**Genworth Life Insurance Company & Genworth Life Insurance Company of New York**
**Response to MSA Single Method Exposure Draft**
**May 3, 2024**

# Executive Summary

**The promulgation of a single MSA methodology, if accompanied by detailed and comprehensive implementation guidance, provides the opportunity for additional clarity and predictability for both industry and regulators in how to manage inforce business going forward.**

This submission of comments on the Exposure Draft does not constitute either agreement with the principles of the current Minnesota Method, nor endorsement of the Minnesota Method as the final single methodology. Our purpose is to provide feedback based on Genworth Life Insurance Company's and Genworth Life Insurance Company of New York's (collectively, "Genworth" or the "Company") experience, to request clarification where needed, and to recommend adjustments that may benefit all stakeholders.

While Genworth appreciates the opportunity to provide specific methodology suggestions, lack of sufficient detail in the existing MSA Framework guidance makes it difficult to create a reliable baseline from which to establish any modeling or quantification of impact. While the Company continues to believe that a single methodology or "one size fits all" approach is not suitable for addressing all LTC rate filings across the industry, the suggestions and improvements described below would create a more predictable and sustainable methodology and provide clarity for insurers that are contemplating use of the MSA process.

**If the Actuarial Working Group (AWG) intends to move to a single approach based on the Minnesota Method, it is imperative that the MSA standardize application of that method.**

Genworth has experienced significant variability in approach from regulators attempting to use the Minnesota Method in recent years, as a result of guidance that has either changed over time, is unclear in its intended implementation, or otherwise introduces subjectivity that leads to widely varying results. We recommend standardization of the following components of the Methodology:

- **Weighting**. Genworth believes a single, unified weighting factor may be the most direct and transparent approach to achieve the intended cost-sharing. A comprehensive weighting should account for advanced attained ages, the age of the block, and solvency considerations.
- **Cost-Sharing**. Genworth agrees with the need for an adjustment to the final increase to provide relief for solvency considerations. The current additional cost-sharing approach, waived entirely for unspecified solvency concerns, penalizes insurers when higher increases are necessary while rewarding states that have been slow to approve past requests, both of which only exacerbate solvency risks. Introducing various types of cost-sharing at different steps in the process with undefined determinants results in adding risk to the ongoing management of inforce blocks of business due to unpredictable rate increases.
- **Solvency.** The current guidance does not provide clearly defined objective criteria for when an adjustment for solvency should be made, resulting in an unknown and arbitrary threshold when

such an adjustment is permitted or otherwise is deemed no longer necessary. The current approach could be modified to more directly address solvency considerations, such as need for future rate increases to support margin sufficiency in Cash Flow Testing (CFT).

- **Implementation Date**. The current guidance does not provide clarity on the use of an assumed implementation date for when a rate increase may take effect. As the time value of rate increases can significantly impact the value to the company, an explicit adjustment should be allowed, especially when rate reviews continue for an extended period of time past the valuation date of the projected cash flows.
- **Aggregate vs. Sample Policy Methods.** The current Framework does not describe the decisions for when each method should be used, and when circumstances would prohibit use of the Aggregate Method. As there are also no examples of how the Sample Policy Method should be applied, we have generally seen the Aggregate Method used in all situations where regulators have utilized the Minnesota Method. In absence of specific guidance, the presence of the Sample Policy Method creates the appearance of a separate methodology without clarity for when either approach is the limiting factor.
- **Discount Rate.** For current Present Values (PVs), the "average corporate bond yields" are not defined, which has led to various approaches in application. Since rate increases are requested in an effort to support margin sufficiency, use of investment returns assumed in CFT should be permitted.
- **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.

### If an additional modification is deemed necessary for higher attained ages, we prefer that modification occur at an aggregated, or "block," level.

The most equitable approach to providing premium increase relief for policyholders at higher attained ages is through a block-level adjustment based on an average (or median) age of the policyholders within that block, rather than differentiating rate increases based on an arbitrary attained age.

### While cross-state premium equity may be desirable, a universal rate level target ignores the cost of delay and may not always be the best solution for ongoing management of a block of policies.

We encourage the focus on rate equivalence, but recognize that equal treatment of policyholders may not entail identical nationwide rate levels. We believe it's important to leave the issue of rate history and potential adjustments on the table for future discussion.

### Phased approvals over multiple years when granting the full requested increase, as opposed to frequent filings with smaller approvals, best balances insurer needs with policyholder transparency.

Genworth understands the potential impact to policyholders of large increases implemented in a single year; however, timely implementation remains the most prudent approach to ensuring continued claims-paying ability, and reduces the need for additional future increases. Phased increases can frequently result in higher future increase needs, due to reduction in expected premiums combined with the aging of the block. That being said, “pre-approving” multiple increases phased in over multiple years can at least provide some additional transparency to the policyholder when compared to smaller increases approved one at a time.

