

Long-Term Care Actuarial (B) Working Group Proposals A & B

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:

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

Adjustment 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.

Adjustment a) can be achieved by increasing the current cost sharing when cumulative rate is more than 500%. For example, increase the cost sharing from 50% to 90% when Cumulative Rate exceeds 500% and further increase to 95% when Cumulative Rate Increase exceeds 1000%. The cost sharing is increased to 100% when Cumulative Rate Increase exceeds 5000% (If this is perceived as a hard cap, it can be replaced by something like 99%).

Below is an example comparing proposal a) against the current cost sharing percentages (note resultant cumulative rate increase of 453% is less than the 600% target threshold):

Potential Cost-Sharing Formula for Typical Circumstance Cumulative Rate Increase (CRI) since issue date is haircut by:								
Current				Propose				
Blended Increase		3238%		Blended Increase		3238%		
CRI	Hair cut	Applicable CRI	with Hair cut	CRI	Hair cut	Applicable CRI	with Hair cut	
15%	0	15%	15%	15%	0	15%	15%	
50%	10%	35%	32%	50%	10%	35%	32%	
100%	25%	50%	38%	100%	25%	50%	38%	
150%	35%	50%	33%	150%	35%	50%	33%	
300%	50%	150%	75%	300%	50%	150%	75%	
400%	50%	100%	50%	400%	50%	100%	50%	
500%	50%	100%	50%	500%	50%	100%	50%	
1000%	50%	500%	250%	1000%	90%	500%	50%	
5000%	50%	2238%	1119%	5000%	95%	2238%	112%	
100000%	50%	0%	0%	100000%	100%	0%	0%	
CRI allowed		3238%	1661%	CRI allowed		3238%	453%	

Adjustment b) is a secondary control over the resultant cumulative rate increase with haircut.

Here is an example of the application of Adjustment b):

Minnesota (Blended if-Knew/Make-up) Approach	current	Propose
Loss ratio at the original premium level	62.0%	62.0%
Minimum loss ratio applicable to the form	60%	60%
If Knew Increase (IKI)	200%	200%
Make-up increase (MUI)	10000%	10000%
Remaining policyholders percentage (RPP)	31%	31%
Blended increase (RPPxMUI+(1-RPP)xIKI)	3238%	3238%
Cost sharing increase $\text{Sum}((1-\text{CSI}) \times \text{layer}_i)$	1661%	453%
Past rate increase (PRI)	215%	215%
Cumulative Rate Increase when increase is limited to 100% Original Rate (Cumulative Rate Increase Allowed, CRIA)	1661%	315%
Rate Increase under MN approach in % of Current Rate $= (1 + \text{CRIA}) / (1 + \text{PRI}) - 1$	459%	32%
Maximum Justified Rate Increase based on Make Up Increase = $(1 + \text{MUI}) / (1 + \text{PRI}) - 1$	3106%	3106%
Maximum allowable rate increase	459%	32%

Adjustment b) can be with or without re-visitation depending on fellow regulators' input and industry discussion.

Alternative 1 is that there should be no more subsequent rate increase filing if there is no further experience deterioration.

Alternative 2 can see the 100% original rate increase as a phase in mechanism where the filer may come back for more after every three years.

This proposal is limited to addressing the old age/long duration issue in LTCi rate increase filing. Comments on reducing cost sharing in early durations will be provided separately.