ACLI
Financial Security for Life

AHIP

May 3, 2024

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

Dear Paul and Fred,

The American Council of Life Insurers (ACLI)[1] and the America's Health Insurance Plans[2] (AHIP) appreciate the opportunity to comment on the NAIC Long-Term Care Actuarial Working Group (LTCAWG) exposure titled "Recommendation on a single MSA actuarial approach after regulator feedback Document."

ACLI and AHIP recognize the challenges you face in responding to some legislators and consumers facing a large rate increase on LTC policies. In addition, we commend the significant effort by the LTCAWG trying to create an acceptable uniform approach to review LTC rate increase filings with the goal of bringing consistency and efficiency to the process.

At this stage, there are differing opinions regarding the most suitable methodology for the multi-state rate review (MSRR) team. Moreover, many states are hesitant to adopt the MSRR approach over their own methods and the likelihood of a substantial number of states adopting the MSRR recommendation is uncertain.

The diversity among the various blocks of business within the industry makes it challenging for a single approach to effectively cater to all. Factors such as variations in block average ages and durations, initial pricing adequacy, and historical rate adjustments requested and approved indicate that a "one size fits all" approach will not appeal to a broad segment of the market. The current MSRR methodology, aimed at achieving consistency in rates, disproportionately disadvantages older blocks with a history of denials and delays in review. Introducing the proposed changes would likely worsen this situation.

As stated in our prior communications, our primary concern is the inclusion of non-actuarial factors in the rate filing review process. As an industry, we cannot endorse anything that effectively alters the terms and conditions of policies regarding an insurer's ability to adjust future premium rates arbitrarily. Allowing political or social considerations to override sound actuarial principles sets a risky precedent, potentially leading to unintended consequences in the future. We worry that such unintended consequences could possibly include some insurers seeking legal/regulatory recourse.

Finally, any limitations being considered by the NAIC should be done via model statute or properly promulgated regulations rather than guidelines or as part of the MSRR framework. An NAIC model regulation (Model #641) aimed at strengthening the pricing of LTC insurance already exists and could be amended if necessary.

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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.

Based on these concerns, we question the success envisioned by the NAIC in 2019 when they adopted the charge of developing a consistent national approach for reviewing LTC insurance rates that result in actuarially appropriate increases being granted by the states in a timely manner, can truly be achieved. A possible outcome is a continued assortment of approaches that fail to satisfy insurers, regulators, or policyholders.

We remain open to exploring alternative solutions that address rate increase filings, policyholder concerns, and highlight the continued value of policies even with premium rate increases. As illustrated in the recommendation section of this letter, highlighting the continuing value of the policies even with premium rate increases can be an effective tool to help address concerns raised by legislators and consumers.

Executive Summary

As insurers, we have a fundamental obligation to ensure the financial sustainability of the products we provide to consumers. Actuarially sound rates are essential to achieving this goal, and deviating from these principles would compromise our ability to fulfill our contractual obligations.

We understand your concerns for consumer protection; however, we must also recognize that insurance products inherently involve risk and personal responsibility. In the case of LTC insurance, policyholders may face premium increases that are necessary to ensure the insurer's financial sustainability. While many policyholders may be able to adjust their benefits or premiums to manage costs, there may always be some who are unable to afford the increases and must lapse their coverage. It is essential to remember that LTC insurance products are designed to provide a safety net, not a guaranteed benefit.

We also understand that affordability is a critical issue, particularly for older age policyholders. However, arbitrarily prohibiting large rate increases on targeted segments of the LTC market may not be the most effective solution.

The section below provides a potential framework for a solution, which highlights the value of LTC coverage.

ACLI and AHIP Recommendation

When evaluating LTC products, it's essential for all stakeholders to consider the value they provide to consumers. Consumer protection efforts should strike a balance between safeguarding consumers and allowing for consumer choice, acknowledging that LTC products can play a vital role in supporting individuals' LTC needs.

Pricing LTC coverage involves complex actuarial assumptions and calculations. Rather than delving into technical details, we recommend sharing the importance and value of LTC coverage with policymakers and lawmakers. This approach enables them to understand the benefits and make informed decisions that support consumers' needs. By taking a nuanced approach, we can ensure that consumers have access to valuable products that meet their needs while also being protected from unintended consequences.

Rather than imposing benefit caps or restricting premium increases, we suggest focusing on measures that promote consumer education, flexibility, and choice. This could include:

- Clear and transparent communication about premium increases and benefit adjustments
- Options for policyholders to adjust their benefits or premiums to manage costs

- Support for policyholders who are struggling to afford their premiums

Below are several illustrations, based on realistic policy information, which demonstrate the value that LTC insurance can provide.

