

Ideas for a single, improved MSA actuarial approach

As the Long Term Care Actuarial Working Group evaluates the two actuarial approaches embedded in the Multi-State Actuarial (MSA) Framework, there could be an opportunity to apply the evaluation to move towards a single, improved MSA actuarial approach.

Clarifying principles applied to develop the Texas and Minnesota approaches, key goals will continue to be:

1. The present value of lifetime premiums should not exceed the present value of lifetime benefits and related expenses for a class of policies.
 - a. This addresses the issue of “past losses” which can be a confusing concept related to a long-term insurance product.
 - b. This also addresses the shrinking block issue, ensuring a small number of remaining policyholders are not responsible for past excess claims associated with past policyholders.
 - c. The Minnesota and Texas approaches currently address these issues.
 - d. The Texas approach currently contains additional aspects regarding past losses.
2. Practical
 - a. The resulting rate increase should be reasonable.
 - b. The approach should be calculated in a reasonable amount of time with a reasonable amount of effort.
 - c. The approach should avoid unnecessary complications that don’t significantly change the resulting calculated rate increase.
3. Appropriate cost sharing
 - a. Recognition that in many cases, the lifetime loss ratio approach, an aspect of many states’ laws, leads to excessive rate increases that could be in conflict with other aspects of states’ laws.
 - b. Cost sharing should be balanced, considering consumer fairness and avoiding further company financial distress.
 - c. Any cost-sharing formula should allow for potential flexibility if concerns exist regarding an insurer’s financial solvency.

Note that the above-mentioned principles are in addition to the typical, professional approach applied by states, including review of insurer and industry experience; assessments of reasonability of assumptions; validation of projections; and professional judgment, where appropriate.

Here are aspects of the Minnesota approach where improvements may be considered:

- I. Is the “if-knew” the appropriate premium to blend with the makeup premium to achieve the results in item 1 above? If not, is it appropriate to achieve the practicality goals in item 2 above?
- II. Should the weighting towards the makeup premium continue to be the percentage of policyholders remaining to help achieve the goals of items 1 and 2 above?
- III. For simplicity, does it make sense to remove the investment component, perhaps adjusting the cost-sharing formula to calibrate the results to the current Minnesota approach?
- IV. Is the catchup approach of determining a rate increase from inception and removing past rate increase approvals effective?

- V. Is the aggregate application of the Minnesota approach working as intended, where the makeup premium is such that the resulting lifetime loss ratio does not exceed the pricing lifetime loss ratio?

Here are aspects of the Texas approach where improvements may be considered:

- I. What are features of the Texas approach not accounted for in the MN approach that could be part of a single, improved approach?
- II. How are transitional and catch-up provisions planned to be handled, including situations where the previous rate increase was applied prior to the implementation of the Texas approach or the company voluntarily reduces a past rate increase?
- III. Evaluation of the potential high sensitivity of mature blocks of business to later duration factors (and older assumptions) while placing less emphasis on past experience
- IV. Evaluation of the balance between fairness to consumers and avoiding further insurer financial distress.

Note that the stated goal of the MSA approach is rate equity. States and companies can still pursue a more equitable approach where the present value of premiums would be similar between states, i.e., recognize timing differences of past rate increase approvals.