Minnesota LTCi Hearing
August 27, 2015

Rhonda Ahrens, FSA, MAAA

Life and Health Actuary

Nebraska Department of Insurance

Regulatory Focus for LTCi Rates

- Policyholder Protection
- Uniformity in Rate Review
- Long-Term Solutions for LTC insurance

Policyholder Protection

- Fair and Reasonable Rates
  - Not too high
  - Not too low
- Policyholder Persistency even after Rate Increases
  - Increased utilization from higher persistency and longer claims
- Policyholder Protection from Insolvencies
  - If too little premium is collected, the result could be the inability to pay claims
  - The longer it takes to predict or realize higher claims are probable, the higher the rate increase needs may be
- Policyholder Communication and Options Available after the rate increase
  - A time to review coverage and manage premiums (it should be noted that a rate increase is not necessary for many options to be available)
  - Full disclosure of future plans of the company
    - What increases are justified and planned, given what is known now
    - Guaranteed renewability of the policy allows for future experience to develop and result in further rate increases beyond those planned

Uniformity in Rate Review

- LTC Model Regulation
  - Loss Ratio/Pre-Rate Stability
  - Rate Stability
- NAIC Model Bulletin: “Alternative Filing Requirements for LTC Premium Increases”
- NAIC: LTC Rate Increase Review Process Subgroup
- Minnesota: Minnesota Actuarial Method

Uniformity – Model Regulation

- Provides a basis for Loss Ratio requirements
- Pre-Rate Stability – requires a minimum Loss Ratio of 60%
- Rate Stability (Model adopted by states 2000-2002)
  - Requires insurers to price conservatively
    - Actuary must certify that filed rates include a margin for adverse deviation
    - Feature intended to make future increases less likely
  - Stricter Loss Ratio requirement for increases
    - 85% for increased premium
- Does not necessarily promote uniformity of application

Uniformity – Model Bulletin

- Adopted in Nebraska as CB-133 (1/28/15)
- Clarifies the Rate Review process in states issuing the bulletin
  - The regulatory actuary helps determine reasonable assumptions
  - Individual states can collaborate on similar filings made within 18 months of one another
  - Policyholder Considerations
    - Provides guidance on approval of full increase or series of scheduled increases, including recertification of scheduled increases
    - Enhances /Clarifies Contingent Nonforfeiture Benefits Requirements
    - Establishes Policyholder Notification Requirements
    - Establishes Stricter Loss Ratio minimum for Pre-Rate Stability forms
    - Allows for Insurer to make available “other options” to insureds upon regulator approval

Uniformity – NAIC Subgroup

- LTC Rate Increase Review Process Subgroup
  - Minnesota appointed Chair by Texas(Chair of the LTC Pricing Subgroup)
  - Nebraska is a member
- Subgroup Goals
  - Developing a more refined process for reviewing rate increase filings
  - Attempting to increase collaboration among states
  - Attempting to balance preventing financial distress to an insurance company and being fair to the consumer
  - Other goals are clearer expectations and increased transparency
  - In Nebraska we are interested in this process and are following the basics of the Minnesota Actuarial Method for our outstanding LTC filings
- Ultimate Desired Result
  - To get as many other states as possible to agree with and adopt the process

Uniformity – Minnesota Actuarial Method

- Minnesota Statute requires:
  - Loss Ratio minimums consistent with the Model Regulation
  - Fair and Reasonableness of Premiums(Minn. Statutes Section 62A.02)

- Minnesota Actuarial Method
  - A loss ratio based rate review
  - Bounded by fair and reasonableness of premium standards
  - Aspects of fair and reasonableness
    - Reflection of aspects that affect performance of a long-term product
    - Impact of investment return
    - Fairness of rate increases across ages and benefit structure
    - Verification of the impact of key assumptions on premiums
      - In-depth focus on the effects of the morbidity assumption developments

Uniformity –
MN Actuarial Method in Other States

- Fair and reasonableness standard not always explicitly required in statute/regulation
- Model Regulation – implicit reasonableness standards
  - “Benefits under LTCi policies shall be deemed reasonable in relation to premiums provided the expected loss ratio [meets minimum standards]”
  - “In evaluating the expected loss ratio, due consideration shall be given to all relevant factors including”
    - Credibility of experience (incurred claims and earned premiums)
    - Period of coverage (long-term nature)
    - Experience and projected trends
    - Concentration of experience in early durations
    - Expected claim fluctuation
    - Experience refunds, adjustments or dividends
    - Renewability features
    - Appropriate expense factors
    - Interest
    - Experimental nature of product
    - Policy reserves
    - Mix of business
    - Product features (long elimination periods, high deductibles and high maximum limits)
  - Any actuarial review requires additional professionalism standards promulgated by the Actuarial Standards Board within the Actuarial Standards of Practice
- Consistent with Minnesota Actuarial Method

Uniformity –
MN Actuarial Method vs Model Regulation

Fair and reasonableness aspects of MN Method

- Reflection of aspects that affect performance of a long-term product
  Model Regulation: Period of Coverage, Concentration of experience in early durations

- Impact of investment return
  Model Regulation: Interest

- Fairness of rate increases across ages and benefit structure
  Model Regulation: Mix of business, Product features

- Verification of the impact of key assumptions on premiums
  Model Regulation: Credibility of Experience, Experience and projected trends, Concentration of experience in early durations, Expected claim fluctuation, Experimental nature of product(affects credibility of experience)

- Other considerations in MN Method
  Model Regulation: Experience refunds, Renewability, Expenses, Reserves

LTC Solutions for New Business

- Risk-focused solution from Industry
  - More conservative assumptions
    - Zero Lapse rate
    - Lower interest rates
  - Pricing that is insulated from mix of business
    - Sex-distinct rating
  - Discontinuance of Richer Benefits
    - Lifetime Benefits are almost extinct
    - Inflation options
  - Participating Products

Conclusion

- Policyholder Protection revolves around fair and reasonable premium rates and policyholder options
- Uniformity in rate review is needed across state lines
- For new business, industry has addressed rate increase risk through conservative assumption setting and other adjustments to product pricing and design