From: Tomasz Serbinowski
To: King, Eric; Lombardo, Paul; Andersen, Fred
Cc: Pike, Jon; Wiseman, Shelley; Northrup, Tanji J.
Subject: Comments on the LTCAWG Proposals A & B
Date: Friday, September 20, 2024 4:40:10 PM

Dear Mr. King,

On behalf of the state of Utah, I'd like to offer the following comments regarding the two proposals for a cost sharing approach to be used in MSA rate reviews.

Both proposals can be viewed as alternative cost sharing proposals. MO proposal does not advocate for a specific cost sharing formula. Instead it proposes that any cost sharing formula adopted for the MSA reviews result in a cumulative rate increase cap of 600%. This can be achieved by increasing cost sharing to 100% above certain threshold.

Therefore, MO proposal could be applied to modify either of the MN cost sharing approaches (current and proposed).

MO proposal, in addition, includes a phase in feature that would require certain rate increases to be implemented in steps, by limiting any single rate increase to 100% of the original premium rate.

My comments are limited to the cost sharing aspect of the two proposals.

<u>1. Impact of the proposals is difficult to gauge</u>
For cumulative blended rate increases under 712%, Proposal A results in higher approvable rate increases than the current cost sharing. Here is a comparison of the approvable rate increases under the current and proposed cost sharing for rate increases ranging from 50% to 1000%.

Blended	*Current*	*Proposal A*
50%	47%	48%
100%	84%	95%
150%	117%	135%
200%	142%	175%
250%	167%	215%
300%	192%	255%
350%	217%	295%
400%	242%	335%
450%	267%	345%
500%	292%	355%
550%	317%	365%
600%	342%	375%
650%	367%	385%
700%	392%	395%
750%	417%	405%
800%	442%	415%
850%	467%	425%

900%	492%	435%
950%	517%	445%
1000%	542%	455%

It is worth noting that for cumulative blended rate increases under 1000%, the issue of 600% cap does not come to play under either cost sharing method.

The impact of the Proposal A is difficult to gauge without having some idea of what the distribution of future increases might be. For newer blocks of business with very low lapse rates, low mortality, and low assumed investment returns, vast majority (if not all) of future rate increases may be such that Proposal A would result in a higher approvable rate increase than the current cost sharing formula.

2. There is no set of criteria or any metric under which to evaluate the proposals

When MN method was proposed as one of the methods to be used for MSA reviews, there was no regulatory discussion on what is an appropriate cost sharing formula. This was an existing method used by a state and regulators felt that it was reasonable. But it was arbitrary, and many other (equally arbitrary) cost sharing formulas would have been reasonable.

Now regulators are asked to indicate a preference for one cost sharing formula over another. Both formulas are arbitrary. No specific criteria were stated to evaluate the proposals. In effect, any preference expressed would be a subjective opinion with no substantive backing.

3. It isn't clear if the proposals achieve the desired objective

The original impetus behind the proposals was regulators' desire to protect vulnerable population, those with very high attained ages. As the attained age is not an allowable ratting variable for the LTCI (and neither is duration), the change is attempting to address this issue in an indirect fashion. To the extent that higher cumulative rate increases tend to occur at later durations, one may expect that cumulative rate increases over 400% would likely apply in late durations (25+) and thus affect those with high attained ages.

However, no support was provided to show how the size of the rate increase correlates with the duration or attained age of the affected policyholders. If an average issue age for a block is 60, 25 years down the road, average age may be less than 85. While voluntary lapse rates may be lower for older policyholders, mortality and incidence rates are significantly higher. Cost sharing formula being based on the size of the increase (and not the actual distribution of attained ages of the block), may provide relief for blocks with an average attained age much below 85.

4. This appears to be a public policy matter, not a technical actuarial matter

The original impetus being the desire to protect policyholders with attained ages 85 and above suggests that the ultimate goal is a public policy of protecting what is perceived to be a vulnerable population. As such, this is not a technical actuarial matter and would be better suited for one of the parent committees.

Idea of cost sharing could be simplified so that individuals with no technical actuarial training (like commissioners) be able to provide input on it. For example, commissioners could be asked what portion of the justifiable rate increase should be borne by the policyholders. This could take the following form:

Justifiable Increase	*Hair Cut*	*Policyholders' Responsibility*
100%		
300%		
500%		
700%		
900%		
1100%		

Input from the commissioners (policymakers) could be then used to craft a cost sharing formula. If the commissioners required additional information on the impact of a particular cost sharing scheme, LTCAWG would be a proper venue to provide such technical information.

5. There are multiple unresolved technical issues surrounding application of the MN method
To the extent that MN method relies on the projections to calculate blended rate increase, there is a host of issues that may impact the calculations that have not been discussed by the LTCAWG.

Here are some of the items:
- Treatment of waived premiums and WOP benefits in calculation of If-Knew and Make-Up increases
- Whether If-Knew and Make-Up increases should be calculated using best estimate assumptions or assumptions with margins. If margins are allowed, should they be prescribed by the regulator (for example 5%), same as in the original pricing (may not be well documented), or whatever the actuary deems appropriate?
- Treatment of limited pay policies
- Treatment of paid-up policies (including policies on NF)
- Whether there should be some lower bound on the future loss ratio? In particular, can the rate increase result in a future loss ratio that is lower than the past loss ratio?
- Whether increases should be calculated assuming everyone pays the increase or reflecting shock lapse, reductions of benefits, and adverse selection.

Each of these issues impacts the allowable rate increase. And each is an actual technical matter that can be argued for and against by actuaries.

In conclusion, should the proposal be put to vote, Utah might feel forced to abstain or vote for the current cost sharing formula not because it is preferable, but to maintain status quo and continuity and consistency of the regulation.

Sincerely,
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