

# LONG-TERM CARE INSURANCE MULTI-STATE RATE REVIEW FRAMEWORK

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## TABLE OF CONTENTS

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- I. Introduction.....
  - A. Purpose.....
  - B. State Participation in the MSA Review.....
  - C. General Description of the MSA Review .....
  - D. Benefits of Participating in the MSA Review .....
  - E. Disclaimers and Limitations.....
  - F. Governing Body and Role of the NAIC Long-term Care Insurance (EX) Task Force .....
- II. Multi-State Actuarial LTCI Rate Review Team (MSA Team).....
  - A. Qualifications of an MSA Team Member
  - B. Duties of an MSA Team Member .....
  - C. Participation of an MSA Team Member.....
  - D. Conflicts, Confidentiality and Authority of the MSA Team .....
  - E. Required NAIC and Compact Resources .....
- III. Requesting an MSA Review .....
- A. Scope and Eligibility of a Rate Proposal for MSA Review.....
- B. Process for Requesting an MSA Review .....
- C. Certification .....
- IV. Review of the Rate Proposal .....
- A. Receipt of a Rate Proposal .....
- B. Completion of the MSA Review .....
- C. Preparation and Distribution of the MSA Advisory Report.....
- D. Timeline of Review and Distribution of the MSA Advisory Report .....
- E. Feedback to the MSA Team .....
- V. Actuarial Review.....
  - A. MSA Team’s Actuarial Review Considerations.....
  - B. Loss Ratio Approach .....
  - C. Minnesota Approach.....
  - D. Texas Approach .....
  - E. Reduced Benefit Options (RBO) .....
  - F. Non-Actuarial Considerations .....
- VI. Appendices .....
- A. Appendix A – MSA Advisory Report Format .....
- B. Appendix B – Information Checklist .....
- C. Appendix C – Actuarial Approach Detail .....
- D. Appendix D – Principles for Reduced Benefit Options (RBO) Associated with LTCI Rate Increases.....
- E. Appendix E – Guiding Principles on LTCI RBOs Presented in Policyholder Notification Materials.....
- VII. Exhibits .....
- A. Exhibit A – Sample MSA Advisory Report.....

## I. INTRODUCTION

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### A. Purpose

The National Association of Insurance Commissioners (“NAIC”) charged the Long-Term Care Insurance (EX) Task Force (“LTCI (EX) Task Force”) with developing a consistent national approach for reviewing current long-term care insurance (“LTCI”) rates that results in actuarially appropriate increases being granted by the states in a timely manner. Considering that charge and the threat posed by the current LTCI environment both to consumers and the state-based system of insurance regulation, the LTCI (EX) Task Force developed this framework for a multi-state actuarial (“MSA”) LTCI rate review process (“MSA Review”).

This framework is based upon the extensive efforts of the LTCI Multi-State Review (EX) Subgroup, including its experience with a pilot program conducted by the pilot program’s rate review team (“Pilot Team”). As part of that pilot program, the Pilot Team reviewed ~~seven~~ LTCI premium rate increase proposals and issued MSA Advisory Reports recommending actuarially justified state-by-state rate increases. This framework aims to institutionalize a refined version of the Pilot Team’s approach to create a voluntary and efficient MSA Review that produces reliable and nationally consistent rate recommendations that state insurance regulators and insurers can depend upon. The MSA Review has been designed to leverage the limited LTCI actuarial expertise among state insurance departments by combining that expertise into a single review process analyzing in force LTCI premium rate increase proposals (“rate proposal”)<sup>2</sup> and producing an MSA Advisory Report for the benefit and use of all state insurance departments. [Note that rate decreases can be contemplated within the MSA Review process. The same concepts of this MSA Framework would be applied, if such a decrease request is received for MSA Review.](#) The goal of this framework is to create a process that will not only encourage insurers to submit their LTCI products for multi-state review, but also provide insurance departments the requisite confidence in the MSA Review so that they will voluntarily ~~rely upon~~ utilize that process’s recommendations when conducting their own state level reviews of in force LTCI rate increase filings<sup>3</sup>. Ultimately, the MSA Review is designed to foster as much consistency as possible between states in their respective approaches to rate increases.

The purpose of this document is to function as a ~~user’s manual~~ [framework](#) for the MSA Review that communicates to NAIC members, state insurance department staff, and external stakeholders how the MSA Review works to the benefit of state insurance departments and how insurers might engage in the MSA Review. This ~~user’s manual~~ [MSA framework](#) is intended to communicate the governance, policies, procedures, and actuarial methodologies supporting the MSA Review. State insurance regulators can utilize the information and guidance contained herein to understand the basis of the multi-state actuarial LTCI rate review team’s (“MSA Team”) MSA Advisory Reports. Insurance companies can access the information and guidance contained herein to understand how to engage in the MSA Review, and how the MSA Advisory Report may impact the insurer’s in force LTCI premium rate increase filing decisions and interactions with individual state insurance regulators.

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<sup>2</sup> “Premium rate increase proposal(s)” or “rate proposal(s)” in this document refers only to an insurer’s request for review of a proposed in force LTCI premium rate increase [or decrease](#) under the MSA Review process.

<sup>3</sup> The term “filing(s)” in this document refers only to the in force LTCI premium rate request(s) that is submitted to individual state departments of insurance for a regulatory decision.

This document will be maintained by NAIC staff under the oversight of the LTCI (EX) Task Force and be revised as directed by the Task Force or an appointed Subgroup. This document will be part of the NAIC library of official publications and copyrighted.

## B. State Participation in the MSA Review

The MSA Review of an insurer's rate proposal will be available to state insurance departments who are both an Impacted State and a Participating State. These are defined as follows.

- "Impacted State" is defined as the domestic state, or any state for which the product associated with the insurer's in force LTCI premium rate increase proposal is or has been issued.
- "Participating State" is defined as any impacted state insurance department that agrees to participate in the MSA Review. Participation is voluntary as described in Section I.E.1 below. Participation may include activities such as, but not limited to, receiving notifications of rate proposals in SERFF, participation in communication/Webinars with the MSA Team, and access to the MSA Advisory Report.

*Note that state participation is expected to evolve in the future as the MSA Review process continues to be developed and refined.*

## C. General Description of the MSA Review

The MSA Review provides for a consistent actuarial review process that will result in an MSA Advisory Report which state insurance departments may choose to rely on/utilize to make decisions on an insurer's rate increase filing or to supplement the state's own review process.

