Genworth Life Insurance Company & Genworth Life Insurance Company of New York
Response to MSA Single Method Exposure Draft
September 27, 2024

Genworth Life Insurance Company and Genworth Life Insurance Company of New York (collectively, "Genworth" or the "Company") appreciate the opportunity for continued engagement in the MSA Single Review Method development process. Before commenting on specific adjustments to various additional cost-sharing proposals (as distributed August 14, 2024, and included in Appendix B), we must first clarify the considerations for the other modeling steps within the MSA Framework guidance on the Minnesota Method to ensure an appropriate foundation on which to base conclusions.

In attempting to use the MSA Framework guidance to determine the justification of requested rate increases, the presentation of results lacks the necessary transparency to support consistent results across states, and therefore is not, in its current form, an optimal tool for reviewing rate increase requests. **Any method used to support rate increase decision-making should be clear in its inputs and methodology**, and should be expected to produce the same results across all jurisdictions using the same inputs. While there may be some subjectivity in final adjustments based on company or block-specific considerations, the modeled result should be clear and consistently produced. The current guidance in the MSA Framework does not provide sufficient detail to achieve this objective. While an instructional presentation based on one interpretation of the guidance may be helpful for those regulators able to attend, it should not take the place of **clearly written, enduring guidance** that can be applied consistently by regulatory and industry participants over a long period of time.

Genworth would also like to make clear that while it understands that some state regulators may choose to use some form of a Blended If-Knew method (such as that invoked by the Minnesota Method) to inform rate increase decisions, **the inclusion of If-Knew in these decisions renders them non-actuarial**. A regulator's use of a policy adjustment, including the use of the Minnesota Method with its If-Knew component, does not make that adjustment actuarial in nature.

While the majority of the discussion on the Minnesota Method at Actuarial Working Group ("AWG") sessions has been to voice concerns over the non-actuarial components, Genworth believes **the AWG should discuss the truly actuarial components of the methodology** to ensure agreement in approach (See Appendix A for conversation guide). Genworth has significant first-hand experience, through its interactions with regulators as part of the rate increase filing process, with the various approaches to calculating and blending rate increase methods, and has noted some divergence in their application. A universal decision on each of the below components would better support stability within the industry, and enable reliable modeling and risk management. Consistent with its experience in applying these methodologies over numerous filings and across several jurisdictions, Genworth believes the following approaches are most appropriate when attempting to blend an actuarially justified rate increase with an "If-Knew" rate increase, as is attempted in the Minnesota Method. (Please note that the following statements do not constitute a position that the use of "If-Knew" in any form could be deemed appropriate in certain applications)

- **Aggregate Approach.** The most appropriate, and most easily understood, approach to assessing the need for rate increases in a Blended If-Knew methodology is to use what the MSA Framework describes as the "Aggregate Application." The example in the MSA Framework documentation is based on this approach, providing clarity and leading to more consistent application. Genworth's

experience has shown that this approach is used almost exclusively as it provides the most transparency without the subjectivity inherent in the assumed profit of the "Sample Policy-Level Verification."

- **Implementation Date.** As detailed in the AWG White Paper on this topic (issued October 2018), "delays in implementing actuarially justified rate increases due to either a carrier failing to file a needed rate increase, or delays in the regulatory approval of a needed rate increase, can pose a potential solvency risk." Insurers should be permitted to use a likely implementation date in the projections, and update the implementation date as necessary for prolonged rate review timelines to avoid additional financial strain and more closely mimic the impact of the rate increases.
- **Consistency with Existing Laws.** As the current Framework is not tethered to existing regulations, such as the use of the 58/85 test described in Rate Stabilization regulations, the use of Blended If-Knew, or any other rate increase methodology, will comply with, and not supersede, existing law. Furthermore, the use of MAE should also be included for applicable products/policies, so as not to conflict with issued guidance and the ability for actuaries to certify to the rate increase requests. Removal of MAE from the final rate increase offered/granted is an additional form of cost-sharing above what the standard Blended If-Knew would recommend. To specifically avoid conflict, the Framework should be updated to clarify that the final result must comply with existing laws and regulations.