The “wait-and-see” approach of approving increases well below requested and justifiable amounts, especially when such approvals are phased, puts undue pressure on insurers and endangers the viability of the industry. So while phasing of increases can be reasonable in certain circumstances, it is not necessarily prudent universally.

# Genworth Response to MSA Single Method Exposure Draft

Genworth and its predecessor companies have been issuing Long Term Care insurance policies since 1974. Through the first quarter of 2024, the Company has paid over 370,000 claims totaling $30B. Through the processing of these claims, the Company has gained significant knowledge and understanding of claim behavior.

While pursuing rate increases necessary to sustain financial viability, the Company continues to invest in people and resources to support our policyholders, with initiatives that enhance customer experience and overall well-being of our policyholders:

- Our **Stable Premium Options** offer meaningful coverage while mitigating significant portions of the rate increases, while providing a rate guarantee upon election (in some cases, offering a lifetime rate guarantee).
- Our **Coverage Needs Estimator** is an online tool that helps policyholders evaluate their potential costs of care and compare those costs to their policy benefits.
- Our **Live Well | Age Well** program offers personalized support to policyholders who may be nearing claim eligibility, with the goal of helping policyholders live healthier longer at home.
- Our **CareScout Quality Network** is a network of high-quality caregivers that offers preferred pricing for policyholders. This network is expected to be available nationwide by year-end.

Ultimately, premium rate increases remain the strongest lever available to address LTC liability experience pressures. As an industry, we must recognize that the extremely long lead time between underwriting and credible claims experience (30+ years) may result in large adjustments in premium requirements. Such experience uncertainty is exactly why LTC policies are permitted to be written as guaranteed renewable, which expressly contemplates that rates may be changed in the future due to actual experience emerging different than original pricing assumptions. Insurance pricing relies on a multitude of assumptions regarding policyholder behavior, the costs of future heath care, and future market conditions, including the interest rate environment, all of which change drastically over such long time horizons. Given the long-tail nature of the product and the guaranteed renewable regulatory framework, it is neither reasonable nor logical to impute to an insurer at the time of original pricing knowledge of how experience would unfold many years in the future.

Below please find direct responses to your eight recommendations.

## 1. Generally have lower rate increases for those at very advanced ages with high-duration policies that have had substantial past rate increases.

***Genworth Perspective***: Genworth appreciates the concern for older policyholders and recognizes that premium rate increases can be challenging for some individuals. To provide relief, the Company has developed and made available numerous policyholder alternative options that offer policyholders the ability to mitigate the impacts of a premium increase while maintaining meaningful coverage. Since 2022, rate increase requests in most cases are differentiated by both Benefit Increase Option (BIO) and Benefit Period (BP), to align the highest increases with the benefit features facing the most adverse experience.

Charging different premiums to policyholders with the same benefit features who differ only by attained age would be incredibly onerous to implement. Our systems are not built to add a new risk class not part of the original pricing, like attained age, and to differentiate premiums along these constraints. It would be costly, time-consuming, and add risk to our processes to try to add such functionality at this point in our history.

***Proposed Solution***: Genworth supports using Product Block as a differentiating feature that can provide relief to advanced age policyholders. As product blocks typically have finite issue years and consistent marketing, the makeup of the policyholders within a block should provide sufficient comparability that would enable an approach to targeted rate increases.

## 2. Do not dismiss aspects of proposals labeled as "non-actuarial" by the ACLI.

### Consider all proposals made thus far regarding incorporation into a single actuarial approach.

***Genworth Perspective***: Genworth is committed to adhering to sound actuarial practice, as promulgated in official industry regulations as well as standard industry practice. When evaluating a methodology, it is critically important to distinguish fundamental actuarial concepts (premium sufficiency, regulation limitations on increases, rate increase impacts on solvency, etc.) from non-actuarial considerations (consumer protection, annual approval caps, cost sharing, etc.). Conflating the two perspectives can lead to misunderstandings by broader audiences about the actuarial justification or financial basis for a rate increase.

## 3. Balance between consumer protection and preventing further financial distress for insurers.

***Genworth Perspective***: Genworth appreciates the balance regulators seek to achieve as they navigate their dual mandate to protect consumers by approving fair premiums while also ensuring the claims-paying ability of insurers. We believe insurer solvency is the ultimate form of consumer protection and remains an essential part of any discussion on rate increases. And while Genworth appreciates the opportunity to comment on the current MSA methodology, the Company would like to reiterate that this response does not imply agreement with any method that employs the use of an if-knew premium for purpose of determining a rate increase that should be approved.