The MSA Review is conducted by a team of state's regulatory actuaries with expertise in LTCI rate review. Each review will be led by a designated member of the MSA Team. The review process is supported by NAIC staff, the Interstate Insurance Product Regulation Commission ("Compact") staff, who will administratively assist insurers in making requests to utilize the MSA process and facilitate communication between the insurer, the MSA Team and [Participating/Impacted TBD<sup>4</sup>] States. The NAIC's electronic infrastructure, the System for Electronic Rates and Forms ("SERFF") will be used to streamline the rate proposal and review process. Although the administrative services of the Compact staff and SERFF's Compact filing platform are utilized in the MSA Review, MSA rate proposals are reviewed, and MSA Advisory Reports are prepared by the MSA Team. MSA rate proposals are not Compact filings and Compact staff will not have any role in determining the substantive content of the MSA Advisory Reports.

The MSA Review process begins when an insurer expresses interest in an MSA Review being performed for an in force LTCI rate proposal to the MSA Team through SERFF, or ~~to~~ supporting NAIC or Compact staff. The eligibility of the rate proposal will be reviewed and determined by the MSA Team ~~and~~ with assistance, as needed, from supporting staff.

The MSA Review of eligible rate proposals will resemble a state-specific rate review process utilizing consistent actuarial standards and methodologies. The MSA Team will apply the Minnesota and Texas

<sup>4</sup> Certain processes for Impacted vs. Participating States are yet to-be-determined (TBD).

approaches to calculate recommended, approvable rate increases. While aspects of the Minnesota and Texas approaches may result in lower rate increases than resulting from loss ratio-based approaches and are outside the pure loss ratio requirements contained in many states' laws and rules, the approaches fall in line with legal provisions that rates shall be fair, reasonable, and not misleading. The MSA Team will review support for the assumptions, experience, and projections provided by the insurer and perform validation steps to review the insurer-provided information for reasonableness. The MSA Team will document how the proposal complies with the regulatory approach utilized by the MSA Team for Participating States. See Section V for more details on the actuarial review.

Through the MSA Review the MSA Team will communicate MSA information to the insurer, [including the final MSA Advisory Report](#), and the MSA Team will address any questions from the insurer about the results of the review.

Additionally, the review will consider reduced benefit options that are offered in lieu of the requested rate increases and factor in non-actuarial considerations.

At the completion of the review, the MSA Team will draft an MSA Advisory Report for Participating States that provides both summary and detail information about the rate proposal, the review methodologies, the analysis and other considerations of the team, and the recommendation for rate increases as outlined in Appendix A. Participating States can [utilize](#) ~~either rely on~~ the report or supplement their own state's rate review with it as described in the following Subsection I.D.

The rate proposal, review process, actuarial methodologies and other review considerations are detailed within this framework document and accompanying appendices.

#### **D. Benefits of Participating in the MSA Review**

Both state insurance regulators and insurers will benefit by participating in the MSA Review in multiple ways.

For state insurance regulators:

- ~~F~~First, they will be able to leverage the demonstrated expertise of the MSA Team in reviewing in force LTCI rate increases filed to their state. It is recognized that multiple states may not have significant actuarial expertise with LTCI, so participation in the MSA Review will allow those states to build on the specific, dedicated LTCI actuarial expertise of the MSA Team.
- Second, state insurance regulators will be able to [utilize](#) ~~rely on~~ the MSA Team to promote consistency of actuarial reviews among filings submitted by all insurers to states, and among actuarial reviews across all states. Because the MSA Team is using the same dedicated approach to in force LTCI rate increase reviews, states who [utilize](#) ~~rely on~~ the MSA Team will have the benefit of using the same consistent methodology that is relied upon by other state insurance departments when reviewing in force LTCI rate increase filings in their state.
- Third, the MSA Review allows for more state regulatory actuaries to work with or under the supervision of qualified actuaries which affords them an opportunity to establish LTCI-specific qualifications in making actuarial opinions. This is particularly important when we consider that requirements to be a "Qualified Actuary" include years of experience under the supervision of another already qualified actuary in that subject matter.

- Finally, participating in the MSA Review will allow all state insurance regulators to share questions and information regarding a particular rate proposal or review methodologies; thus, increasing each state's knowledge base in this area and promoting a more consistent national approach to in force LTCI rate review.

*Note that states' use of and reliance on the MSA Advisory Report is expected to evolve in the future as the MSA Review process continues to be developed and refined and the benefits of the MSA Review described above become more evident.*

Long-Term Care (LTC) insurers will likewise see multiple benefits in participating the MSA Review.

- First, by utilizing the MSA Review and through the receipt of MSA information and the MSA Advisory Report from the MSA Team, insurers should see increased efficiency and reduced timelines for nationwide premium rate increase requests. As the MSA Team delivers the MSA Advisory Report for a rate proposal to Participating States, they have functionally reduced the review time for each state, meaning that LTC insurers should see more efficient and timely reviews from these states.
- Second, participating in the MSA Review will provide LTC insurers with one consistent recommendation to be used when making rate increase filings to all states, thus reducing the carrier's workload in developing often widely differing filings for states' review.
- Finally, the consistency of one uniform national system for reviewing rate proposals should lead to more accurate reviews, theoretically reducing some of the need for ongoing rate increase filings.

## **E. Disclaimers and Limitations**

### **1. State Authority over Rate Increase Approvals**

The MSA Advisory Report is only a recommendation to Participating States based upon the methodologies adopted by the MSA Review. The recommendations are not specific to, and do not account for, the requirements of any specific state's laws or regulations. The MSA Review is not intended, nor should it be considered, to supplant or otherwise replace any state's regulatory authority, responsibility and/or decision-making. Each state remains ultimately responsible for approving, partially approving or disapproving any rate increase in accordance with applicable state law.

A Participating State's ~~use~~<sup>adoption</sup> of the MSA Advisory Report's recommendations with respect to one filing does not require that state to consider or ~~use-adopt~~ any MSA Advisory Report recommendations with respect to any other filing. The MSA Review in no way (a) eliminates the insurer's obligation to file for a rate increase in each Participating State or (b) modifies the substantive or procedural requirements for making such a filing. While encouraged to adopt the recommendations of the MSA Review in each of their state filings, insurers are not obligated to align their individual state rate filings with the recommendations contained within the MSA Advisory Report.

The MSA Advisory Reports, including the recommendations contained therein, are only for use by Participating States in considering and evaluating rate filings. The MSA Advisory Reports or their conclusions shall not be utilized by any insurer in a rate filing submitted to a non-participating state, nor shall the MSA Advisory Reports be used outside of each regulator's own review process, or to challenge

the results of any individual state's determination of whether to grant, partially grant or deny a rate increase.

## 2. Information Sharing Between State Insurance Departments

The MSA Review, including, but not limited to, meetings, calls, and correspondence ~~with insurers~~ on insurer-specific matters are held in regulator-to-regulator sessions and are confidential. In addition, if certain information and documents related to specific companies that are confidential under the state law of a MSA Team member or a Participating State need to ~~Participating States' laws but will~~ be shared with other regulators, such sharing will occur as authorized by state law, and pursuant to the Master Information Sharing and Confidentiality Agreement ("Master Agreement") between states that governs the sharing of information among state insurance regulators. Through the Master Agreement, state insurance regulators affirm that any confidential information received from another state insurance regulator will be maintained as confidential and represent that they have the authority to protect such information from disclosure.

