AMERICAN ACADEMY of ACTUARIES

December 12, 2024

Andrew N. Mais, Chairperson
Grace Arnold, Vice Chairperson
Long-Term Care Insurance (B) Task Force
National Association of Insurance Commissioners (NAIC)

Via email: jkoenigsman@naic.org

Re: Exposure Draft of the Long-Term Care Insurance Multistate Rate Review Framework

Dear Chairperson Mais and Vice Chairperson Arnold,

On behalf of the American Academy of Actuaries (Academy)[1] Long-Term Care (LTC) Committee (Committee), I appreciate the opportunity to provide comments in response to the NAIC Long-Term Care Insurance (B) Task Force's November 20, 2024, request for comments on the exposure draft of the *Long-Term Care Insurance Multistate Rate Review (LTCI MSA) Framework*.

The Committee offers no comment on the selection of the Minnesota approach as the single cost-sharing formula. The Committee appreciates that the proposed "adjust[ment] of the cost-sharing components within the MSA method to address specific public policy challenges" is now discussed within Section V.F. of the *NAIC LTCI MSA Framework* which we suggested in our July 23, 2024 comment letter.

The MSA Review is designed to provide the opinion of one or more qualified actuaries regarding a rate filing submitted via the MSA process. Section II.A. of the Framework specifies the qualifications of an MSA Team Member, including recognized actuarial credentials and relevant experience with LTCI. Participation on the MSA Team is also expected to provide opportunities to meet the requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (U.S. Qualification Standards or USQS). The MSA Advisory Report is expected to be relied upon, to varying degrees, by participating state departments of insurance. In this context, the Committee believes it is important to recognize when an MSA Team reviewing actuary is performing actuarial analysis and judgment, versus applying a pre-determined formula.

The Committee offers the following comments on the Exposure Draft which we believe would further clarify the distinction between the actuarial and non-actuarial aspects of the MSA Review:

- Section V.A. of the Framework discusses the MSA Team's Actuarial Review Considerations. It requires members to apply their expertise and professional judgment in reviewing insurer-provided experience and challenge when necessary (or, thoroughly assessing reasonableness of actuarial assumptions), validating projections of claims and premium (both current and "if-knew"), and requesting new projections where the reviewer deems necessary.
- The performance and communication of the results of the MSA Team's actuarial review by a qualified actuary are clearly actuarial functions, which the Committee believes would fall within

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

the scope of Actuarial Standards of Practice (ASOP) No. 8, *Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits*, No. 18, *Long-Term Care*, which are applicable to regulatory filings for LTCI, as well as ASOP No. 41, *Actuarial Communications*.
- Once suitable actuarial projections are determined, the application of the non-actuarial cost-sharing formula adopted by the NAIC can be performed mechanically, without specialized actuarial expertise. The non-actuarial cost-sharing formula should not necessarily be a part of the reviewer's actuarial opinion.

The Committee would recommend the following edits to the sample report in Section VII.A (highlighted in yellow):

- Within the Executive Summary:

  Executive Summary

  The LTCI Multistate Actuarial Rate Review Team (MSA Team) recommends a rate increase of 34% to be approved for inflation-protected products and 20% to be approved for products with no inflation, related to ABC Company's block.

  Higher rate increases are recommended for states where past cumulative rate increases below 55% have been approved. Reduced benefit options (RBOs) may be selected to help manage the impact of the rate increase.

  Analysis by the MSA Team resulted in the recommended rate increase being consistent with that resulting from the ~~actuarially justified~~ MSA approach. The recommended rate increases are below the increases that would have resulted from the lifetime loss ratio approach and the rate stability rules.

- Within the "Workstream-Related Review Aspects," section, the Committee recommends moving language from the seventh paragraph to the beginning of the "Actuarial Review" section, and adding additional language (addition in italics):

  Workstream-Related Review Aspects

  Actuarial Review

  The MSA Team reviewed support for the assumptions, experience, and projections provided by the insurer and performed validation steps to review the insurer-provided information for reasonableness. Details regarding the actuarial review are provided in Appendix 1. *In addition to its actuarial review,* [t]he MSA team applied the MSA approach to calculate the recommended, approvable rate increases. Aspects of the MSA approach that result in lower rate increases than those resulting from loss ratio-based approaches contained in many states' laws and rules include:

  - Reduction in rate increases at later policy durations to address shrinking block issues.
  - Elimination of rate increases related to inappropriate recovery of past losses.

