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