## 3. Confidentiality of the Rate Proposal

Members of the MSA Team affirm and represent that they will provide any in-force LTCI rate proposal as discussed herein with the same protection from disclosure, if any, as provided ~~is protected from disclosure~~ by the confidentiality provisions contained within their state's laws and regulations.

## 4. Confidentiality of the MSA Reports

Likewise, members of the MSA Team and Participating States affirm and represent that they will provide any MSA Advisory Report(s) and MSA information provided to insurers as discussed herein with the same protection from disclosure, if any, as provided ~~is protected from disclosure~~ by the confidentiality provisions contained within their state's laws and regulations for rate filings.

## F. Governing Body and Role of the NAIC Long-Term Care Insurance (EX) Task Force

The NAIC LTCI (EX) Task Force is expected to remain in place for the foreseeable future to oversee the implementation of the MSA Review, and related MSA Advisory Reports, and to provide a discussion forum for MSA-related activities. The Task Force or any successor will continuously evaluate the effectiveness and efficiency of the MSA Review for the benefit of state insurance regulators and provide direction, as needed.

The LTCI (EX) Task Force may create one or more subgroups to carry out its oversight responsibilities.

Membership and leadership of the Task Force will be selected by the NAIC President and President-elect as part of the annual committee assignment meeting held in January. Selection of the membership and leadership may consider a variety of criteria, including commissioner participation, insurance department staff competencies, market size, domestic LTC insurers, and other criteria considered appropriate for an effective governance system.

## II. Multi-State Actuarial LTCI Rate Review Team (MSA Team)

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The MSA Team comprises state insurance department actuarial staff. MSA Team members are chosen by their skill set and LTCI actuarial experience. The LTCI (EX) Task Force, or its appointed Subgroup, will determine the appropriate experience and skill set for qualifying members for the MSA Team. It is expected that state participants will provide expertise and technical knowledge specifically regarding the array of LTCI products and solvency considerations. The desired MSA Team membership composition should include a minimum of five and up to seven members.

Membership must follow the requirements below and be approved by the Chair of the LTCI (EX) Task Force or the Chair of an appointed Subgroup. The following outlines the qualifications, duties, participation expectations and resources required for MSA Team members.

### A. Qualifications of an MSA Team Member

To be eligible to participate as a member of the MSA Team, a state insurance regulator is required to:

- Hold a senior actuarial position in a state insurance department in life insurance, health insurance, or long-term care insurance
- Be recommended by the Insurance Commissioner of the state in which the actuary serves
- Have over five years of relevant LTCI insurance experience
- Hold an Associate of the Society of Actuaries (ASA) designation
- Currently participates as a member of the LTCI Multistate Rate Review (EX) Subgroup (or equivalent Subgroup appointed by the LTCI (EX) Task Force) and the LTC Pricing (B) Subgroup
- [At least one member of the MSA Team must be a member of the American Academy of Actuaries](#)

Additionally, the following qualifications are preferred:

- Hold a Fellow of the Society of Actuaries (FSA) designation
- Have spent at least one year engaged in discussions of either the LTCI (EX) Task Force or its appointed Subgroup

[As both state insurance regulators and the MSA Review process may benefit by developing and expanding specific LTCI actuarial expertise through participation in this process, having one or more suitably experienced and qualified actuaries participate in and supervise the work of the MSA Team is critical to the viability of the MSA process. Participation also provides opportunities for additional actuaries to meet the requirements of the U.S. Qualification Standards applicable to members of the American Academy of Actuaries and other U.S. actuarial organizations as they relate to LTCI.](#)

Consideration will be given to joint membership where two actuaries within a state combine to meet the criteria stated above.

[Consultants engaged by the state insurance department would not be considered for MSA Team membership.](#)

## B. Duties of an MSA Team Member

- Active involvement with the MSA Team, with an expected average commitment of 20 hours per month (See Section IV for details of the MSA Review and activities of a team member)
- Participate in all MSA Team calls and meetings (unless an extraordinary situation occurs)
- Review and analyze materials related to MSA rate proposals
- Provide input on the MSA Advisory Reports, including regarding the recommended rate increase approval amounts
- Maintain confidentiality of MSA Team meetings, calls, correspondence, and the matters discussed therein [to the extent permitted by state law](#) and protect from disclosure any confidential information received pursuant to the Master Information Sharing and Confidentiality Agreement. [MSA Team Members should communicate any request for public disclosure of MSA information or any obligation to disclose.](#)
- Active involvement within NAIC LTCl actuarial groups
- Willingness to provide expertise to assist other states

## C. Participation of an MSA Team Member

Except for webinars and other general communications with state insurance departments, participation in the MSA Review conference calls and meetings related to the review of a specific rate proposal will be limited to named MSA Team members, supporting NAIC or Compact staff members who will be assisting the MSA Team, and the Chair and Vice Chair of the LTC (EX) Task Force, or its appointed Subgroup. Other interested regulators, e.g., domiciliary state insurance regulator, may be invited to participate on a call at the discretion of the MSA Team, or Chair or Vice Chair of the Task Force or its appointed Subgroup.

## D. [MSA Associate Program](#)

[The MSA Associate Program within the MSA Framework is intended to encourage and engage state insurance department regulators to become actively involved in the MSA process. Additionally, a benefit of the program is to provide an educational opportunity for state insurance department regulatory actuaries that wish to gain expertise in LTCl. Regulatory actuaries can participate with varying levels of involvement or for different purposes as described. Regulatory actuaries may participate:](#)

- [As a mentee. The mentee would participate in aspects of the MSA Review process. An MSA Team member will serve as a mentor to another state regulatory actuary and provide one-on-one guidance.](#)
- [To gain more knowledge and understanding of the Minnesota and Texas actuarial approaches.](#)
- [To share their own expertise through feedback to the MSA Team on MSA Advisory Reports, to better enhance the overall MSA process.](#)
- [To participate on an ad hoc limited basis, i.e., where a regulatory actuary would like to participate but is unable to make the required time commitment.](#)
- [To meet the U.S. Qualification Standards applicable to members of the American Academy of Actuaries and other U.S. actuarial organizations as they relate to LTCl by serving under the supervision of a qualified actuary on the MSA Team.](#)
- [To serve as a peer reviewer of the MSA Advisory Reports](#)

## **D.E. Conflicts, Confidentiality and Authority of the MSA Team**

### 1. Authority of the MSA Team

Members of the MSA Team serve in a purely voluntary basis, and any member's participation shall not be viewed or construed to be any official act, determination or finding on behalf of their respective jurisdictions.

