Rate Increase Topics
Session # 23

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ILTCI

Introduction

- Survey responses
- Key discussion topics of most interest
- Appendix

Survey Responses

Survey Responses – Question # 1

How much of your time do you currently allocate to supporting the rate increase function?

	Responses	
None	6	10%
1% to 10%	19	32%
11% to 25%	11	19%
26% to 50%	10	17%
51% to 75%	9	15%
> 75%	4	7%
	59 Total	

Survey Responses – Question # 2

Which topics are of most interest to you (select up to five)?

Top Answers (# responses)

- Defining moderately adverse assumptions (36)
- Impact of proposed regulatory changes (31)
- Justifying new versus original assumptions (27)
- Sharing losses between insured and carrier (25)
- Uniformity (or lack thereof) in state reviews (20)
- Adjusting for credibility (nationwide/state experience) (20)

Survey Responses – Question # 2 (cont.)

- Other topics (continued)
  - Impact on reserves (18)
  - Alternatives to rate increase (15)
  - Application of loss ratio requirements (14)
  - Implementation strategies (14)
    - Single versus phased-in, partial versus full
  - Accounting for partial lapses (11)
  - Variation in interest discounting rates/methods (10)
  - Margins (8)
  - Pooling of experience of like-kind forms (8)
  - Sensitivity testing (6)
  - Contingent non-forfeiture (6)
  - Limitations imposed by new business rate levels (5)
  - Guarantees (2)

Survey Responses – Question # 2 (cont.)

- Write-in topics
  - Recouping past losses (3)
  - Florida’s approach (1)
  - When regulators don’t follow their regulations (1)
  - When states base approval on other states’ activity (1)

Survey Responses – Question # 3

How do you perceive the LTC insurance industry's ability (from an actuarial perspective) to achieve desired rate increases today, relative to 5 years ago? 10 years ago?

	5 years ago	10 years ago
Much easier	1	2
Somewhat easier	6	5
About the same	9	5
Somewhat more difficult	36	21
Much more difficult	4	23
No reply	3	3
	59	59

Survey Responses – Question # 4

What actuarial issue(s) do you see as being the most difficult for the LTC insurance industry to overcome in obtaining necessary premium rate levels on inforce business?

Top Answers (write-in responses)

- State approvals less than actuarially justified (10)
- Credibility of experience (7)
- Unable to recoup past losses/keep future profitable (6)
- Rate increase based on future, not past (5)
- Interest rates/Low investment returns (4)
- Justification of original versus revised assumptions (4)
- Moderately adverse assumptions/rate stability (3)

Survey Responses – Question # 5

What would you most like to learn by attending this session?

Response Categories (detailed answers in Appendix)

- Regulatory (12)
- Pricing strategies (10)
- Assumption setting (8)
- State activity (5)
- Other (5)

Key Discussion Topics

Key Discussion Topics of Most Interest

Top Survey Answers

- Defining moderately adverse assumptions (36)
- Impact of proposed regulatory changes (31)
- Justifying new versus original assumptions (27)
- Sharing losses between insured and carrier (25)
- Uniformity (or lack thereof) in state reviews (20)
- Adjusting for credibility (20)
- Recouping past losses (top write-in response)

Moderately Adverse Assumptions

- Initial filing requirement:
  - A statement that the initial premium rate schedule is sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated.
- Applicable to pre-rate stability policies?
- Consideration set for each assumption
- Combining assumptions
- Sensitivity testing
- How adverse is adverse?

