

Legal, Compliance & Regulatory

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Rate Increase Innovation: What's next in Mitigation, Communication & Implementation

Panel Goals

- Discuss rate increase observations from various perspectives: actuarial, insurer, legal, technological
- Facilitate conversation about potential innovation opportunities
- Discuss potential risks and issues associated with certain opportunities
- Evaluate the historical rate increase mitigation structure
- Next generation in rate increases?

Background

- Rate increases have been at the forefront of LTCi for years
- Regulatory efforts substantially focused on rate increase requests
- Post-approval, implementation efforts and defense against litigation has required significant investment of time and effort
- Prior rate increases have not, in general, prevented future rate increase requests for same blocks
- Efforts at stemming the tide of rate increase requests have not been particularly successful (*e.g.* rate stabilization)

Current Landscape

- As experience evolves, blocks continue to need substantial rate relief
- Regulatory community has expressed desire for innovative solutions
- Several blocks have encountered solvency issues
 - Penn Treaty and Senior American are in liquidation
 - AF&L and SHIP are in rehabilitation
- Some recent rate increase requests have included non-traditional options, *e.g.* buy-outs, modified RPU
- NAIC Rate Increase Task Force – Chaired by Commissioners White/Conway

NAIC Long-Term Care Insurance (EX) Task Force

- Develop a consistent national approach for reviewing LTCI rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization.
- Further evaluate and recommend options to provide consumers with choices regarding modifications to LTCI contract benefits where policies are no longer affordable due to rate increases.
- Deliver such a proposal to the Executive (EX) Committee by the 2021 Summer National Meeting.

Traditional Rate Increase Options

- Accept rate increase
- Drop riders or provisions
- Benefit reductions
- Reduced paid up
- Freeze benefit levels

Potential Other Options

- Buy Outs
- Hybrid buy-outs
- Policy reformation
- Coinsurance
- Exchange Programs (1035 type exchanges)

Insurtech view - more options with technology

1. Simulation of all scenarios/combinations to find the most optimal set of options
2. Analysis to minimize adverse selection
3. Addition of policy features/requirements
 - Easier reachout and/or mandated data collection
 - Dementia and disability prevention programs
 - Providers networks with or without incentives (e.g. quality and cost improvement)
 - Managed care and support for aging in place

Risks and Issues

- Anti-Selection
- Litigation
- Tax risk
- Discrimination
- Regulatory issues
- Rebating
- Broker issues
- Third party administrators
- Reinsurance

Case Study: Hypothetical Block Demographics

- 75,000 policies
- Closed block
- Avg attained age 74
- Benefit provisions
 - 32% unlimited lifetime benefits
 - 90% ROB
 - 60% 5% compound inflation protection
 - 2% other inflation protection
- 93% premium paying, 10% on claim (waiver)
- Of those on claim, 50% HHC, 25% ALF, 25% SNF

Case Study: Considerations

- Which rate increase mitigation options work best for this population?
- Where are anti-selection concerns most prevalent?
- Which variables drive anti-selection?
- Are there options that, given the demographics of the block, are worse for policyholders?
- What considerations are most significant in crafting a menu of rate increase mitigation options for review by regulators?
- What disclosures and other communication should be considered, given the demographics of this block, to mitigate litigation risk?