Genworth also understands the desire to increase the insurer's burden as cumulative rate increases rise, however, significant cost-sharing is achieved through the inherent blending with if-knew premium increases. Per requirements, assumption changes must be supported by changes in experience. Insurers are precluded from additional requests if experience doesn't change. However, if experience emerges differently than expected, this is the very circumstance for which the rate increase was intended. Through the current cost-sharing, insurers are also not permitted the full amount of the increase if experience is too unfavorable, which results in double penalty. The current cost-sharing provision also increases the insurer's burden in states that have been slower to approve past increase requests.

There is also concern for the "hidden cost-sharing" where past increases are backed out after the blending occurs. In situations where past increases are higher than the If-Knew calculation, backing out such increases after blending creates an implied negative rate increase for the If-Knew portion (effectively a premium *reduction*). As this effect is not explicitly addressed in the MSA Framework, it becomes an additional source of unintended cost-sharing. Given that the reason for beginning the rate increase exercise is due to deteriorating experience, anything that implies a premium reduction is counterproductive and potentially invalidates the foundation of the methodology.

***Proposal***: Combine all types of cost-sharing into a single step to provide clarity, ease of calculation, and improved standardization. The three main concerns addressed by cost-sharing include: percentage of block remaining; attained age of policyholders; and relative solvency of the insurer. All three of these components can be combined to create a unified cost-sharing result that achieves a balance between the If-Knew portion of the rate increase and the makeup portion of the rate increase.

The current guidance lacks definition or criteria for when a carrier is eligible for unique consideration due to its solvency or financial position. Genworth believes that clear criteria, and perhaps a quantitative solvency assessment, may help achieve a more objective solution to address the dual mandate. These criteria ought to contemplate the amount of assumed future rate increases needed to support asset adequacy margin sufficiency. Additionally, criteria should be developed for when a carrier that previously received this unique consideration is no longer eligible. The impact of the solvency considerations in the current framework can be significant, and without clear guidance for gaining or losing this eligibility, carriers have significant uncertainty about the outcome of the method.

Additionally, it should be noted that the requirement of the 58/85 test as described under Rate Stabilization guidance is an additional limiter that ensures a certain level of cost sharing, where applicable. The current Framework guidance does not recognize the existing regulations on this topic.

Finally, to address the impact of the "hidden cost-sharing," past increases should be backed out of the If-Knew and Makeup portions before blending. If past increases are higher than the If-Knew increases, then the If-Knew contribution should be floored at 0%, as it is not reasonable for any methodology to suggest that a rate decrease is appropriate when regulations and experience demonstrate an increase is needed.

## 4. Continue including a catch-up provision in a single actuarial approach for attaining a similar rate level between states.

### Align with actuarial soundness, consumer fairness, insurers' financial sustainability, and regulatory considerations.

***Genworth Perspective***: Genworth supports the goal of achieving cross-state premium equity. Premium equity entails, at a minimum, moving states to a similar (if not entirely equivalent) rate level. However, in some cases, it is reasonable to consider the timing and amount of past approvals across states in determining equitable premiums. If a state has had higher premiums than another state for an extended period of time, it would not always be equitable for both states to simply proceed at an equal revised future rate level going forward, as policyholders in the more proactive state would end up paying higher lifetime premiums for equal coverage. We appreciate that this is not always practical and therefore we encourage the focus to remain on rate equivalence as a first step. However, we believe it's important to leave the issue of rate history and potential adjustments on the table for future discussion. Differing rates of approvals can create a hindrance to progress, where states do not want to feel like they are burdening their constituents when other states have been slow to approve, without the possibility of ultimate equity.

## 5. Continue to encourage buy-in from states on the MSA actuarial approach.

Perhaps LTC Task Force leadership could have individual meetings with states that tend to approve the lowest rate increases, providing information and addressing questions.

Acknowledge that some states that perform detailed reviews of state filings will tend to review and consider their own method and compare with the MSA recommendation; some states are committed to following the MSA recommendation. States that aren't able to perform detailed reviews are more likely to rely on the MSA.

***Genworth Perspective***: Genworth has seen a variety of interpretations of what states call the "Minnesota Method" with little to no consistency. The guidelines, as detailed in the MSA Framework (and AWG White Paper before it), leave room for interpretation that has led to vastly different results depending on the reviewer and their degree of subjective assessment. Guidelines should be issued with sufficient specificity such that the results of a single rate increase request filing would be equivalent no matter who reviewed it. The current approaches leave insurers with little clarity regarding the end result, which adds another layer of complexity and uncertainty to ongoing management of the policies.

For Rate-stabilized products, regulators often use the Margin for Adverse Experience (MAE) as an additional form of optional cost-sharing (similar to the solvency consideration). Multiple states have removed MAE from the calculation to determine the approved increase. If the single MSA method is intended to take the place of rate stabilization guidance when assessing rate increases, the guidance should explicitly address the inclusion of margin.

