

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			
<u>cum. rate inc.</u>	<u>Current</u>	<u>MN Revision</u>	<u>MO Proposal</u>
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

