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Long-Term Care Actuarial (B) Working Group

Orlando, Florida

November 30, 2023

The Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met in Orlando, FL, Nov. 30, 2023. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sarah Bailey (AK); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Kyle Collins (FL); Weston Trexler (ID); Scott Shover (IN); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Bill Carmello (NY); Laura Miller (OH); Andrew Schallhorn (OK); Timothy Hinkel (OR); Jim Laverty (PA); Anamaria Burg (SC); R. Michael Markham (TX); Tomasz Serbinowski (UT); Shelly Knorr (WI); and Allan L. McVey and Joylynn Fix (WV).

1. Adopted its Summer National Meeting Minutes

McVey made a motion, seconded by Dyke, to adopt the Working Group’s Aug. 12 minutes (*see NAIC Proceedings – Summer 2023, Health Actuarial (B) Task Force*). The motion passed unanimously.

1. Adopted its Oct. 2 Minutes

Lombardo said the Working Group met Oct. 2. During this meeting, the Working Group took the following action: 1) discussed a referral from the Health Risk-Based Capital (E) Working Group to add language to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) that clarifies that regardless of which annual statement blank an insurer files, it must make an AG 51 filing if the AG 51 filing requirement criteria are met; and 2) discussed development of a single Long-Term Care Insurance (LTCI) Multistate Rate Review Approach.

McVey made a motion, seconded by Dyke, to adopt the Working Group’s Oct. 2 (Attachment XX) minutes. The motion passed unanimously.

1. Adopted an AG 51 Proposal

Andersen introduced a proposal (Attachment XX) to add language to AG 51 that clarifies that regardless of which annual statement blank an insurer files, it must make an AG 51 filing if the AG 51 filing requirement criteria are met. He said the Working Group exposed a request for comments on the proposal, and no comments were received.

Leung made a motion, seconded by Serbinowski, to adopt the proposal. The motion passed unanimously.

Andersen said the proposal will be forwarded to the Health Actuarial (B) Task Force for its consideration.

1. Heard an Update on the Development of a Single LTCI Multistate Rate Review Approach.

Lombardo said the Working Group has continued to discuss the development of a single LTCI multistate rate review approach for use in use in multistate actuarial (MSA) filing reviews to replace the currently used Minnesota and Texas approaches. He said the loss ratio approach is also considered in the MSA review process. Lombardo said representatives from the Texas Department of Insurance (TDI) and the Minnesota Department of Commerce will give presentations on the Texas and Minnesota approaches.

Markham gave a presentation (Attachment XX) on the Texas approach. Serbinowski said he thinks there are significant drawbacks to the Texas approach. He said he has an issue with the approach, stating it does not recognize past losses, as there is no good definition of past losses. He gave an example of an LTCI product with no claims and no lapses in the first 10 years of the product’s lifetime. Serbinowski said fewer lapses than expected may qualify as adverse experience, but the Texas approach will not allow a rate increase even though the deviation from expected lapses may qualify as adverse experience. He said the Texas approach is very unforgiving for certain types of adverse experience.

Serbinowski said in the case of shrinking blocks of business, the Texas approach only considers future experience. He gave an example of a block with a future expected loss ratio of 500%, with future claims much higher than future premiums. He said when only looking at the block prospectively, an error of 10% in estimating future claims results in an error of 50% in required future premiums. Serbinowski said that because of this sensitivity, the approach is doomed to failure for shrinking blocks of business. He said the approach relies heavily on being able to calculate future projections based on prior assumptions, and to the extent the company changes any of its modeling procedures, it is not easy to produce reliable future projections. Trexler said he agrees with the issues identified by Serbinowski. Markham said the Texas approach is based on assumptions, not experience, and when credibility is low for a company, assumptions are the main factor. He said the Texas approach can produce excessive rate increases in later years, but the TDI also considers the state of the block, and the company will likely be approved for only a small fraction of the increase indicated by the Texas approach. Muldoon asked if the Texas method could be adjusted to address the shrinking block issue, similar to the Minnesota approach. Markham said an appropriate adjustment is being researched.