There are other topics which are less consistent nationwide, and while Genworth has strong positions on these matters, it understands there are additional conversations that may lend themselves better to individual interactions with state regulators as they arise on specific filings.

- **Waiver of Premium.** The inclusion or exclusion of Waiver of Premium (WOP) benefits should be consistent with original pricing methodology. If a company included WOP as a claim benefit and grossed up premiums when setting original rates which were approved for use by a regulator, such an approach should be permissible in subsequent rate increase calculations.
- **Phasing of Rate Increases.** For larger increases, Genworth believes it is sometimes reasonable, though not always preferable, to phase increases in over a number of years (usually two to three years) if the regulator chooses to approve on that basis. This approach works best when there is agreement between the company and regulator that future filings are not planned, meaning a sufficient approval is being granted to prevent an immediate refiling. Otherwise, phasing causes unnecessary delays in future filings, driving up the ultimate level of increase needed to achieve a similar financial impact if implemented immediately.
- **Additional Cost-Sharing.** There are many downsides to a one-size-fits-all approach to the additional cost-sharing provision, as assumptions, benefit structures, and policyholder demographics can vary significantly from block-to-block. Furthermore, as this provision may be waived for unspecified "solvency concerns," the determination of whether additional cost-sharing is needed, and to what extent, may vary significantly from company-to-company. Given the dynamic nature of any additional cost-sharing that regulators may wish to impose, it seems most prudent to explicitly leave the determination to discussions between insurers and regulators so that regulators may preserve the ability to specifically address public policy concerns, as permitted by applicable law, for the consideration of policyholders within each state.

Finally, to support transparency, Genworth believes that **cumulative past increases should be backed out before blending**. Once this has been completed, it provides a very clear and transparent view to decision-makers in the exact contributions of the two components of the increase. For the If-Knew portion, the result should be floored at zero so as not to imply that a rate *decrease* would be appropriate given that

the initiation of the pricing exercise was the result of a deterioration in experience. A negative contribution from If-Knew would be logically unsound and inherently negate the validity of the result.

Additional Cost-Sharing Proposals Detailed In Exposure

Regarding the additional cost-sharing formula proposals in the most recent exposure: while Proposal A may be a compromise to the original Minnesota method, Genworth cannot support arbitrary limitations and levels not based in sound analytical or actuarial methods. The arbitrary caps detailed in Proposal B would further hinder a company's ability to manage its in-force business, and reward states which have been slow to review and approve justified increases, thereby increasing the rate increase needs to support claims-paying ability. Any cost-sharing on top of a review methodology should be discussed and decided between an individual insurer and regulator based on applicable law and unique circumstances, as stated above.

<u>Appendix A</u>

Recommended questions to be answered by actuarial discussion:

1. **Aggregate Approach.** Do we agree that the Aggregate approach is the preferred approach in most cases (unless circumstances specifically require an exception to use the Sample Policy approach)?
2. **Transparent Blending.** Do we agree that the method should provide transparency between what is actuarially justified for the current request compared to the If-Knew component, before blending and explicit additional cost-sharing is applied?
3. **Dynamic Additional Cost-Sharing.** Do we agree that the additional cost-sharing is not a one size fits all approach, and should be left to separate discussions between insurers and individual regulators?

Appendix B

To: Long-Term Care Actuarial (B) Working Group Members, Interested Regulators, and Interested Parties:

The Working Group requests comments on the Minnesota Approach with adjustments to haircut percentages and cumulative rate increase ranges of the cost-sharing formula as shown in **Proposal A** and **Proposal B** below as candidates for a Single LTCI Multistate Rate Review Approach. The adjustments are intended to address the "85/25/400" issue as discussed at the Working Group's Aug. 12 meeting.

Proposal A:

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 cumulative rate increase in excess of 150%.

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%

Proposal B:

Missouri is supportive of the development of a single MSA actuarial approach exposed and believe the following adjustments will be appropriate:

a) The cumulative rate increase should be no more than 600% after all the adjustments and cost sharing.

b) Each rate increase filing should not increase the cumulative rate increase by more than 100% from that of the current rate. In other words, the increase should not be more than 100% of the original rate.