Proposed Regulatory Changes

NAIC

- Long-Term Care Actuarial (B) Working Group
  - Long-Term Care Pricing (B) Subgroup
  - Long-Term Care Valuation (B) Subgroup
- Health Insurance and Managed Care (B) Committee
  - Senior Issues (B) Task Force

NAIC Activity

- Model Bulletin (focus on existing policies)

  "Announcement of Alternative Filing Requiring Requirements for Long-Term Care Premium Rate Increases"
- Draft revisions to NAIC LTC Insurance Model Regulation (impacts new policies with discussions on implications for existing contracts)
  - Sections 10, 15, 20, 27 and 28

Justifying New vs. Original Assumptions

- Morbidity, Mortality, Lapse, Interest
- How credible is the emerging experience?
- When to change assumptions
- When to use industry experience?
- Timing of emerging experience versus rate increase request
- Importance of documentation for development of original assumptions to compare to new assumptions

Sharing Losses Between Insured/Carrier

- What is a reasonable amount of loss to be taken by the company?
- Are there required projected return implications?
- Does level of shared loss vary based on proactive management?
- Does a reduced loss sharing amount impact the viability of the LTCi marketplace?
- Kansas example provided in Appendix

Uniformity (or lack thereof) in State Reviews

- When actuarial justification fails to convince
- Disparate rates by state
- Can disapprovals create a past loss?
- When states base action on other states’ decisions

Adjusting for Credibility of Experience

- Nationwide versus state experience
- Methods utilized
- Justifying a rate increase with low credibility
- Justifying new assumptions with low credibility
- Company versus industry experience

Recouping Past Losses

- Assume proposed rate increase inforce since inception
- Include past rate increases or only proposed rate increase?
- What interest rate to use for discounting PVALs
- Circumstances under which recouping a past loss is not justified? Is justified?
- Example provided in Appendix

Appendix

Appendix

- Proposed Regulatory Changes
- Example of insured/carrier loss sharing
- Example of restriction on recouping past losses
- Responses to survey question # 5

Proposed Regulatory Changes

Draft revisions to Model Regulation

- Section 10 (Initial Filing)
  - Composite MAE margin > = 10% lifetime claims (can be > or < 10% under some circumstances)
  - Revisions to actuarial certification
  - Demonstration that gross premiums include margin

- Section 15 (Reporting)
  - Annual re-certification of new business rates and inforce business rates no longer sold
  - Certification requirement varies based on "currently marketed" criteria
  - Action plan requirements for premium rates no longer sufficient
  - Actuarial memo every 3 years

Proposed Regulatory Changes

Draft revisions to Model Regulation

- Section 20 (Rate Increases)
  - Quantify insured/company sharing of deteriorating experience
  - Demonstration that composite margin is projected to be exhausted
  - 58/85 rule changed to greater of 58% or pricing loss ratio including margins for MAE, 85% under discussion
  - Expected claims based on original filing until new assumptions are filed.
  - Can request rate increase smaller than needed to make certification that rates cover MAE without further rate increases expected

Proposed Regulatory Changes

Draft revisions to Model Regulation

- Section 27 (Premium Reduction / Notice)
  - Policyholder notification requirements
  - Restrictions on premium for reduction in coverage
- Section 28 (Contingent Nonforfeiture)
  - Policies >= 20th duration: 0% rate increase trigger
  - Policies < 20th duration: trigger > 100% reduced to 100%
  - Insurer required to offer to reduce benefits consistent with Section 27

Proposed Regulatory Changes

Section 20 of Model Regulation: 58%/85% Loss Ratio Test

- NAIC reviewing alternatives to 85%, as high as 100%
- Also testing X% instead of 58%
- Example:
  - – Current 58/85 test (using stat. val. Int. rate): 60% rate increase
  - – Alternative test (X% instead of 58%): 11% rate increase
    - Uses original pricing interest rate
    - X% is maximum of [58%, Original pricing lifetime loss ratio]
  - – Stress test: further limits rate increase to 5%
    - Rate increase cannot exceed rate level needed to achieve original pricing loss ratio had it been inforce since inception
    - (Projected lifetime loss ratio / Original pricing lifetime loss ratio) – 1 = 5%
  - – Other test: Future A/E must also be > 1.0

Proposed Regulatory Changes

Model Bulletin

"Announcement of Alternative Filing Requirements for Long-Term Care Premium Rate Increases"