  The MSA approach also has additional unique aspects: 1) consideration of adverse investment expectations related to the decline in market interest rates, 2) adjustments to projected claim costs to ensure the impact of uncertainty is adequately borne by the insurer; and 3) a cost-sharing formula applied in typical circumstances.

[. . .]

~~The MSA Team reviewed support for the assumptions, experience, and projections provided by the insurer and performed validation steps to review the insurer-provided information for reasonableness. Details regarding the actuarial review are provided in Appendix 1. Also,~~ The initial submission and subsequent correspondence between the insurer and the MSA Team are available on SERFF. The SERFF tracking number is ABCC-123456789.

As the stated intention is to allow states to utilize the actuarial analysis when taking action on a rate filing, the Committee also suggests that the opinion of a qualified actuary who is a member of the MSA Team be included in the report. This actuary should specify which aspects of the actuarial review are subject to their opinion and which aspects are a result of agreed-upon formulas adopted in the MSA Framework, with consideration to the requirements of Section 3.4.4 of ASOP No 41.

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The Committee appreciates the opportunity to provide these comments on the LTCI MSA Framework. If you have any questions related to these comments, please contact Matthew Williams, the Academy's senior health policy analyst (williams@actuary.org).

Sincerely,

Andrew Dalton
Chairperson, LTC Committee
American Academy of Actuaries

CC:
Jane Koenigsman, NAIC
David Torian, NAIC
Eric King, NAIC

COMMENTS FROM MARYLAND

From: Bradley Boban -MDInsurance-
Sent: Thursday, December 12, 2024 8:12 AM
To: Koenigsman, Jane
Subject: Comments on LTCI MSA Framework document

Maryland notes that the revised cost-sharing formula reduces carrier cost-sharing below a 400% needed increase, increasing the share that the subscribers must pay. This leads to a net increase in blended rate increase for those increases that are 700% or less. This is contrary to the goal which was to reduce the rate increases for the 85/25/400 cohort. It's not until the cumulative increase gets up to 750% that the proposed methodology produces a lower blended increase.

Why was it necessary to change any of the existing haircuts? Wouldn't it have been better to just add a new haircut level at 400% on top of the existing haircut levels? That would have only reduced rates for consumers and led to lower premium increases for the 85/25/400 cohort. That's would be recommendation that MD could support.

Maryland
INSURANCE ADMINISTRATION

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COMMENTS FROM MISSOURI

To: Jane Koenigsman (NAIC)

Cc: Paul Lombardo, Fred Andersen, Jo LeDuc, Chlora Lindley-Myers

Re: Exposure Draft Notice: LTCI (B) Task Force: MSA Framework. Comments Due Dec. 13 ,2024

Date: 12/06/2024

Jane,

Thank you for coordinating the exposure. Missouri supports the effort in the MSA Framework but has the following concerns regarding the exposure draft:

1. Item 6 of the MSA Approach shows revised cost-sharing factors with a reviewer's note, stating that the blending of the if-knew and makeup premiums (Step 5) and the cost-sharing formula (Step 6) were reviewed and updated in 2024 to address specific public policy challenges, particularly around significant increases for older-age policyholders, with longer durations. The LTC Actuarial Working Group did not adequately discuss the revision's purpose and effect. As such, adopting the MN revised cost-sharing factors appears to be premature.
    a. The Issue
    On slide 5 of the ppt document "Minnesota approach and MSA concepts" (LTCI Cost Sharing Formula_MN Method.pdf) dated 110124 and authored by Fred Andersen, it is said that a new set of factors is proposed to address the 85/25/400 issue, which contemplates higher cumulative rate increases. The revision directly adds additional cost-sharing above 400%, thus indirectly addressing the issue because 400% cumulative rate increases tend to occur more often for older ages and later durations, such as those above age 85 and duration 25.
    b. The Confusion
    While we can all agree on the high rate-increase burden put on seniors at late policy duration, there was inadequate discussion to define the issue using the term 85/25/400.
        (1) Why 85? Would regulators consider a rate filing needing special attention for policyholders 85 or above versus 80 or above? At what percentage of in-force policyholders reaching age 85 would one give special attention to the filing?
        (2) Similarly, why 25? Would one consider it a non-issue if the high rate increase affects policyholders aged 85 or above but before policy duration 25 at the time of the valuation/projection?
        (3) It is not clear which cumulative rate the 400 is referring to. At least three cumulative rate increases are of interest: the one resultant from the requested rate increase, the blended cumulative increase, and the resultant cumulative increase after applying the current cost-sharing factors. Since the MN proposal suggests an 80% haircut for the portion of the cumulative rate increase higher than 400%, the 400 is likely referring to the blended cumulative increase. However, referring to Appendix B, it is evident that the MN revision resultant cumulative increases continue to be higher than those resulting

