July 10, 2023

Paul Lombardo, Co-Chair, NAIC Long-Term Care Actuarial (B) Working Group
Fred Andersen, Co-Chair, NAIC Long-Term Care Actuarial (B) Working Group

Dear Paul and Fred,

The American Council of Life Insurers (ACLI)[1] and the America's Health Insurance Plans (AHIP)[2] appreciate the progress the working group has made with respect to evaluating appropriate methods for determining actuarially justified rate increases on long-term care blocks of business.

We have analyzed the three actuarial approaches under discussion in light of the overarching principles proposed in our June 2nd letter. In our analysis, we considered the fact that two of the methods are familiar to companies and regulators. These two methods have been the topic of significant discussion at the NAIC and are currently used by the multistate actuarial (MSA) team in reviewing filings through the MSRR process.

The attached chart highlights advantages and challenges associated with each method. The comments contained in the chart are applicable only to filings submitted through the Long-Term Care Insurance Multistate Rate Review (MSRR) Framework for the purpose of recommending a long-term care national premium rate schedule as described in the MSRR Framework adopted by the NAIC on April 8, 2022. The comments are not applicable to rate increase filings made with an individual state and outside of the MSRR process.

In evaluating the extent to which each method aligns with the principles, we recognized that in certain situations, some methods are more complicated to apply and create more challenges than others. We also recognize the MSA team's desire for a method that produces actuarially appropriate rate increases, while also acknowledging that such results could be perceived by some as inappropriate or unreasonable, creating challenges for regulators.

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[1] The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

[2] AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and to help create a space where coverage is more affordable and accessible for everyone.

Overall, we believe that reasonable adjustments can be applied to parts of the Blended/If-Knew (MN) method to address these challenges, while recognizing the regulatory desire for:

- a single approach for review,
- premium equity between states,
- an appropriate balance between policyholders and insurers, and
- preserving our state-based regulatory framework.

<u>Potential Revisions to the Blended/If-Knew (MN) Method to Address Certain Challenges</u>
Regulators have indicated their desire for a single approach for the purpose of reviewing filings submitted through the MSRR process. In addition, this single approach should acknowledge, and address challenges associated with situations where a significant rate increase is proposed on policyholders at advanced ages and durations and who have already experienced a large cumulative increase.

While actuarial modeling will be necessary to avoid unintended consequences, a potential strategy to address this challenge is to consider revisions to certain aspects of the Blended/If-Knew (MN) methodology (e.g., rate increase implementation, cost sharing) that reflects some combination of attained age, duration, cumulative rate increase, and benefit level. To achieve rate equity among states, adjustments would not be applied to policyholders in states that have not approved past rate increases until the policyholder reaches the national target rate recommended by the MSA team.

We want to emphasize that, prior to the formal adoption of any method, it is important that the working group and industry work together to model any specific modifications under consideration. This step will help ensure that any unintended consequences can be avoided. We stand ready to assist you in any capacity needed.

Thank you again for the opportunity to comment. We look forward to discussing our comments with you.

Sincerely,

Jan Graeber, ACLI

Ray Nelson, Consultant for AHIP

Attachment

ACLI
Financial Security for Life

AHIP

The comments below are applicable only to filings submitted through the Long-Term Care Insurance Multistate Rate Review (MSRR) Framework for the purpose of recommending a national premium rate schedule for long-term care policies, as described in the MSRR Framework adopted by the NAIC on April 8, 2022. The comments are not applicable to rate increase filings made with an individual state outside of the MSRR process. The points made below are not intended to be considered when solvency is a concern.

For rate-stabilized policies, all results are limited by the rate table that would be produced in accordance with Section 20.1(C) of the NAIC LTC Model Regulation.

Principle	PPV (TX)	Blended Make-up/If-knew (MN)	Revised Blended Make-up/If-knew (Proposal by Utah)
1. The approach should result in premiums that are: • not inadequate, not unreasonable, and not excessive in relation to the benefits provided, and • not unfairly discriminatory between individuals of the same actuarial risk class, or between risks of essentially the same degree of hazard.	• Produces actuarially sound results. • From an MSA perspective, results are not inadequate, unreasonable, or excessive in relation to the benefits provided. *(Note: Application on an individual state basis, with a history of insufficient approvals, requires the use of the catch-up provision to avoid inadequate premiums).* • Can become unstable for older blocks in later durations when the resulting increase percentage can be significant compared to the percentage increase in future claims, resulting in premiums that could be viewed by some as excessive.	• Generally, this method achieves a balance of the various features and creates a reasonable result in most durations when the cost-sharing provision is excluded. Cost-sharing factors can be viewed as arbitrary. • The longer the company waits, the more weight is placed on the if-knew premium, potentially resulting in inadequate premiums. • Produces significant increases for certain demographics, which could be mitigated by modifying the cost-sharing adjustment to reflect age and duration.	In addition to the comments to MN: • The proposed blending moves to If-Knew very quickly, which could be viewed as actuarially unsound by creating inadequate rates and result in potential solvency concerns. With a different blending, it is possible this could be alleviated. • Method would not allow the future loss ratio for the make-up premium to fall under a specified target, preventing lifetime loss ratios from achieving levels closer to original pricing loss ratios, which could result in inadequate premiums.