- Adopted by Senior Issues (B) Task Force and Health Insurance and Managed Care (B) Committee in August 2013
- Pre and Post rate stability business (focus on Pre)
  - Assumptions
  - Approvals
  - Contingent benefit upon lapse
  - Policyholder notification letter
  - New loss ratio standards
  - Alternative methods

Sharing Losses Between Insured/Carrier

Long-Term Care Pricing (B) Subgroup – Kansas Example

- Proposed premiums can absorb MAE
- Consistency between assumptions in reserves and rate filing including statutory maximum valuation interest rate
- Dual rate increase cap
  - Rate increase cap # 1
    - Determined using a minimum required future loss ratio that is a function of average policy duration
  - Rate increase cap # 2 (applies if less than cap # 1)
    - If future projected premium before rate increase is less than 25% of the lifetime projected premium (X% < 25%), the cap equals 2 times X%
- Insured/Carrier loss sharing

  A = Future premium needed to achieve lifetime target loss ratio (maximum of 60% or original pricing loss ratio)

  B = Policyholder share of loss (smaller of cap # 1 or # 2)

  C = Company share of loss equals A minus B

Sharing Losses Between Insured/Carrier

Long-Term Care Pricing (B) Subgroup - Kansas Example

- Company provides equivalent rate mitigation options
- Special consideration for insureds at advanced attained ages
- Policyholder notification letter addresses key issues
- Single rate increase approval , no series of rate increases
- 5-year minimum rate guarantee
- No new rate increase unless MAE > 15%
- Inforce rates <= new business rates

Sharing Losses – Kansas Example Method

		Premiums	Claims	Loss Ratio	Rate Increase
A	PVAL Actual Past	$ 8,000,000	$ 4,000,000	50.0%	
B	PVAL Projected Future Without Rate Increase	$ 1,300,000	$ 2,600,000	200.0%	
C = A + B	PVAL Lifetime	$ 9,300,000	$ 6,600,000	71.0%	
D = B / C	PVAL Future / PVAL Lifetime	13.98%			
	Proposed Rate Increase				
E = B x 1.5	PVAL Proposed Future With Rate Increase	$ 1,950,000	$ 2,600,000	133.3%	50.0%
F = A + E	PVAL Proposed Lifetime	$ 9,950,000	$ 6,600,000	66.3%	
	Caps				
G	Minimum required future loss ratio based on avg. duration 11			150.0%	
H = E Claims / J	PVAL Capped Future due to minimum loss ratio requirement	$ 1,733,333	$ 2,600,000	150.0%	33.3%
I = 2 x D	Rate increase cap based on small remaining business				28.0%
J = B x (1 + I)	PVAL Capped Future due to small remaining business	$ 1,663,441	$ 2,600,000	156.3%	28.0%
K = A + J	PVAL Capped Lifetime	$ 9,663,441	$ 6,600,000	68.3%	28.0%
L	Original Pricing Lifetime Target Loss Ratio			58.0%	
M = Max (60%,L)	Revised Lifetime Target Loss Ratio			60.0%	
N = K Claims / M	PVAL Lifetime Needed to Reach Revised Target Loss Ratio	$11,000,000			

	PVAL Future Rate Increase Premium (Summary)		% Share		
O = E - B	Proposed	$ 650,000		O / B	50.0%
P = H - B	Cap due to minimum loss ratio requirement	$ 433,333		P / B	33.3%
Q = J - B	Cap due to small remaining business	$ 363,441		Q / B	28.0%
R = N - C	Amount Needed to Reach Revised Lifetime Target Loss Ratio	$ 1,700,000	100.0%	R / B	130.8%
S = K - C	Policyholder Share of PVAL Future Rate Increase Premium	$ 363,441	21.4%	S / B	28.0%
T = R - S	Company Share of PVAL Future Rate Increase Premium	$ 1,336,559	78.6%	T / B	102.8%

Recouping Past Losses – No Rate Increase

Actual and projected experience before rate increase

	Premium	Claims	Ratio
Past	50,000,000	20,000,000	40%
Projected	50,000,000	100,000,000	200%
Total	100,000,000	120,000,000	120%

