

Actuarial & Finance

LTC Closed Blocks: Old Business, New Complexities

Justin Mosbo, Chief Pricing Officer, Nassau Re

Shawn Stender, Assistant Actuary, Milliman Inc

Rhonda Ahrens, L & H Actuarial Examiner, NE DOI



18th Annual Intercompany Long Term Care Insurance Conference

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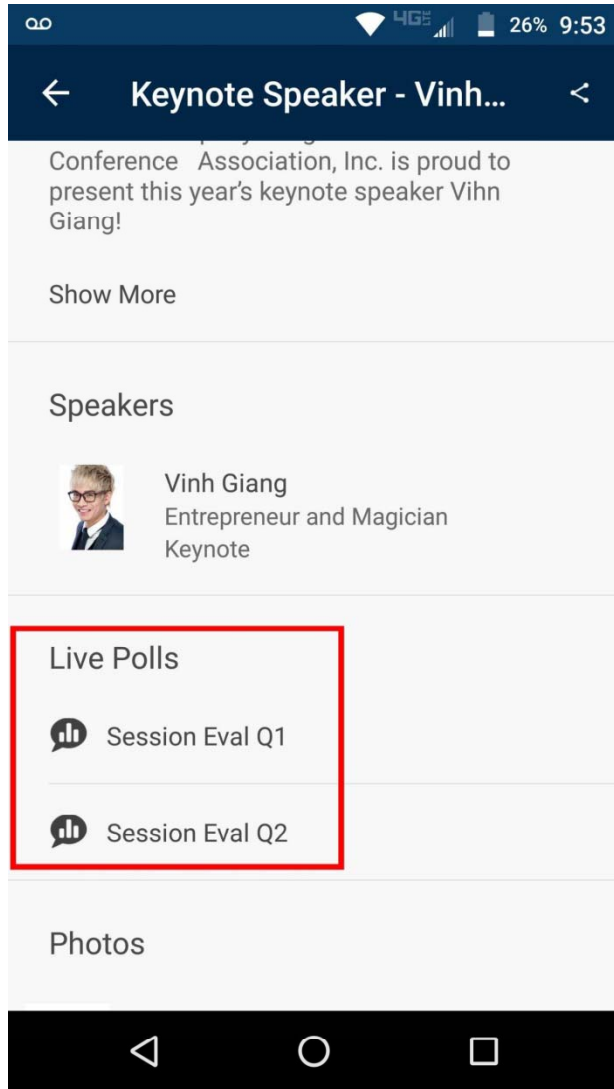
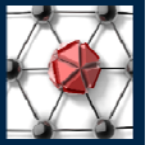
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LTC Closed Blocks: Transaction Considerations

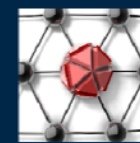
Justin Mosbo

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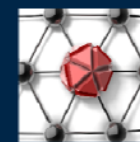
Recent Market Developments



- General exit from the market of historically key players
- Reserve strengthening announced by several companies, some of which caught analysts and investors by surprise, after thorough assumption reviews
- Penn Treaty liquidation process and knock-on impacts
- Highly publicized Genworth / China Oceanwide transaction
- New capital entering the space, looking to provide potential solutions
- New, creative and collaborative solutions being discussed to address legacy block challenges

Recent developments have further increased the focus on legacy LTC blocks by all stakeholders.

Recent LTC Transactions

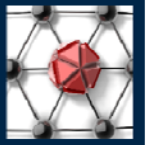


Year	Seller	Purchaser	LTC reserves - est. (\$ in millions)
2014	Ability Re	Front Street Re	\$350
2015	American Financial Group	HC2 Holdings	\$800
2016	Universal American Corp.	Nassau Reinsurance Group	\$200
2017	Humana	HC2 Holdings	\$2,200

- GNW / China Oceanwide update
- Public interest expressed by others in divesting legacy LTC blocks

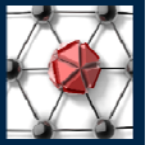
Limited LTC transactions have occurred to date given low interest rates and differing views on LTC risks.