### 2. Disclosures and Confidentiality Obligations, as Applicable

All members of the MSA Team acknowledge and understand that the MSA Review, including, but not limited to, meetings, calls, and correspondence are confidential and may not be shared, transmitted, or otherwise reproduced in any manner. Additionally, all members of the MSA Team affirm and represent that they will (a) provide any in force LTCI rate proposal with the same protection from disclosure, if any, as provided by the confidentiality provisions contained within their state's laws and regulations and (b) provide any MSA Advisory Report with the same protection from disclosure, if any, as provided by the confidentiality provisions contained within their state's laws and regulations for rate filings.  
~~any resulting advisory report, as well as all meetings, calls, correspondence, and all other materials produced in connection herewith are confidential and may not be shared, transmitted, or otherwise reproduced in any manner.~~

### 3. Conflict of Interest Avoidance Procedures and Certifications

No member of the MSA Team may own, maintain, or otherwise direct any financial interest in any company or its affiliates subject to the regulation of any individual State, nor may any member serve or otherwise be affiliated with the management or board of directors in any company or its affiliates subject to the regulation of any individual State. All conflicts of interest, whether real or perceived, are prohibited and no member of the MSA Team shall engage in any behaviors that would result in or create the appearance of impropriety.

## **E.F. Required NAIC and Compact Resources**

The MSA Team will require administrative and technical support from the NAIC. As the MSA Review develops, it is expected NAIC support resources will play an integral role in managing the overall program. Administrative staff support will be needed to support MSA Team communications and manage record keeping for underlying workpapers and final MSA Advisory Reports associated with each rate proposal, etc. Additionally, it is possible that limited actuarial support will be needed for the analysis of rate proposals, including preparing data files, gathering information, performing limited actuarial analysis procedures, drafting MSA Advisory Reports, and monitoring interactions among the state insurance departments and the MSA Team. Dedicated staff support for the ongoing work of the LTCI (EX) Task Force will be needed as well. As more experience with rate proposal volumes and average analysis time is gained, the full complement of human resources required will be better understood.

The MSA Team and supporting NAIC and Compact staff will use the NAIC SERFF electronic infrastructure to receive insurer rate proposals and correspond with insurers. As needed, the MSA Team or supporting NAIC and Compact staff may communicate with the insurer outside of SERFF. NAIC and Compact staff will

[communicate with insurers only at the direction of the MSA Team. Compact staff will perform administrative work related to MSA Filings at the direction of the MSA Team and as described in this Framework.](#)

### III. REQUESTING AN MSA REVIEW

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#### A. Scope and Eligibility of a Rate Proposals for MSA Review

The following are the preferred eligibility criteria for requesting an MSA Review of a rate proposal.

- Must be an in force long-term care insurance product ([individual or group](#))
- Must be seeking a rate increase in at least 20 states and must affect at least 5,000 policyholders [nationwide](#)
- Includes any stand-alone LTCI product approved by states, not by the Interstate Insurance Product Regulation Commission (Compact)
- For Compact-approved products meeting certain criteria, the Compact Office will provide the first-level advisory review subject to the input and quality review of the MSA

It is recognized that rate proposals vary from insurer to insurer. The above criteria and the timelines provided below are general guidelines. The MSA Team has the authority to weigh the benefits of the MSA Review for state insurance departments and the insurer against available MSA Team resources when considering the eligibility of rate proposals and the timeline for completion. Based on these considerations, the MSA Team, at its discretion, may elect to perform an MSA Review on a rate proposal that does not satisfy the above eligibility criteria.

The MSA Team reserves the right to deny a request that does not meet eligibility criteria. An insurer will be notified if the request for an MSA Review is denied.

An insurer may ask questions for more information about a potential rate proposal through communication to supporting NAIC and Compact staff and the MSA Team. This will be accomplished through a Communication Form that will be available on the Compact webpage. Supporting NAIC and Compact staff will work with the insurer to complete the necessary steps to assess eligibility, discuss any technical or other issues and answer questions.

The insurer will have access to primary and supplementary checklists in Appendix B that provide guidance to the insurer for information that should be included in a complete MSA rate proposal requested through the NAIC's SERFF application.

#### B. Process for Requesting an MSA Review

As noted in Section I.C. above, the MSA Review will utilize the Compact's multi-state review platform within the NAIC's SERFF application and its format for in-force LTCI rate increase requests. Therefore, a state may participate in the MSA Review without being a member of the Compact. The following describes a few key elements of the process for insurers and state insurance department regulators.

- The insurer will work with NAIC and Compact support staff and the MSA Team to make a seamless request.
- Instructions containing a checklist for information required to be included in the rate proposal, as reflected in Appendix B, will be available to insurers through the Compact's webpage or within SERFF.
- The insurer shall include in the rate proposal a list of all states for which the product associated with the rate increase request is or has been issued. Participating Sstates will have access to view the insurer's rate proposal and review correspondence in SERFF.
- Fee schedule for using the MSA Review [To Be Determined].
- Rate proposals for MSA Review within SERFF will be clearly identified as separate from Compact filings.
- The supporting NAIC and Compact staff through SERFF will notify the Impacted Sstates upon receipt of the request with the SERFF Tracking No.
- The MSA Team may utilize a "queue" process for managing workload and resources for incoming requests through SERFF.
- The MSA Team may utilize Listserv or other communication means for inter-team communications.
- The MSA Team's review of objections and insurer responses are completed through SERFF.

### C. Certification

The insurer shall provide certifications signed by an Officer of the insurer that it acknowledges and understands the non-binding effect of the MSA Review and MSA Advisory Report. The certification shall also provide, and the insurer shall agree, that it will not utilize or otherwise use the MSA Review and/or the resulting MSA Advisory Report to challenge, either through litigation or any applicable administrative procedure(s), any state's decision to approve, partially approve or disapprove a rate increase filing except when: 1) the individual state is a [Participating/Impacted TBD] State that affirmatively relied on the MSA Review and/or the MSA Advisory Report in making its determination; or 2) the individual state consents in writing to use of the MSA Review and/or the MSA Advisory Report.

Failure to abide by the terms of the insurer's certification will result in the insurer and its affiliates being excluded from any future MSA Reviews, and it will permit the MSA Team to terminate, at its sole discretion, any other ongoing review(s) related to the insurer and its affiliates.

Should the MSA Team exclude any insurer and its affiliates for failure to adhere to its certification, the MSA Team, at its sole discretion, may permit the insurer and its affiliates to resume submitting rate proposals for review upon written request of the insurer.