Principle	PPV (TX)	Blended Make-up/If-knew (MN)	Revised Blended Make-up/If-knew (Proposal by Utah)
2. **The approach should result in premiums charged to policyholders that do not allow remaining policyholders to be responsible for excess claims associated with past policyholders.**	• This approach ensures that remaining policyholders are not responsible for excess claims associated with past policyholders by considering only future projections, and only for those policyholders still paying premium. • Does not account for situations where experience has been better than expected. More favorable experience should accrue and offset any rate increase for remaining policyholders.	• This approach uses a weighting of the if-knew and make-up premiums based on the percentage of policyholders remaining. As shown through prior testing of the MSRR methodologies, the weighting addresses this principle in a reasonable manner; however, the weights can be viewed as arbitrary. • Any approach that considers past claims in the calculation of the rate increase, may be viewed as allowing remaining policyholders to be partially responsible for excess claims associated with past policyholders	• See MN comments
3. **The approach should be designed to ensure the long-term financial stability of the insurance company by ensuring that any cost-sharing adjustment strikes an appropriate balance between the policyholders and the company.**	• Company assumes all past losses. • Policyholders are responsible for paying the appropriate premium corresponding to their existing coverage moving forward. • Method ensures financial stability when considering only future projections; however, an inappropriate balance between policyholders and the company could result if there have been past gains.	• May result in an inappropriate balance for products where the lifetime loss ratio after the increase exceeds 100%. • Overall, cost sharing can be reasonable with this method; however, discretion may be needed to adjust blending/cost-sharing factors.	• This method does not have any explicit cost-sharing aspects but does implicitly apply cost-sharing to the weight applied to the If-knew premium. The new weighting using the present value of lives does not strike a balance and may result in potential solvency and long-term financial stability concerns for insurance companies.
4. **The approach should be transparent and easily understood by actuaries**	• When there have been multiple assumption updates, this method	• Method can be calculated from traditional calendar year exhibits,	• Method can be calculated from traditional calendar year exhibits,

Principle	PPV (TX)	Blended Make-up/If-knew (MN)	Revised Blended Make-up/If-knew (Proposal by Utah)
experienced in pricing and reserving long-term care products.	becomes more complicated and relies on prior modeling, which makes it difficult for regulators to validate.	making it easier to work with in practice. • Regulators have stated that legislators understand this method much better than the other methods under review.	making it easier to work with in practice; however, the method has not been finalized and cannot be scored completely.
5. **The approach should not require an unreasonable amount of time or unreasonable degree of effort.**	• Method is subject to more complications. For example, in order to correctly utilize the method, one needs a projection of current active lives under both current and prior filing assumptions, the latter of which can be prohibitively difficult for some carriers to do, especially when the needed calculations and projections rely on assumptions and modeling that are not as robust and detailed as current assumptions. • Method requires maintaining old assumptions, which can be challenging due to changes in models, changes in pricing systems, etc.	• Method is straight-forward from a calculation perspective.	• Method is straight-forward from a calculation perspective.
6. **The approach should not impose unnecessary complications that do not significantly change the resulting calculated rate increase.**	• When there have been multiple assumption updates, this method becomes more complicated and relies on prior modeling.	• The core calculation is straight-forward; however, some aspects outlined in the MSRR framework are complicated and need clarification (e.g., calculation and definition of the benchmark premium and sample policy verification).	• The core calculation is straight-forward.

Principle	PPV (TX)	Blended Make-up/If-knew (MN)	Revised Blended Make-up/If-knew (Proposal by Utah)
7. The approach should allow for predictable results when applied consistently.	• Base method is straight-forward from an actuarial perspective.	• The core calculation is straight-forward; however, some aspects outlined in the MSRR framework may contribute to unpredictability of results and need clarification (e.g., calculation and definition of the benchmark premium and sample policy verification).	• See MN comments.
8. The approach should not apply subjective, arbitrary, or discretionary caps, factors, or limitations.	• The calculation does not include any such factors.	• The weights applied to blending the make-up and if-knew premiums, along with the cost-sharing percentages can be viewed as arbitrary rather than actuarial.	• See MN comments.
9. The approach should allow for any variation in premiums or rate increases between classes of insureds that are based upon sound actuarial principles reasonably related to actual and anticipated loss experience.	• The change in present value of future incurred claims can be run on as granular level as needed; however, this creates challenges if past rate increase filings were at less granular levels. • Method does not correct for class subsidization if proposed increase request is on a more granular level than past rate increase requests.	• Method can be applied by cohort; however, the original lifetime loss ratio is often unavailable at the same level of granularity (especially if original pricing models are no longer usable or limited in functionality), and results in the aggregate original lifetime loss ratio being usable for this purpose.	• See MN comments.
10. The approach should allow for consideration of whether a product was priced with a margin for moderately adverse experience required under rate stability or whether the product was priced under pre-rate stability regulations.	• Yes, separate formulas exist for pre-rate stabilized and rate stabilized blocks.	• Yes, calculations can be done with or without margins to address this principle.	• Yes, calculations can be done with or without margins to address this principle.

Principle	PPV (TX)	Blended Make-up/If-knew (MN)	Revised Blended Make-up/If-knew (Proposal by Utah)
11. A desired outcome of the approach is rate equity.	• Yes	• Yes	• Yes