LTC From a Buyer's Perspective



- Large market opportunity with motivated sellers
- Opportunity to bring new and creative solutions to the table
- Complicated risk profile with material downside risk
- Important regulatory considerations
- Continued low interest rates and low yield environment are a challenge
- Risks, tolerances and capital situation differs by block and by seller
- Historically large bid/ask spread with Sellers
- Liability experience has historically deteriorated, are assumptions credible?
- Headline / market perception risk
- If Buyer enters a successful deal, will it be accretive to value?

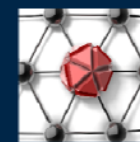
Why Consider Transacting



- **Why consider transacting?**
 - Stock sale
 - Reinsurance
- **Potential benefits**
 - Capital relief
 - Risk reduction
 - Price verification
 - Message to the market
- **What can Buyers bring to the table?**
 - Capital
 - Creative solutions
 - New perspectives
 - Business partnership

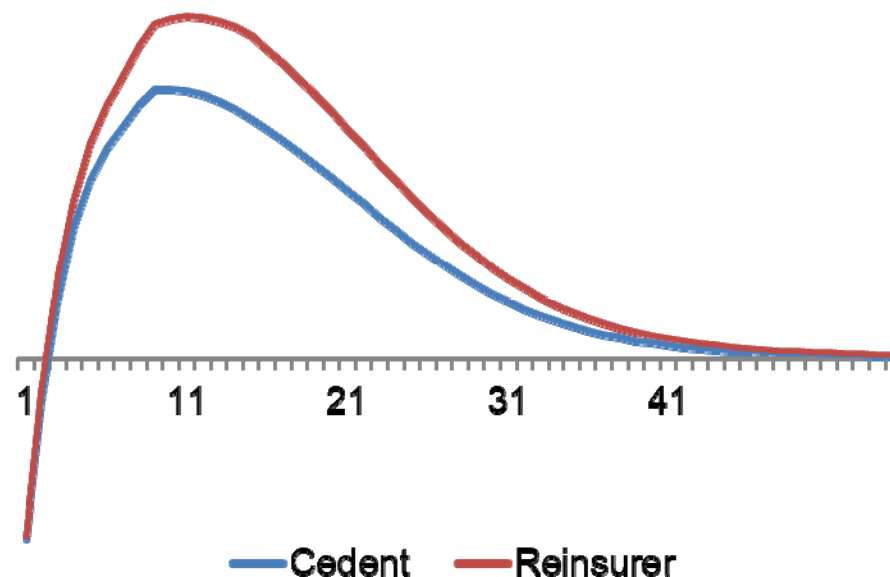
Thinking about the risk from a Buyer's perspective can provide new insights into recurring issues.

Common Transaction Challenges



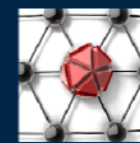
- **Liability assumptions**
 - Morbidity rates / improvement
 - Claim utilization
 - Claim cost inflation
 - Lapse rates
 - Expenses
 - *Data credibility*
- **Asset assumptions**
 - Future interest rate levels
 - Investment strategy / 'alpha'
- **Counterparty risk, collateral and 'finality'**
- **Premium rate increases**
- **Brand, customer relationship and policy administration**
- **Regulatory considerations**

Net Liability Cash Flows



Successful transactions will increasingly require collaboration with all key stakeholders.

Preparing for a Successful Transaction

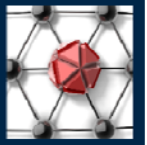


Tips for the Seller

- Get internal consensus early
- Define what success looks like
- Agree on a risk/capital budget
- Clean up data & models
- Build analytical tools
- Engage with regulators early
- Think outside the box

What to Expect from the Buyer

- Preference for simpler LTC blocks with fewer variables, possibly by bifurcating risks through creative structures
- Rigorous evaluation of the downside risks
- No desire to pay for assumptions not backed by credible data
- Clarity on rate increases past, present and future
- New approaches to existing challenges



QUESTIONS?