## IV. REVIEW OF THE RATE PROPOSAL

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### A. Receipt of a Rate Proposal

The MSA rate review process begins when an insurer expresses interest in an MSA Review being performed for a rate proposal. This interest can be expressed through completion of a Communication Form, which will be available through the Compact webpage. The initial request will be reviewed by the

MSA Team lead reviewer and/or supporting NAIC and Compact staff. Once an insurer has completed this initial communication and meets the criteria for requesting an MSA Review, the insurer will work with supporting NAIC and Compact staff and the MSA Team to complete the rate proposal in SERFF. The MSA Team will be notified, via SERFF, when the proposal is available for review.

The supporting NAIC and Compact staff via SERFF or e-mail will notify [Participating/Impacted states TBD] when rate proposals are submitted, correspondence between the MSA Team and insurer is sent or received in SERFF, the MSA Advisory Report is available and other pertinent activities occur during the review.

## **B. Completion of the MSA Review**

The MSA Team shall designate a lead reviewer to perform the initial review of each rate proposal. Once the rate proposal is made through SERFF, the MSA Review will resemble a state-specific review process.

The MSA Team will meet periodically to discuss the review and determine any needed correspondence with the insurer. Objections and communications with filers will be conducted through SERFF, similar to any state-specific filing or Compact filing, to maintain a record of the key review items. Other supplemental communication between the insurer and the MSA Team or supporting NAIC and Compact staff, may occur, such as conference calls or emails, as appropriate.

The timeframe for completion of the MSA Team's review and drafting the MSA Advisory Report will be dependent upon the completeness of the rate proposal and the size and complexity of the block of policies for which the rate increase applies. The MSA Team may utilize a "queue" process for managing workload and resources for incoming requests through SERFF. The timeliness of any necessary communication between the MSA Team and the insurer to resolve questions or request/receive additional information about the rate proposal will impact the completion of the review.

As the MSA Team completes its review: 1) the insurer will receive initial communication of a completed review and that a final MSA Advisory Report with recommendations will be communicated to state insurance departments within the next month which may serve as a signal for a potential ideal time for the insurer to prepare to submit the state-specific filings to each state; and, 2) the insurer will receive MSA Review information for the insurer and the MSA Team will address questions from the insurer about the result of the review.

## **C. Preparation and Distribution of the MSA Advisory Report**

Upon completion of the actuarial review, the MSA Team will prepare a draft MSA Advisory Report for the rate proposal. The reports will be made available within SERFF "reviewer notes" for Participating States. Supporting NAIC and Compact staff will maintain a distribution list and send notifications of the availability of reports to Participating States. [Consultants engaged by a state insurance department staff to perform rate reviews would be given access to the MSA Advisory Report, subject to the terms of the agreement between the consultant and the Participating State insurance department.](#)

[Consultants who are bound by the actuarial Code of Professional Conduct, adopted by the Academy of Actuaries, Society of Actuaries and Conference of Consulting Actuaries, should consider whether receipt](#)

[of the MSA Advisory Report is acceptable under Precept 7 regarding Conflicts of Interest. For other professions, similar consideration should be made if bound by similar professionalism standards.](#)

Prior to finalizing the MSA Advisory Report, the MSA Team will present the draft MSA Advisory Report to Participating States on a regulatory-only WebEx call, as deemed necessary, to provide an overview of the recommendations and respond to questions from Participating States.

The MSA Team will issue the final MSA Advisory Report to the Participating States [and the insurer](#) after consideration of any comments and questions from Participating States.

The MSA Advisory Report will include standardized content as reflected in Appendix A, with modifications as necessary for any unique factors specific to the rate proposal. The content and format are based on feedback received from state insurance departments and the LTCI (EX) Task Force during the pilot project.

The content and format of the MSA Advisory Report may be modified in the future under the direction of the LTCI (EX) Task Force, or appointed Subgroup, as the MSA Team gains more experience in generating the reports and receives more feedback through this process.

#### **D. Timeline for Review and Distribution of the MSA Report**

The draft MSA Advisory Report will be made available to Participating States for a two-week comment period prior to being finalized. The following timeline for this comment period and distribution of the final MSA Advisory Report will be adhered to as close as possible, barring timing delays due to, e.g., holidays or other unexpected events. [Note that the MSA Review is intended to occur before filings are made to the state insurance departments, therefore not impacting state insurance departments' required timelines for review. However, use of the MSA Advisory Report by the state review may result in a reduced amount of time required for the state to complete its review.](#)

- Day 1 – Distribution of a draft MSA Advisory Report to all Participating States
- Day 5-7 – Regulator-to-regulator WebEx conference call of all Participating States during which the MSA Team will present the recommendations in the MSA Advisory Report and seek comments from states
- Day 21 – Deadline for comments on the initial MSA Advisory Report
- Day 35 – Distribution of the final MSA Advisory Report, with consideration of comments, to Participating States [and the insurer](#)
- Date to be determined by the Insurer – Individual rate increase filings submitted to each state insurance department
- Date to be determined by each state's department of insurance – approval or disapproval of the rate increase filing submitted to in each state

#### **E. Feedback to the MSA Team**

At the direction of the LTCI (EX) Task Force, or appointed Subgroup, state insurance departments will be requested to periodically provide feedback on their state's use of and reliance on the MSA Advisory Reports. State responses will be confidential pursuant to the Master Agreement and aggregated results

of feedback surveys will not specifically identify state responses. This feedback will aid the Task Force in understanding the practical effects of the MSA Review process in achieving the goal of developing a more consistent state-based approach for reviewing LTCI rate proposals that result in actuarially appropriate increases being granted by the states in a timely manner. The feedback will also help refine the review process, improve future reports to better meet participants' needs [and make updates to this MSA Framework](#). Finally, the feedback will assist NAIC leadership in making decisions regarding the technology and staff resources needed for the continued success of the project.

## **VII.A. APPENDIX A—MSA ADVISORY REPORT FORMAT FOR REGULATORS**

The MSA Advisory Report that is distributed to Participating State insurance departments [and the insurer](#) will generally follow a template that includes the following information. Note that degree of rigor in the review and the details and content of the MSA Advisory Report will depend on the magnitude of rate increase and complexity of the rate proposal and the insurer's financial condition. [See also the sample MSA Advisory Report in Exhibit A.](#)