Scenario 1

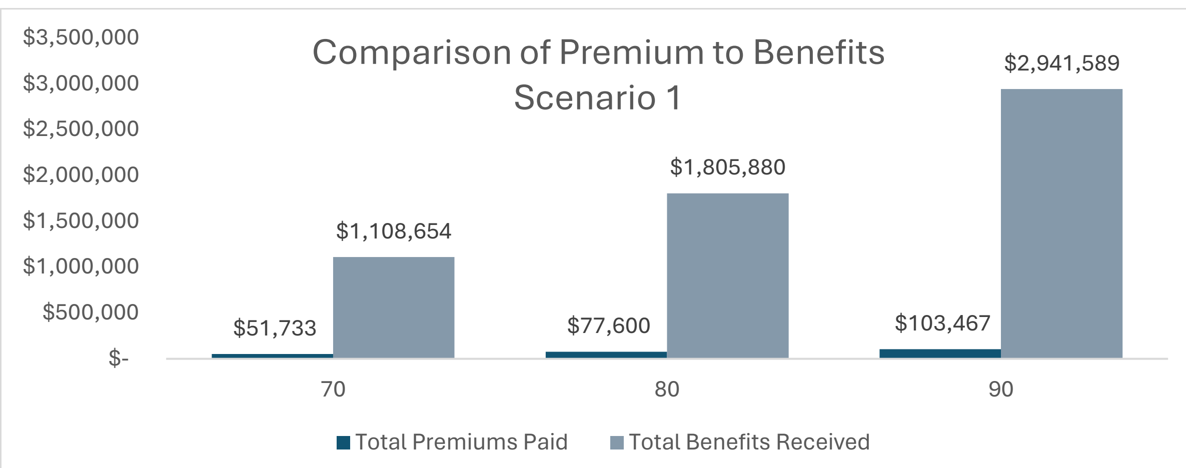
To illustrate the potential value, consider a policyholder who purchased the policy at age 50, with an original monthly maximum benefit of $6,964 and 5% compounded annual inflation protection. The elimination period is 90 days, and the benefit period is 5 years. The annual premium at issue is $2,587. The following table provides a comparison of potential premium paid to benefits received, assuming age at claim of 70, 80, and 90 years, and claims continue for 5 years.

Assumptions:

- Premiums are paid annually
- Inflation protection is 5% compounded annually
- Benefit period is 5 years
- Elimination period is 90 days
- No Premium Increases

Age at Claim	Total Premiums Paid	Total Benefits Received	Benefit-to-Premium Ratio
70	$ 51,733	$1,108,654	21.43
80	$ 77,600	$1,805,880	23.27
90	$ 103,467	$2,941,589	28.43

Note: The benefit-to-premium ratio increases significantly over time due to the compounding effect of inflation protection.



Scenario 2 – Same as Scenario 1 with Premium Increases

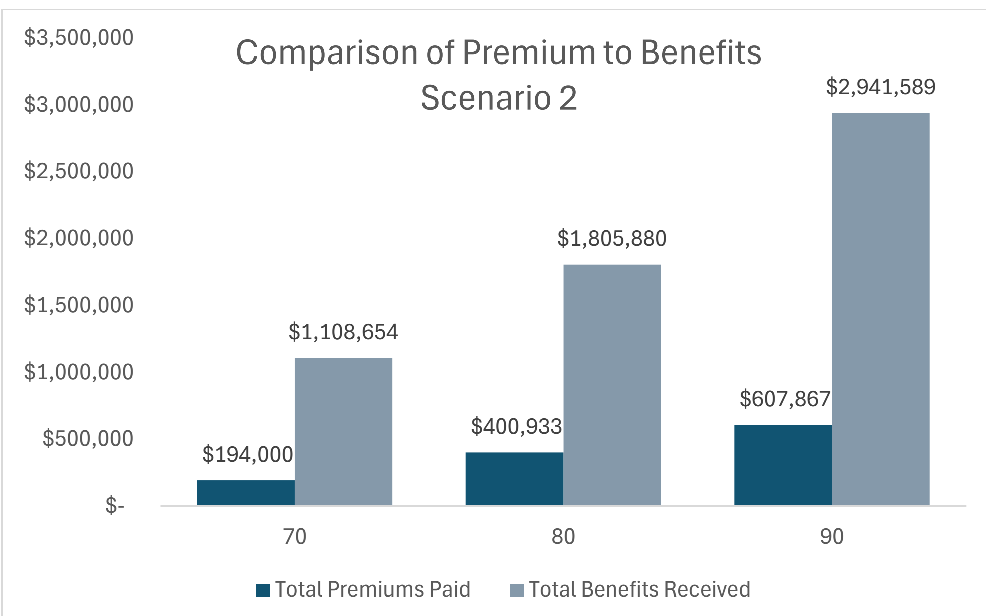
The policyholder purchased the policy at age 50, with an original monthly maximum benefit of $6,964 and 5% compounded annual inflation protection. The elimination period is 90 days, and the benefit period is 5 years. The initial annual premium at issue is $2,587. Rate increases of 100%

are filed in years 6, 11, and 16. The following table compares the potential premium paid to benefits received, assuming age at claim of 70, 80, and 90 years, and claims continue for 5 years.