Andersen gave a presentation (Attachment XX) on the Minnesota approach. Muldoon asked if the Minnesota method allows a company that realizes the granted increase is insufficient to request the additional increase when a phased-in rate increase is implemented. Andersen said the Minnesota method generally employs an “end game” approach but will consider exceptions if there are credibility issues with the company’s morbidity data. He said a company will not be able to request an increase unless they can demonstrate adverse expectations going forward. Muldoon asked if it is possible for a state to replicate the results of the Minnesota approach as used in an MSA review. Andersen said prior to use in the MSA process, the Minnesota approach relied on a seriatim analysis with approximately 30 Excel worksheets to perform the calculation. He said an aggregate methodology that is simpler and more elegant has been developed for use in the MSA process. He said the MSA process relies on this transparent aggregate method that can be replicated by others. However, he still performs the prior seriatim methodology as a check.

Leung said he thinks there may need to be a limit placed within the LTCI Multistate Rate Review Framework (LTCI MSA Framework) upon cumulative rate increases, after which no future rate increases will be allowed. Serbinowski said it needs to be considered whether the block being reviewed is legacy business or future blocks of business where experience may not materialize due to the move toward hybrid products. He said that, in general, he advocates finding a way to close certain blocks to future rate increases depending on the amount of premium that has been collected and that is expected to be collected in the future.

Andersen said the Working Group has been charged by the Long-Term Care Insurance (EX) Task Force to develop a single LTCI multistate rate review approach for use in use in MSA filing reviews. He asked the Working Group what additional information it needs before forming an opinion on how the Working Group should move forward with this task. Markham said Texas will be more supportive of the Minnesota approach if it can be demonstrated that the supported rate increase is below the rate increase determined by the Texas approach in most cases. Lombardo said the MSA Team has seen divergent results produced by the Texas and Minnesota approaches through the MSA filing reviews. He said commissioners have commented on how the Texas and Minnesota approaches develop dramatically different recommendations when the MSA reviews are conducted.

Lombardo said the MSA Team considers the specific block’s characteristics, such as the nature of the business, attained age distributions, average age, and other features, before developing a weighted approach that blends the two approaches’ results. He said the commissioners then ask how the weights are determined, and this question is where the gaps lie in the MSA process. Lombardo said this is a significant motivation for the Working Group to develop a single approach that all stakeholders in the MSA process are comfortable with. He said he does not think it can be guaranteed that the Minnesota approach will result in a rate increase lower than that from the Texas approach because the MSA Team has seen instances where this is not the case. He said the Working Group seeks input from interested parties and hopes that an agreed-upon single methodology can be developed soon. Lombardo said he hopes that once the Working Group has received input from all stakeholders and discusses all relevant information, it can develop a single approach that more states can support. He said the Working Group needs to solve the issue related to reductions in recommended rate increases for older attained-age policyholders who have experienced large cumulative rate increases over the life of their policies. He said this is an issue commissioners have asked the Working Group to resolve. McVey said he would like to see a solution developed sooner rather than later.

Leung suggested a methodology that uses the lower of the results produced by the Texas and Minnesota approaches, with a limit placed upon cumulative rate increases, after which no future rate increases will be allowed. Serbinowski said that experience with a cumulative rate increase cap in Utah proved to not be feasible. He said, however, that anything the Working Group can develop that is uniform among the states will be beneficial. Lombardo said the Working Group will schedule a meeting to continue discussion of developing a single approach.

Jan Graeber (American Council of Life Insurers—ACLI) said there will always be adjustments that need to be made to any methodology due to certain situations. She asked if there is the possibility of revisiting the initial charge from the Long-Term Care Insurance (EX) Task Force to inform the work of the Working Group. She suggested the MSA Team develop a recommendation for each specific block and then work with the company to address any special situations.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

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