1. Executive Summary
  - a. Overall recommended rate increase, before consideration of different states' history of approvals
2. Disclaimers
  - a. Purpose and intent of how states should use the MSA Advisory Report
  - b. Disclaimer that the MSA Review and findings shall not be considered an approval of the rate schedule increase filing, nor shall it be binding on the states or the insurer
  - c. Statement that the in-force rate increase request filed with the respective states shall be subject to the approval of each state, and each state's applicable state laws and regulations shall apply to the entire rate schedule increase filing
3. Background on the MSA Rate Review process
4. Explanation of the Insurer's Request
5. Summary of the MSA Team's rate review analysis, including these aspects:
  - a. Actuarial review
  - b. Summary of consideration of differences in the history of state's rate increase approvals
  - c. Non-actuarial considerations and findings
  - d. Financial solvency-related aspects and adjustments
  - e. Review for reasonableness and clarity of reduced-benefit options
  - f. Summary information about the mix of business
6. Appendices
  - a. Summary of the drivers of the rate increase request
  - b. Details regarding the Minnesota and Texas approaches as applied to the rate proposal
  - c. Summary of rate proposal correspondence
  - d. Tables of recommended rate increases by state, after consideration of different state's history of approvals
  - e. Frequently Asked Questions (FAQ)

## VI.B. APPENDIX B— INFORMATION CHECKLIST

At the request of the former Long-Term Care Insurance (B/E) Task Force, the LTC Pricing (B) Subgroup developed a single checklist that reflects significant aspects of LTCI rate increase review inquiries from all of states. In this context, “checklist” means the list or template of inquiries, that states typically send at the beginning of reviews of state-specific rate increase filings.

This document contains aspects of the *NAIC Guidance Manual for Rating Aspect of the Long-Term Care Insurance Model Regulation*<sup>5</sup> and checklists developed by several other states. This consolidated checklist is not intended to prevent a state from asking for additional information. The intent is to take a step toward moving away from 50 states having 50 different checklists to have a more efficient process nationally to provide the most important information needed to determine an approvable rate increase. To keep the template at a manageable length, it is anticipated that this template will result in states attaining 90 to 100 percent of the information necessary to decide on approvable rate increases. State and block specifics will generate the other zero to ten percent of requests. As states apply this checklist, it or an improved version may be considered for future addition to the *Guidance Manual for Rating Aspect of the Long-Term Care Insurance Model Regulation*.

### **A. Information Required for an MSA Review of a Rate Proposal**

The following provides a checklist of information necessary for a complete rate proposal to the MSA Review. This checklist is consistent with the “Consolidated, Most Commonly Asked Questions – States’ LTC Rate Increase Reviews”<sup>6</sup> as adopted by the Health Actuarial (B) Task Force on March 23, 2018.

1. Identify all states for which the product associated with the rate increase request is or has been issued.
2. New premium rate schedule, percentage increase for each rating scenario such as issue age, benefit period, elimination period, etc., from the existing and original rates.
  - a. Provide rate increase percentages by policy form number and clear mapping of these numbers to any alternative terminology describing policies stated in the actuarial memorandum and other supporting documents.
  - b. Provide the cumulative rate change since inception, after the requested rate increase, for each of the rating scenarios
3. Rate increase history that reflects the filed increase.
  - a. Provide the month, year, and percentage amount of all previous rate revisions.
  - b. Provide the SERFF MSA numbers associated with all previous rate revisions.
4. Actuarial Memorandum justifying the new rate schedule, which includes:

<sup>5</sup> [https://www.naic.org/documents/committees\\_b\\_senior\\_issues\\_160609\\_ltc\\_guidance\\_manual.pdf](https://www.naic.org/documents/committees_b_senior_issues_160609_ltc_guidance_manual.pdf)

<sup>6</sup> [https://content.naic.org/sites/default/files/inline-files/cmte\\_b\\_ltc\\_price\\_sg\\_180323\\_ltc\\_increase\\_reviews%20%289%29.docx](https://content.naic.org/sites/default/files/inline-files/cmte_b_ltc_price_sg_180323_ltc_increase_reviews%20%289%29.docx)

- a. Lifetime loss ratio projection, with earned premiums and incurred claims discounted at the maximum valuation interest rate.
  - i. The projection should be by year.
  - ii. Provide the count of covered lives and count of claims incurred by year.
  - iii. Provide separate experience summaries and projections for significant subsets of policies with substantially different benefit and premium features. Separate projections of costs for significant blocks of paid-up and premium-paying policies should be provided.
  - iv. Provide a comparison of state versus national mix of business. In addition, a state may request separate state and national data and projections. The insurer should accompany any state-specific information with commentary on credibility, materiality, and impact on requested rate increase.
5. Reasons for the rate increase, including which pricing assumptions were not realized and why.
  - a. Attribution analysis - present the portion of the rate increase allocated to and impact on the lifetime loss ratio from each change in assumption.
  - b. Related to the issue of past losses, explain how the requested rate increase covers a policyholder's own past premium deficiencies and/or subsidizes other policyholders' past claims.
  - c. Provide the original loss ratio target to allow for comparison of initially assumed premiums and claims and actual and projected premiums and claims.
  - d. Provide commentary and analysis on how credibility of experience contributed to the development of the rate increase request.
6. Statement that policy design, underwriting, and claims handling practices were considered.
  - a. Show how benefit features, e.g., inflation and length of benefit period, and premium features, e.g., limited pay and lifetime pay, impact requested increases.
  - b. Specify whether waived premiums are included in earned premiums and incurred claims, including in the loss ratio target calculation; provide the waived premium amounts and impact on requested increase.
  - c. Describe current practices with dates and quantification of the effect of any underwriting changes. Describe how adjustments to experience from policies with less restrictive underwriting are applied to claims expectations associated with policies with more restrictive underwriting.
7. A demonstration that actual and projected costs exceed anticipated costs and the margin.
8. The method and assumptions used in determining projected values should be reviewed considering reported experience and compared to the original pricing assumptions and current assumptions.
  - a. Provide applicable actual-to-expected ratios regarding key assumptions.
  - b. Provide justification for any change in assumptions.

9. Combined morbidity experience from different forms with similar benefits, whether from inside or outside the insurer, where appropriate to result in more credible historical claims as the basis for future claim costs.
  - a. Explain the relevance of any data sources and resulting adjustments made relevant to the current rate proposal, particularly regarding the morbidity assumption.
  - b. A comparison of the population or industry study to the in-force related to the rate proposal should be performed, if applicable.
  - c. Explain how claims cost expectations at older ages and later durations are developed if data is not fully credible at those ages and durations.
  - d. Provide the year of the most recent morbidity experience study.
  
10. Information from the *NAIC Guidance Manual for Rating Aspect of the Long-Term Care Insurance Model Regulation* Q&A: Morbidity, Lapse, Mortality, Interest.
  - a. Comparison with asset adequacy testing reserve assumptions.
    - i. Explain the consistency regarding actuarial assumptions between the rate proposal and the most recent asset adequacy (reserve) testing.
    - ii. Additional reserves that the insurer is holding above NAIC Model Regulation 10 formula reserves should be provided, (such as premium deficiency reserves and Actuarial Guideline 51 reserves).
  - b. Assumptions Template in Appendix 6 of the *NAIC Guidance Manual for Rating Aspect of the Long-Term Care Insurance Model Regulation* (for policies issued after 2017, where applicable).
  - c. Provide actuarial assumptions from original pricing and most recent rate increase proposal and have the original actuarial memorandum available upon request.
  