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**LTC Closed Blocks:
Life After the Consumer-
Friendly Rate Increase**

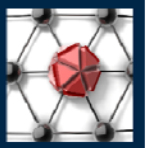
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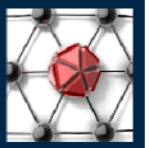
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Agenda



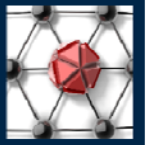
- Company, regulator, policyholder
- “Innovative rate mitigation options”
- Other methods to minimize increase impact
- Justified increases
 - What does “justified” mean?
 - Certification to rate stability
 - Company / regulator management
- What’s next?

Company, regulator, policyholder



- All in this together
- Old roles / new roles
- Policyholder first

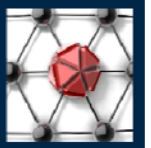




Landing spots

- Background
- Difficulties
 - Implementation
 - Communication
 - Justification
 - Modeling
- What's next?

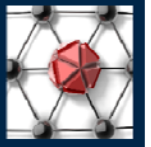




Alternatives to landing spots

- Unique (and detailed) notification letters
- “Pre-packaged” benefit reductions
- Exchanges
- Others?





Phase-ins

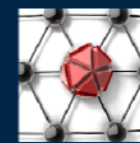
- Understanding impact
- Implementation

Guarantees

- 2 years, 3 years, 5 years.... 15 years?!
- Actuarial perspective
- Legal perspective



Justified increases

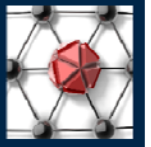


What does “justified” mean?

- Company versus regulator definition
 - “Needed” versus “justified”
 - Recouping past losses
- Impact of political caps
- Rate increase variance
- New business

Benefit Period	Requested Increase	Needed Increase	Portion Requested
Non-Lifetime	20%	100%	20%
Lifetime	100%	500%	20%

Justified increases

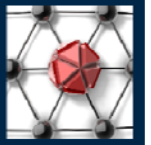


Certification to rate stability

- Implications of having previously certified
- Requesting follow-up increases
- Shrinking blocks
- Threshold for future increases



Justified increases

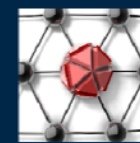


Company / regulator management

- Simple fact: management changes (both company and regulator!)
- Company management
- Regulator management



What's next?



Consumer friendly rate increases aren't going anywhere

- Rate increase complexity
- Regulatory changes
- Impact on new business

Continued industry and regulator conversations (NAIC Subgroups)

- LTC B/E
- LTC Pricing
- LTC Valuation



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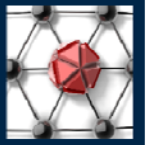
LTC Closed Blocks: Regulator Perspective

Rhonda Ahrens

**Life and Health Actuarial Examiner
Nebraska Department of Insurance**



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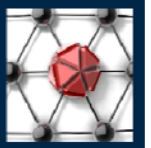


Interested NAIC Groups

- LTC Insurance (B/E) Task Force
- LTC Valuation Subgroup
- LTC Pricing Subgroup
- Other B Committee Subgroups

Key Issues Being Monitored

- Solvency
 - or Insolvencies, Additional Reserves, and Quotes in Articles
- Fair and Reasonableness of Risk Transfer
 - Change in Block Ownership
 - Increases in Premium



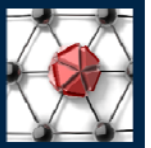
Related to Closed Blocks

- Insurance Business Transfer Concept
- Solvency Concerns/Guaranty Association
- Reporting of Developments in Experience
- Rate Increase Uniformity