Assumptions:

- Policy purchased at age 50
- Original monthly maximum benefit: $6,964
- 5% compounded annual inflation protection
- Elimination period: 90 days
- Benefit period: 5 years
- Initial Annual Premium: $2,587
- Premium increases by 100% each year at years 6, 11, and 16
- Claims continue for 5 years

Age at Claim	Total Premiums Paid	Cumulative Premium Increase	Total Benefits Received	Benefit-to-Premium Ratio
70	$194,000	700%	$1,108,654	5.71
80	$400,933	700%	$1,805,880	4.50
90	$607,867	700%	$2,941,589	4.84



In contrast to Scenario 1, the initial annual premium increases 700%. While this is a significant amount, it's essential to consider the value of the coverage provided and the potential benefits received. In this scenario, depending on age at claim, the policyholder could receive over 5 times the total premiums paid in benefits, highlighting the importance of actuarial soundness in setting insurance premiums.

<u>Considerations for Consumers</u>

If the insurance company announces a 100% premium increase, the policyholder should carefully consider the following factors when deciding whether to keep or drop the coverage:

1. Affordability: With a 100% premium increase, the initial annual premium would double to $5,173 in year 6, and would double again in years 11, and 16. The policyholder must assess whether they can afford such a significant increase.
2. Inflation Protection: The 5% compounded annual inflation protection may be higher than the increase in cost of care. The policyholder should assess whether a reduction in inflation protection could be appropriate for their situation.
3. Policy Terms: Review the policy terms to understand flexibility in adjusting benefits to help mitigate the increase in premiums.
4. Financial Situation: Assess the policyholder's current financial situation, income, and expenses to determine if they can absorb the increased premium costs.
5. Health Status: Consider the policyholder's current health status and potential future care needs, weighing the importance of maintaining coverage against the increasing costs.

By carefully evaluating these factors, the policyholder can make an informed decision about whether to keep the coverage, adjust the benefits, or explore alternative solutions.

<u>Scenario 3 – Same as Scenario 2 with Premium Increases and Benefits Capped</u>

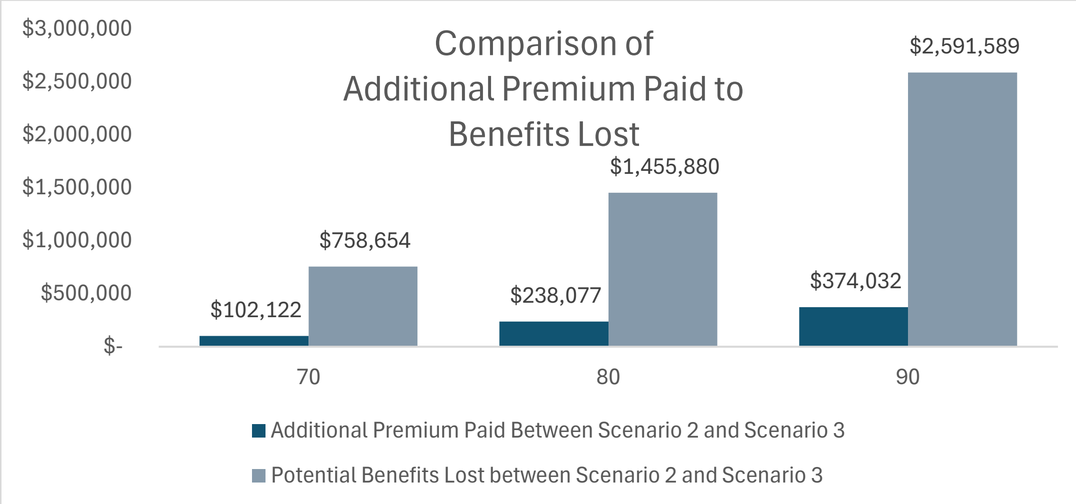
The assumptions are the same as Scenario 2; however, rather than approving the actuarially justified 100% increase in premium in years 6, 11, and 16, assume that premium increases were capped at 40% per year in years 6, 11, and 16. In addition, assume that the company became financially unsustainable and the policies were assumed by the state guaranty fund, which caps total benefits at $350,000.

