare, extreme cases, waiver of the additional cost-sharing provision
 - Intended to allow flexibility by commissioners to help prevent an insolvency
- MN approach, current:
 - Cumulative since policy issue weighted rate increase is reduced by:
 - 10% for the cumulative rate increase between 15% and 50% up to
 - 50% for the portion of cumulative rate increase in excess of 150%
 - Can be adjusted or waived in rare, extreme cases
 - Important to note that premiums will still not exceed expected policy costs due to the weighted make-up, if-knew aspect still being in place
- MN approach, potential adjustment to address the issue:
 - Not yet a consensus on whether to change the option to waive additional cost-sharing