***Proposal***: Provide additional guidance in specific areas where subjectivity has been, or can be, introduced.

- **Margin**: develop clear guidelines on when additional margin should be included in projections. Per rate stabilization guidelines, an MAE should be included in applicable policies.
- **Waiver of Premium**: create a universal requirement to either include or exclude WOP. If a product was priced with the inclusion of WOP as a benefit, future pricing exercises should continue to include it. Removing WOP in subsequent pricing of increases creates an additional aspect of implicit cost-sharing.
- **Discount Rate**: For current PVs, the "average corporate bond yields" are not defined, which has led to various approaches. The most common approach is to use the same rate for both "original PV" and "current PV", defaulting to the rate used in original pricing for all discounting. If a different rate is in fact a requirement, a more specific and relevant rate should be permitted. Since rate increases are requested in an effort to support margin sufficiency, use of investment returns assumed in Cash Flow Testing should be permitted to meet such requirement.
- **Aggregate vs. Sample Policy Methods**: The current Framework does not describe when each method should be used. No examples of how the Sample Policy method should be applied are included in the Framework. As a result, the Aggregate Method is the only method we've seen used (including in our most recent MSA filing submission). Within the Sample Policy Method, the concept of "profit" is not fully defined and provides no guidance on how it could be derived. If

there are unique situations when such a method should be deemed necessary, the implementation guidance should spell out such criteria and illustrate with examples.

- **Implementation Date**: As detailed in the White Paper, “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 for prolonged rate review timelines to avoid additional financial strain and more closely mimic the impact of the rate increases.

  The following example, based on a recent filing, uses the MSA Framework Template to Illustrate the impact of moving the implementation date (valuation date discounting) forward one year. In our experience, the lag between the data used in a given filing to the ultimate approval and implementation of the rate increase is well over the single year shown in this simplified example. As demonstrated below, the impact of a 1-year delay in implementation has a material impact on the result of the calculation. Such adjustments should be explicitly permitted within the MSA guidance.

| MSA Framework Methodology Steps | 2022 Implementation | 2023 Implementation |
|---|---|---|
| **(1) If-Knew Rate Increase (Since Issue)** | 127.20% | 127.20% |
| **(2) Make Up (Standard Solve)** | 1185.60% | 1305.80% |
| **(3) Percentage of Issued Policies Inforce** | 56.80% | 56.80% |
| **Blended RI = {2} * {3} + ({1} * (1-{3}))** | **728.70%** | **797.00%** |
| | | |
| **Include Cost Sharing Provision** | **492.70%** | **537.10%** |
| - Cumulative Rate Increase to Date | 239.20% | 239.20% |
| | | |
| **LTC MSA Framework Blended If Knew With Cost-Sharing** | **74.70%** | **87.8%** |

## 6. Pre-approve and phase in rate increases over a reasonable period of time as opposed to requiring annual re-filings.

Part of the reason is pre-approved phased-in rate increases transparently enable policyholders to make well-informed decisions about their LTC policy based on the most likely future rates.
Also, pre-approved phase-ins eliminate work effort for companies and regulators that often provides little value.

***Genworth Perspective***: 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.

## 7. If-knew weighting and additional cost-sharing considerations

Study impacts on rates and solvency of various weights (including the Utah proposal) as well as the potential effects of eliminating an explicit cost-sharing provision.

***Proposal:*** To provide a clear and consistent approach, we recommend a combined cost-sharing calculation that accounts for age of the block, attained age of the policyholders, and solvency considerations. The current weighting methodology results in an immediate and drastic convergence between the much lower If-Knew premium level based solely on the aging of the block. This adjustment should be made more gradual, and combined with an adjustment for higher attained ages, since the two concepts are also frequently highly correlated. A final adjustment can be made for solvency considerations, where a rate increase is adjusted either up or down based on the value of future rate increases needed to support margin.

Genworth would appreciate the opportunity to model various scenarios and approaches and propose more concrete formulas. However, additional clarity on the baseline Framework are necessary before modeling such approaches.

## 8. Maintain the flexibility of having a solvency provision but continue having the application be very rare.

***Proposal:*** While a solvency provision can provide relief for insurers that rely heavily on future rate increases for financial sustainability, a subjective assessment for when such a provision applies creates a challenging position for management of the block. A more consistent, fair, and predictable approach would be to embed an adjustment for solvency considerations into the unified cost-sharing calculation. Applying such a factor based on objective financial criteria avoids a sudden impact when the provision is deemed no longer applicable based on a subjective assessment that can vary from one review to the next, and creates a fairer environment for an adjustment that can be used consistently across all insurers.