from the current factors until the blended cumulative increase is 700%. The breakeven point is a blended cumulative increase of 712%; the result after cost sharing is 397%.

   i. Suppose the purpose is to contain the cumulative increase when the blended cumulative increase is above 400%. In that case, the MN revision will increase the resultant rate increase for the range of blended rate increase from 400% to 712%, contradicting this purpose.
   ii. Alternatively, the purpose may be to target restraining the resultant rate increase above 400%, demonstrated by the cross-over point of around 400% on slide 13 of the abovementioned PowerPoint. In this case, the analysis should focus on the blended cumulative rates exceeding 712% and see if the revision adequately addresses the issue. 2d below further discusses the effectiveness of the MN proposal in this area and possibly an improved proposal from Missouri.

(4) Why 400? Would a 300% cumulative rate increase be a concern? The MN revision has the effect of lower cost sharing for resultant cumulative rate increases currently between 300% and 400%. The cumulative rate increases after revised cost sharing are therefore higher. 2c below further discusses the effectiveness of the MN proposal in this area. Missouri's proposal dampens the impact of MN revision on this not-so-clear area.

2. Missouri's Proposal
   (see Appendix A for the proposal & Appendix B for a comparison of the effects)
   a. First 100% of rate increases
      We understand that the earlier rate increases are critical for an LTC plan's sustainability and would help reduce the need and magnitude of later duration increases. Therefore, it may be better for both the company and the policyholders if the cost-sharing for the 100% rate increase is 0% instead of the 5% in the MN revision. If the rate increase is reviewed and considered appropriate under the minimum standard loss ratio and 58/85 rule, the rate increase should be allowed when the cumulative rate increase is not more than 100%. It appears that the industry has been avoiding the MSA process but has filed with each state directly for rate increases within the first 100%, and most states would approve or non-disapprove the request without explicit or implicit margin for such direct filings. Missouri proposed that the adjustment to the single MSA approach would encourage companies to apply to the MSA Team in early duration and be consistent with current practices.
   b. Blended Cumulative increase between 100% and 500%
      The Missouri proposed 25% cost-sharing factors are higher than the 20% in the MN revision to catch up for the lower cost-sharing in the first 100%. The resultant rate increase under the Missouri proposal will continue to be higher than those from the MN revision for the first 200% blended cumulative increases. In general, starting from 200% blended cumulative increase, the resultant cumulative increases are trending slightly lower than those from the MN revision but higher than those from applying the current cost-sharing factors.
   c. Blended Cumulative increase between 500% and 700%

The current resultant increases are between 300% to 400% in this range. It is essential to explicitly state in the 85/25/400 definition that increasing the consequent increases in this range is desirable. At a blended increase of 500%, the MN revision increased the result from 292% to 355%, a net difference of 63%. There should be a discussion and agreement on whether rate increases at this level are of concern and if more (or less) rate increases should be allowed than the current MSA formula level. The Missouri proposal results in rate increases somewhat higher than the current MSA formula level but not as high as those permitted under the MN revision. The Missouri proposal resultant rate increase will start to be lower than the current MSA formula level when the blended rate increase is around 650%. The lower chart in Appendix C depicts the trade-off between higher resultant increases in earlier duration versus lower resultant increases after the cross-over of around 650%.

d. Blended Cumulative increase over 700%

The most crucial difference between the Missouri proposal and the MN revision is the cost-sharing effect at a blended increase of around 4000%, a realistic level seen in a 2023 MSA filing where the attained age 85+ in force policyholders represented about 32%. The current formula brings the resultant down to 2042%, the MN proposal 1055%, and the Missouri proposal 605%. The Missouri proposal better contains the cumulative increase when the increase is more impactful on the elderly policyholders. See the top chart in Appendix C for a visual comparison.