Assumptions:

- Policy purchased at age 50
- Original monthly maximum benefit: $6,964
- 5% compounded annual inflation protection
- Elimination period: 90 days
- Benefit period: 5 years
- Initial Annual Premium: $2,587
- Premium increases by 40% each year at years 6, 11, and 16
- Total benefits received capped at $350,000

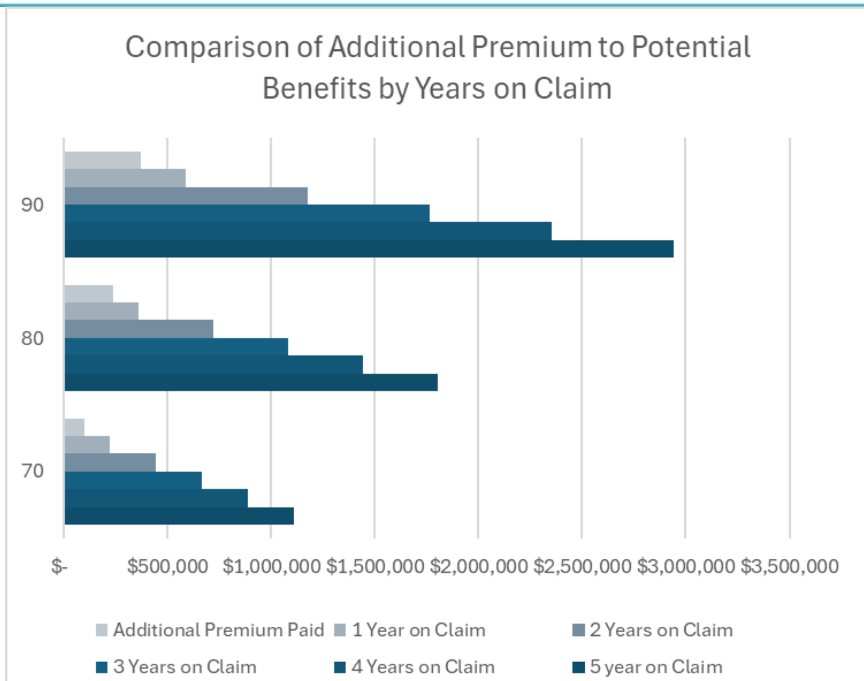
Age at Claim	Total Premiums Paid	Cumulative Premium Increase	Total Benefits Received	Benefit-to-Premium Ratio
70	$ 91,878	174%	$350,000	3.81
80	$ 162,857	174%	$350,000	2.15
90	$ 233,835	174%	$350,000	1.50

Age at Claim	Additional Premium Paid Between Scenario 2 and Scenario 3	Potential Benefits Lost between Scenario 2 and Scenario 3	Benefits Lost/Additional Premium Paid
70	$ 102,122	$ 758,654	7.43
80	$ 238,077	$ 1,455,880	6.12
90	$ 374,032	$ 2,591,589	6.93



This above table highlights that without a benefit cap (but with high premium increases) actually provides more consumer protection because it:

- Empowers consumer choice: Without a benefit cap, consumers have the flexibility to reduce their benefits (and corresponding premiums) if they feel the premium increases are too high.
- Avoids forced benefit cuts: By not capping benefits, consumers are not forced to accept reduced benefits due to regulatory restrictions on premium increases and guaranty fund limits.
- Encourages personal responsibility: Consumers can take ownership of their long-term care planning and make informed decisions about their benefits and premiums.
- Supports actuarial sustainability: The table without a benefit cap assumes actuarially justified rate increases, ensuring the insurer's financial sustainability and our ability to fulfill our contractual obligations.
- Empowering consumers to make their own choices about benefits and premiums can be a more effective way to allow policyholders to protect their interests.



Summary

Consumers facing significant rate increases on LTC policies must have the ability to make informed decisions that align with their financial circumstances and risk tolerance. Factors such as financial situation, health status, policy features, and future care needs should be carefully considered before deciding whether to maintain coverage, adjust benefits, or lapse the policy.

Actuarial justification plays a crucial role in ensuring the financial stability of insurers and protecting the interests of consumers. Deviating from actuarial principles may lead to inadequate premiums, jeopardizing insurer stability and consumer protection.

Furthermore, delaying approval of actuarially justified rates poses significant risks to insurers and policyholders alike. Proactive oversight and timely approval of actuarially justified rate adjustments are essential to maintain market confidence and protect consumers from sudden premium hikes or lapses in coverage.

While addressing affordability issues for older age policyholders is important, it is crucial to maintain a focus on actuarial soundness and fairness in setting premiums. Empowering consumers with knowledge, flexibility, and support can help strike a balance between consumer protection and insurer stability.

In conclusion, we urge regulators to prioritize actuarially justified rate increases and policies that empower consumer choice within the insurance market. By doing so, we can ensure the long-term viability and sustainability of insurance products while promoting fair outcomes for consumers.

Thank you for considering these important issues.

Sincerely,

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Consultant for AHIP