Recouping Past Losses - Caps

If the only restriction is a 60% lifetime loss ratio => 200% rate increase

	Premium	Claims	Ratio
Past	50,000,000	20,000,000	40%
Projected	150,000,000	100,000,000	67%
Total	200,000,000	120,000,000	60%

Add requirement that new rate level has been received since inception => 100% rate increase

	Premium	Claims	Ratio
Past	100,000,000	20,000,000	20%
Projected	100,000,000	100,000,000	100%
Total	200,000,000	120,000,000	60%

Recouping Past Losses – Rate Increases

What experience could have been if 20% past rate increase had not been disapproved

	Premium	Claims	Ratio
Past	60,000,000	20,000,000	33%
Projected	60,000,000	100,000,000	167%
Total	120,000,000	120,000,000	100%

If a 20% increase had been approved in the past, a future premium increase is capped at 66.7% if applied to past and future. Combined increase is 20% in past and 100% in future (1.2 x 1.667 – 1 = 100%)

	Premium	Claims	Ratio
Past	100,000,000	20,000,000	20%
Projected	100,000,000	100,000,000	100%
Total	200,000,000	120,000,000	60%

Recouping Past Losses - Results

What experience could have been with 100% inception-to-date rate increase (20% in past and 66.7% in future)

	Premium	Claims	Ratio
Past	60,000,000	20,000,000	33%
Projected	100,000,000	100,000,000	100%
Total	160,000,000	120,000,000	75%

What experience actually is based on 20% increase disapproved in past and 100% increase approved in future. Both scenarios have the same current rate level (100% higher than original), but the 20% rate increase disapproval created a $10M loss that cannot be recouped based on the method applied.

No past approval	Premium	Claims	Ratio
Past	50,000,000	20,000,000	40%
Projected	100,000,000	100,000,000	100%
Total	150,000,000	120,000,000	80%

Survey Responses – Question # 5

What would you most like to learn by attending this session?

Regulatory (12)

- Impact/Status of proposed NAIC/state regulations (6)
- Understanding regulator concerns/finding common ground with regulators (2)
- How regulators balance justified increases and political pressures
- Prevalence of state hearings to achieve desired rate increase
- Providing what regulators want in a rate filing and how best to provide it
- Industry reactions to changes in regulations

Survey Responses – Question # 5 (cont.)

What would you most like to learn by attending this session?

Pricing Strategies (10)

- Success strategies for receiving state approvals (2)
- Demonstrating/understanding methods to not recoup past losses (2)
- How to successfully maximize the rate increase (2)
- Primary sources of rate increases
- Alternatives to rate increases
- Effect of inforce rate increases on new product filings
- Strategies for increasing rates for low interest rates

Survey Responses – Question # 5 (cont.)

What would you most like to learn by attending this session?

Assumption setting (8)

- Justifying a rate increase with limited credibility (2)
- Justifying changes in assumptions (2)
- Setting correct assumptions and margins
- How to explain large differences between current and original assumptions and why margins were inadequate
- Was there agreement between states and companies that original rates/assumptions were reasonable?
- How to track and project impact of benefit reduction options (CNFO, GPO, lapse, riders, etc.)

Survey Responses – Question # 5 (cont.)

What would you most like to learn by attending this session?

State Activity (5)

- Navigating lack of state uniformity (2)
- State activity to limit rate increases
- Recent state trends in evaluating rate increase requests
- Specific state challenges (e.g. which states follow the approval/disapproval activity of other states?)

Survey Responses – Question # 5 (cont.)

What would you most like to learn by attending this session?

Other (5)

- What others have experienced in getting rate increases on pre versus post rate stability business
- Industry practices with respect to timing of rate increase requests once losses are projected
- Reasons why rate increases are not accepted
- Ideas for balancing the demands of shareholders with fair and reasonable treatment of policyholders.
- Strategies for receiving approval of large increases

Thank You