11. Provide the following calendar year projections, including totals, for current premium paying nationwide policyholders only, prior to the rate increase, all discounted at the maximum valuation interest rate\*:
  - a. Present value of future benefits (PVFB) under current assumptions
  - b. PVFB under prior assumptions {from prior rate increase filing, or if no prior increase, from original pricing}.
  - c. Present value of future premiums (PVFP) under current assumptions.
  - d. PVFP under prior assumptions {from prior rate increase filing, or if no prior increase, from original pricing}.

\*To emphasize, these projections should include only active nationwide policyholders currently paying premium, and should not include any policyholders not paying premium, regardless of the reason. Projections under current actuarial assumptions must not include policyholder behavior as a result of the proposed premium rate increase, such as a shock lapse assumption or benefit reduction assumption.

- b. Also, please identify the maximum valuation interest rate and ensure that it is the same for all four projections.

12. *NAIC Guidance Manual for Rating Aspect of the Long-Term Care Insurance Model Regulation* checklist items: summaries (including past rate adjustments); average premium; distribution of business, including rate increases by state; underwriting; policy

- design and margins; actuarial assumptions; experience data; loss ratios; rationale for increase; reserve description.
13. Assert that analysis complies with actuarial standards of practice, including 18 & 41.
  14. Numerical exhibits should be provided in Excel spreadsheets with active formulas maintained, where possible.
  15. Rate Comparison Statement of renewal premiums with new business premiums, if applicable.
  16. Policyholder notification letter – should be clear and accurate.
    - a. Provide a description of options for policyholders in lieu of or to reduce the increase.
    - b. If inflation protection is removed or reduced, is accumulated inflation protection vested?
    - c. Explain the comparison of value between the rate increase and policyholder options.
    - d. Are future rate increases expected if the rate increase is approved in full? If so, how is this communicated to policyholders?
    - e. How are partnership policies addressed?
  17. Actuarial certification and rate stabilization information, as described in the Guidance Manual, and contingent benefit upon lapse information, including reserve treatment.

## **B. Supplemental Information**

As part of the LTCI (EX) Task Force's pilot project in 2020-2021, the following supplemental information was identified by the MSA Team as beneficial and therefore, may be requested to assist in the MSA Review.

1. Benefit utilization:
  - a. Provide current, prior rate increase, and original assumptions, including first-projection year through ultimate utilization percentages for 5% compound inflation, lesser inflation, and zero inflation cells.
  - b. Explain how benefit utilization assumptions vary by maximum daily benefit.
  - c. Provide the cost of care inflation assumption implied in the benefit utilization assumption.
2. Attribution of rate increase
  - a. Provide the attribution of rate increase by factor: morbidity, mortality, lapse, investment, other.
  - b. For the morbidity factor, break down the attribution by incidence, claim length, benefit utilization, and other.
  - c. Provide information on the assumptions that are especially sensitive to small changes in assumptions.

3. Reduced benefit options (RBOs)
  - a. Provide the history of RBOs offered and accepted for the block.
  - b. Provide a reasonability analysis of the value of each significant type of offered RBO.
4. Investment returns:
  - a. Provide original and updated / average investment return assumptions underlying the pricing.
  - b. Explain how the updated assumption reflects experience.
5. Expected loss ratio:
  - a. With respect to the initial rate filing and each subsequent rate increase filing, provide the target loss ratio.
  - b. Provide separate ratios for lifetime premium periods and non-lifetime premium periods and for inflation-protected and non-inflation-protected blocks.
6. Shock lapse history: Provide shock lapse data related to prior rate increases on this block.
7. Waiver of premium handling:
  - a. Explain how policies with premiums waived are handled in the exhibits of premiums and incurred claims.
  - b. Explain how counting is appropriate (as opposed to double counting or undercounting).
8. Actual-to-expected differences: Explain how differences between actual and expected counts or percentages (in the provided exhibits) are reflected or not reflected in assumptions.
9. Assumption consistency with the most recent asset adequacy testing: Explain the consistency or any significant differences between assumptions underlying the rate increase request and those included in Actuarial Guideline 51 testing.

## VII.A. EXHIBIT – SAMPLE MSA ADVISORY REPORT<sup>7</sup>

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FROM: Long-Term Care Insurance (LTCI) Multistate Actuarial Rate Review Team

DATE: [Date]

RE: ABC Insurance Company – Block LTC1 – Draft of *Initial* MSA Advisory Report

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### Executive Summary

The LTCI Multistate Actuarial Rate Review Team (MSA Team) recommends a rate increase of 35% to be approved for inflation-protected products and 20% to be approved for products with no inflation, related to ABC Company’s block.

Higher rate increases are recommended for states where past cumulative rate increases below 55% have been approved. Reduced benefit options may be selected to help manage the impact of the rate increase.

Analysis by the MSA Team resulted in the recommended rate increase being consistent with that resulting from the actuarially justified Texas and Minnesota approaches. The recommended rate increases are below the increases that would have resulted from the lifetime loss ratio approach and the rate stability rules.

### Background

The MSA Team was formed to assist the Task Force in developing a consistent national approach for reviewing LTCI rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization.

The members are: [List names and state of members]. Starting in the first half of 2020, the MSA Team accepted rate increase filings as part of a pilot program. The MSA Review process became operational on [insert date].

This MSA Advisory Report is related to the rate increase request filed by ABC Company for its LTC 1 block sold between 2003 and 2006. The MSA Team’s actuarial analysis is provided below. The intention is that states can utilize this analysis and feel comfortable accepting the MSA Advisory Report recommendation when taking action on the upcoming ABC filings that will be made to the states.

As this is a state-approved product, each state will ultimately be responsible for approving, partially approving, or disapproving the rate increase. A goal of the Task Force is for as much consistency as possible to occur between states in the rate increase approvals.

### Insurer’s Request

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<sup>7</sup> Information contained in this sample report is an example only and is not derived from any actual rate filing.

ABC Company requests a rate increase of 60% to be approved for inflation-protected products and 40% to be approved for products with no inflation.

In addition, ABC is requesting higher rate increases for states that did not grant full approval of prior rate increase requests, consistent with the MSA Team's goal of attaining the same resulting rate tables in each state for a given product.

Workstream-related Review Aspects

### **Actuarial Review**

At the direction of the LTCI Multistate Rate Review (EX) Subgroup, the MSA Team applied the Minnesota and Texas approaches to calculate the recommended, approvable rate increases. Aspects of the Minnesota approach that result in lower rate increases than those resulting from loss ratio-based approaches contained in many states' laws and rules include:

- Reduction in rate increases at later policy durations to address shrinking block issues;
- Elimination of rate increases related to inappropriate recovery of past losses;

Minnesota also has additional unique aspects: consideration of adverse investment expectations related to decline in market interest rates, adjustments to projected claim costs to ensure impact of uncertainty is adequately borne by the insurer, and a cost-sharing formula applied in typical circumstances.