Appendix A

Missouri Proposal vs. Current and Minnesota Proposal exposed

Current:

- •No haircut for the first 15%.
- •10% for the portion of cumulative rate increase between 15% and 50%
- •25% for the portion of cumulative rate increase between 50% and 100%
- •35% for the portion of cumulative rate increase between 100% and 150%
- •50% for the portion of the cumulative rate increase in excess of 150%.

Minnesota Proposal (Proposal A):

- •5% haircut for the first 100%
- •20% haircut for the portion of cumulative rate increase between 100% and 400%
- •80% haircut for the portion of the cumulative rate increase in excess of 400%

Missouri Proposal:

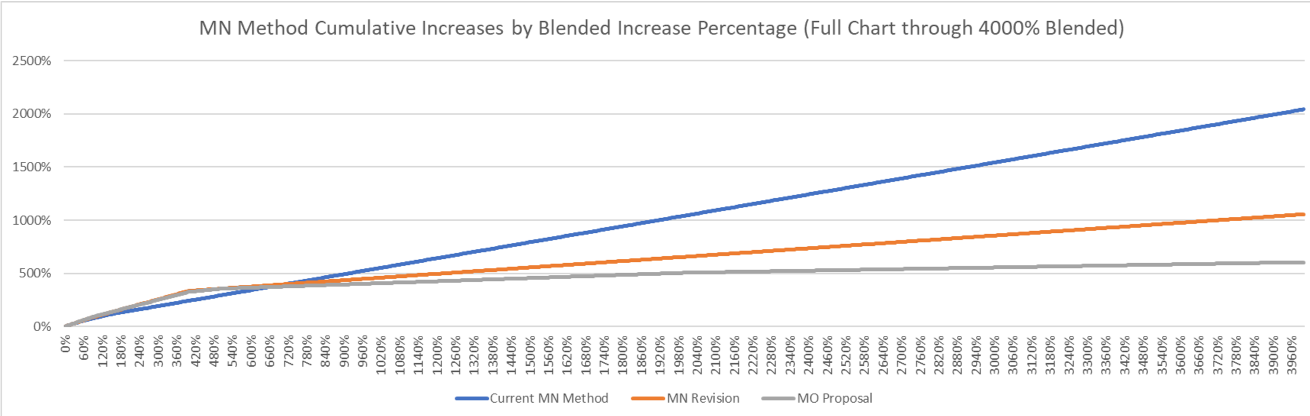
- •No haircut for the first 100%.
- •25% for the portion of cumulative rate increase between 100% and 400%
- •70% for the portion of cumulative rate increase between 400% and 500%
- •90% for the portion of cumulative rate increase between 500% and 2000%
- •95% haircut for the portion of the cumulative rate increase in excess of 2000%

