

**Genworth Life Insurance Company & Genworth Life Insurance Company of New York**  
**Response to MSA Framework Exposure Draft**  
**December 13, 2024**

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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. Genworth has provided many of the following comments to the LTC Actuarial Working Group, but is restating them here for consideration by the LTC Task Force.

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 instructional presentations may be helpful for those regulators able to attend, they 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.

To begin, 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 of the exact contributions of the two components of the increase, and the amount of cost-sharing absorbed by the insurer. 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.

Genworth was asked to share an example to demonstrate how cumulative past increases should be backed out to avoid the implication of a negative contribution of an If-Knew increase. The example outlined below was shown in our second comment letter dated August 1, 2024, but the presentation has been updated to better highlight this issue.

Steps	Description	Rate Increase Result	Lifetime Loss Ratio
	<i>Prior Cumulative Rate Increases</i>	325%	
	<i>Best Estimate Projections</i>		95%
	<i>Percentage of Block Remaining: 56.8%</i>		
	<i>Since Inception If-Knew</i>	127%	
	<i>Make-Up Cumulative Rate Increase</i>	2042%	
MSA-1	MSA Blended Cumulative Rate Increase	1215%	
MSA-2	MSA Blended Cumul RI - with Add'l Cost-Sharing	548%	
MSA-3	MSA Blended RI - backout Prior Rate Increases	41%	89%
GNW-1	Make-Up Justified Rate Increase	404%	60%
GNW-2	Blended Rate Increase (Floored If-Knew)	229%	70%
GNW-3	Blended RI with Add'l Cost-Sharing (Prop A)	198%	72%

*The following outlines an alternative approach to the steps outlined in the MSA Framework examples that we believe better applies the intended principles in a format that is transparent, easy to replicate, and makes reasonable adjustments such as eliminating instances where rate decreases are implied.*

- Starting Point: The cumulative rate increases needed to get the block back to a lifetime loss ratio of 60%, established at initial product pricing, are 2042%. Note that the incremental increase above the already implemented rate increases would be 404%, as clearly shown in the GNW example. Note that the steps outlined in the MSA Framework obfuscate this critical datapoint. The Since-Inception If-Knew rate increase is 127%, well below previously approved and implemented rate increases of 325%.
- MSA Approach
  - Step MSA-1: Blending the If-Knew rate increase (127%) with the make-up increase (2042%)
  - Step MSA-2: Applying the cost-sharing factor to the blended amount
  - Step MSA-3: Backing out prior cumulative rate increases of 325%
  - Takeaway: without backing out the prior rate increases before blending, the approach lacks clarity into what exactly is being blended. In other words, the decision-maker has no insight into what the Make-Up would be compared to the If-Knew result on a standalone basis. **Further, since the past increases are larger than If-Knew but not backed out until after blending, it implies a rate decrease contributed by If-Knew,** as demonstrated in the more transparent approach below. This order of operations obfuscates the magnitude of cost-sharing applied to the actuarially justified increase.
- Genworth Proposal to correct for illogical results when prior cumulative increases are larger than the If-Knew result

- Step GNW-1: The prospective rate increase needed to get the block back to a lifetime loss ratio of 60% is a prospective increase to premiums of 404% (can be calculated by removing the 325% prior cumulative rate increases from the 2042% make-up cumulative increase)
- Step GNW-2: Since the prior cumulative rate increases are greater than the If-Knew result, it is most reasonable to back out the prior rate increases and floor the If-Knew portion of the calculation at 0%; otherwise the methodology suggests a rate *decrease* is appropriate (which is illogical given the exercise was initiated by a deterioration in experience). If the If-Knew portion were not floored at 0%, the result would be a Blended Rate Increase of 209%, implying an If-Knew contribution of (47)% (ie, a rate *decrease*).
- Step GNW-3: The resulting rate increase is then reduced by the additional cost-sharing provision
- Takeaway: while the result, using the current additional cost-sharing, results in a higher increase, the approach adds transparency to the exact level of cost-sharing applied. Additional cost-sharing could conceivably be adjusted to arrive at a similar result as the MSA approach, but the exact magnitude would at least be clear.

Cost-sharing is applied in a variety of ways, not all of which have been clearly disclosed in discussions on the MN method.

1. Blending with If-Knew, a hypothetical rate increase that relies on historical fictional premiums which cannot be collected by the company to pay actual claims.
2. Not flooring the If-Knew contribution at 0% when it is lower than prior justified and approved cumulative increases. In the GNW example, not flooring the if-knew contribution at 0% would mean a (47)% rate increase (ie, a rate *decrease*) was being used in the weighting, which would have driven down the blended increase from 229% to 209%. Genworth understands the additional cost-sharing provision is designed to be assessed on a cumulative rate increase basis, but not accounting for the implications of an If-Knew increase that is below increases already granted creates an additional form of cost-sharing that drives down increases without the transparency of the mechanics behind the individual contributions of each portion of the blended amount in the final incremental increase.
3. Additional cost-sharing. As seen in the GNW example, the LLR is driven up to 70% before the additional cost-sharing factors are applied, well above the 60% to which the block was originally priced. This does not suggest that a 70% LLR is always a reasonable target for a block of LTC, but an 10% increase in the LLR is a significant level of cost sharing already being produced.
4. Implementation delay. As the MSA Framework examples are silent on use of realistic implementation date in the calculations, use of the cash flow valuation date as the implicit assumed rate increase date results in an increase to the LLR due to the natural lag from valuation date to actual implementation date.

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**, such as the one listed above, to ensure agreement in approach. 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 MSA Framework is not currently tethered to existing regulations, the use of Blended If-Knew should comply with, but not supersede, existing law. For example, the final rate increases granted would be expected to comply with the 58/85 test described in Rate Stabilization regulations. 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.

Genworth appreciates the opportunity to provide industry feedback on these efforts. While we would be reluctant to submit any new rate increase filings to the MSA at this time, we will continue to support opportunities for collaboration to address our concerns and memorialize solutions in the MSA Framework.