Other

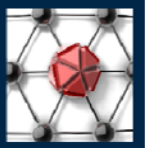
- Enable New Product Innovation

Solvency Monitoring Topics



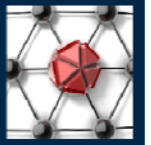
- LTC Valuation Subgroup
 - Actuarial Guideline 51 effective 12/31/2017
 - Approximately 50 reports expected
 - Experience Reporting Review
- Valuation Analysis Work Group
 - AG51 Review Subgroup
 - Report to LTC(B/E) Task Force(August 2018)
- Other Regular Activity
 - Claim Reserve Development
 - Annual GPV Analysis

Rate Increase Monitoring Topics



- LTC Pricing Subgroup
 - Uniformity*, Transparency, Predictability
 - Risk Sharing
 - Past Losses
 - Small Remaining Block
 - Fairness of Benefit Reduction Options
 - LTC Benefit Adjustment Subgroup (Inflation topic)
 - (Other thoughts on “trendy” options)
- LTC Valuation Subgroup
 - Assumptions for Future Increases
- Combined Subgroups
 - Consistency of Assumptions

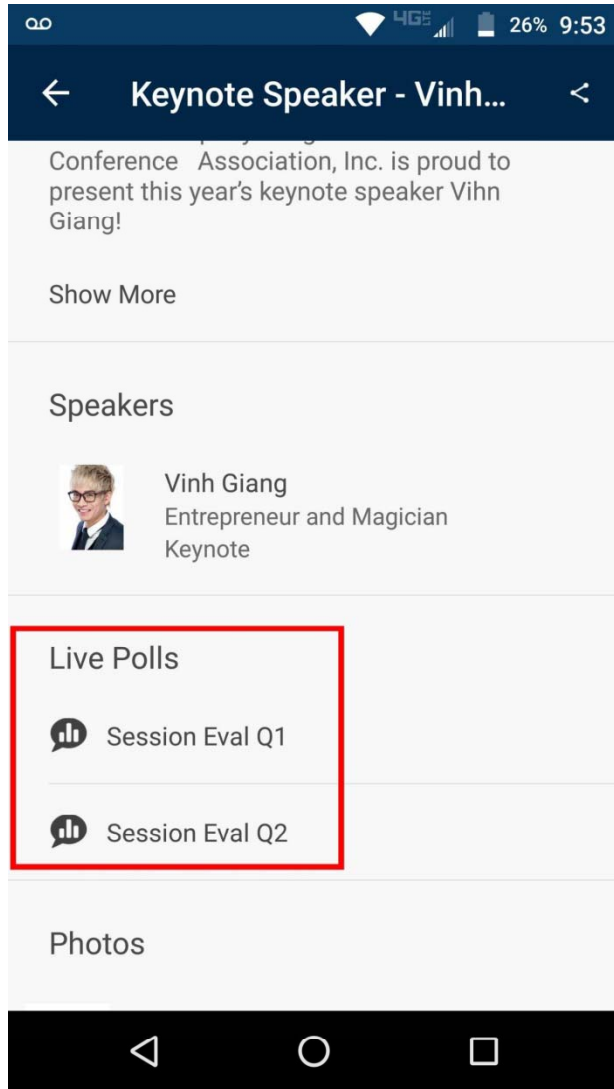
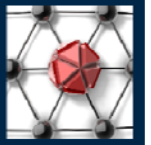
Regulating Any LTC Block (Closed or Open)



- Balancing Consumer Protections
 - Fair and Reasonable Rates
 - Premiums Compared to Benefits
 - Solvency of Closed Blocks*
 - Risk Sharing (Consumer vs. Company)
- Various Levels of Understanding and Focus
 - Commissioner Level
 - NAIC Actuarial Subgroup Level
 - Rate Review Staff
 - Financial Solvency Staff
 - Approvals of Business Transfers/Sales

(Regulator Education and Awareness)

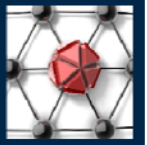
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