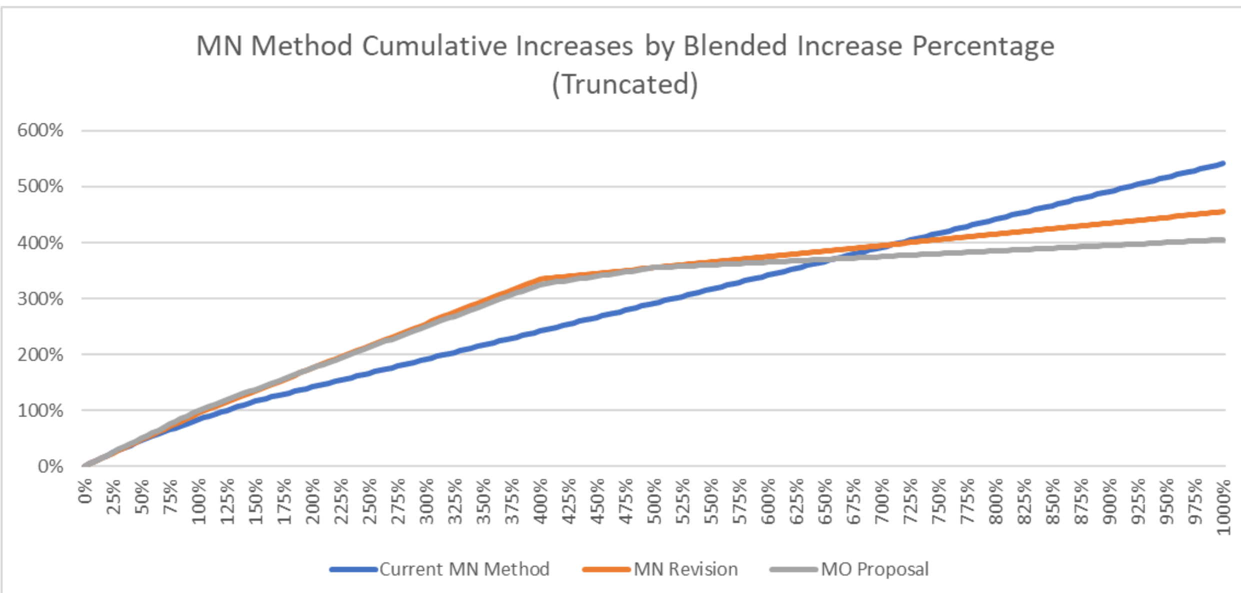
Appendix B

Comparing the effects of different cost-sharing factors

Blended cum. rate inc.	Current	MN Revision	MO Proposal
15%	15%	14%	15%
50%	47%	48%	50%
100%	84%	95%	100%
150%	117%	135%	138%
200%	142%	175%	175%
250%	167%	215%	213%
300%	192%	255%	250%
350%	217%	295%	288%
400%	242%	335%	325%
450%	267%	345%	340%
500%	292%	355%	355%
550%	317%	365%	360%
600%	342%	375%	365%
650%	367%	385%	370%
700%	392%	395%	375%
750%	417%	405%	380%
800%	442%	415%	385%
850%	467%	425%	390%
900%	492%	435%	395%
950%	517%	445%	400%
1000%	542%	455%	405%
2000%	1042%	655%	505%
3000%	1542%	855%	555%
4000%	2042%	1055%	605%

Appendix C


MN Method Cumulative Increases by Blended Increase Percentage (Full Chart through 4000% Blended)
2500%
2000%
1500%
1000%
500%
0%
Current MN Method
MN Revision
MO Proposal


MN Method Cumulative Increases by Blended Increase Percentage (Truncated)
600%
500%
400%
300%
200%
100%
0%
Current MN Method
MN Revision
MO Proposal

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

OFFICE OF
INSURANCE COMMISSIONER

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Dec. 10, 2024 Attachment Two

Jane M. Koenigsman, FLMI
Sr. Manager II, Life & Health Financial Analysis
NAIC Financial Regulatory Services
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Kansas City, MO 64106-2197

RE: Comments for the LTCI (B) Task Force: MSA Framework

Dear Jane,

Our office appreciates the amount of effort it took in developing the MSA Framework. Unfortunately, the current framework conflicts with Washington state's LTC rating regulations. Under the pooling requirements [see WAC 284-54-620 (prior to 2009) and WAC 284-83-220 (starting 2009)] for closed blocks of business, our policy has been to enforce a flat percentage increase across the pool. A flat increase is not considered discriminatory. The reason for a flat increase is that a closed block in general is not credible for changing adjustment factors, such as age factors.

LTC polices are rated based on the issue age of the policyholder. Policyholders with the same issue age, benefits, and risk category, must be charged the same rates to avoid unfair discrimination [RCW 48.01.030, 48.18.480 and 48.30.010]. The Multistate Rate Review has included discussions of limiting increases for policyholders age 85+ or have owned a policy for 25+ years which can result in similar policyholders receiving different rate increases based on their attained age or policy duration. These adjustments are in conflict with current state law and regulation; therefore, our office cannot support this proposal at this time.

Thank you,

John Haworth
Deputy Insurance Commissioner – Company Supervision
Washington State Office of the Insurance Commissioner
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Olympia, WA 98504