Even though these additional aspects are outside the pure loss-ratio requirements, they fall in line with legal provisions that rates shall be fair, reasonable, and not misleading.

The Minnesota approach, including application of the typical-circumstance cost-sharing formula, results in an approvable rate increase of 35% for inflation-protected products and 20% for products with no inflation protection.

The Texas approach results in an approvable rate increase of 29% in aggregate.

The MSA Team's recommendation, in consideration of the Minnesota and Texas approaches, is to approve a rate increase of 35% for inflation-protected products and 20% for products with no inflation protection.

Higher rate increases are recommended for states where past cumulative rate increases below 55% have been approved.

The MSA Team reviewed support for the assumptions, experience, and projections provided by the insurer and performed validation steps to review the insurer-provided information for reasonableness. Details

regarding the actuarial review are provided in Appendix 1. Also, the initial submission and subsequent correspondence between the insurer and MSA Team are available on SERFF. The SERFF tracking number is ABCC-123456789.

### **Consideration of Differences in Histories of States' Rate Increase Approvals**

According to the Historical Rate Level Summary, Appendix D in the insurer filing, past rate increase approvals by state have varied and can be categorized as follows:

- 25 states have granted full or near-full approval of ABC's past requests (at or near 55%, cumulative),
- 18 states have granted cumulative approvals averaging 45%,
- 5 states have granted cumulative approvals averaging 27%,
- 2 states have granted cumulative approvals averaging 15%.

The insurer's stated goal is to bring rates in all states up to an equivalent rate level. Currently, the average annual premium rates for a policyholder range from below \$1,700 in some states (with the lowest past approvals) to over \$2,200 in other states (with the highest past approvals).

The MSA Team's recommendation is based on a goal of rates per benefit unit being uniform between states going forward.

A table of examples of recommended rate increases, based on past cumulative approval history is provided in Appendix 2.

### **Non-actuarial & Valuation/Solvency Considerations**

Non-actuarial considerations, including, flexibility regarding phase-in of rate increases, waiting periods between rate increases should be coordinated with phase-in periods, and other issues are being discussed at the LTCI (EX) Task Force and LTCI Multistate Rate Review (EX) Subgroup.

Even with future claims potentially being reduced due to COVID-19-related behavioral impact, ABC will continue to experience substantial losses on this block.

Regarding coordination of rate and reserving reviews, the insurer states that assumptions underlying the rate increase request are consistent with assumptions underlying the reserve adequacy testing.

### **Reduced Benefit Options – Review for Reasonableness**

Unless a rider was purchased, ABC policyholders facing a rate increase will be offered the following applicable options in lieu of a rate increase:

- 1) extending the elimination period;
- 2) decrease the benefit period;
- 3) Reduce future inflation accumulation.

The insurer produced rate tables which demonstrate the RBOs provide reasonable value in relation to a case of a policyholder retaining full benefits and paying the full rate increase.

#### Financial Impact for Insurer

The requested rate increase associated with recent adverse development would result in around \$50 million of reduced losses for this block, according to information contained in the actuarial memorandum.

#### Mix of Business

From the insurer's actuarial memorandum:

##### Enrollees:

- Total enrollees as of date of filing: 15,000
- Inflation protection: 9,000 (inflation protection), 6,000 (no inflation)
- Benefit period: 8,500 (lifetime benefits), 6,500 (limited benefits)

Product type: Expense reimbursement

Average issue age: 58

Average attained age: 75

Annualized premium: \$30 million; \$2,000 average per policyholder

## **Appendix 1**

### Drivers of Rate Increase Request - Summary

The primary drivers, summarized in the insurer actuarial memorandum, were lower lapses and longer average claim length. The insurer assumptions were based on actual-to-expected adjustments, based in part by insurer experience that has become more credible in recent years. The assumptions were determined to be reasonable and in line with industry and actuarial averages.

### Details Regarding Minnesota Approach

For an average (in terms of benefit period and issue age) 5% compound inflation-protected cell:

- Makeup cumulative rate increase: 177% (the increase from original rates needed going forward to get the block to the financial position contemplated at original pricing)
  - This increase is equal to the increase that would result from a pure loss ratio approach.

- If-knew cumulative rate increase: 36% (the increase from original rates needed if the insurer could go back to the past and reprice the product given information it knows now)
- Proportion of original policyholders remaining in force, based on insurer original and updated assumptions: 62%
- Blended if-knew / makeup rate cumulative rate increase since issue: 123%
  - = .62 \* 177% + (1 - .62) \* 36%, adjusted for rounding
- Insurer cost share based on Minnesota formula (see Appendix 3): 12%
- Recommended cumulative rate increase since issue: 109%
  - = (1 - .12) \* 1.23, adjusted for rounding
- Past cumulative rate increases: 55%
- Actuarial recommended rate increase from current rates: 35%
  - = (1 + 1.09) / (1 + 0.55) - 1, adjusted for rounding
- Final actuarial recommended rate increase from current rates (for the inflation-protected cell): 35%
  - Minimum of: calculated approval rate of 35% and insurer request of 60%.
- Using the same methodology, the final actuarial recommended rate increase from current rates (for the non-inflation-protected cell): 20%

Note that the Minnesota approach includes reflection of declining interest rates which tends to lead to adverse investment returns compared to expectations in original pricing. Also, where applicable, insurer morbidity assumptions are adjusted downward due to lack of credible support at extremely high ages, and general lack of complete support for aspects of morbidity assumptions, including uncertainty regarding future benefit utilization.

#### Details regarding Texas approach

- Insurer Calculation (aggregate): 52%

#### PPV calculations

- Texas Life & Health Actuarial Office (LHAO) PPV Calculation (aggregate): 29%

#### LHAO Comments

- For purposes of the MSA report, and as a component of the calculation of the approvable rate increase, Texas recommends an actuarially justified PPV calculated amount of 29%.

#### Texas rate stabilized PPV Formula:

$$\text{rate increase \%} = \frac{\Delta PV(\text{future incurred claims}) - \left( \frac{.58 + .85 C}{1 + C} \right) \Delta PV(\text{future earned premiums})}{.85 PV_{\text{current}}(\text{future earned premiums})}$$

### Reconciliation of Minnesota and Texas approaches

The Texas PPV calculated amount of 29% aligns well with the Minnesota approach's recommended rate increase of 35% for inflation-protected policies and 20% for non-inflation-protected policies when the distribution of inflation-protected vs non-inflation-protected cells is applied. The MSA Team's recommended rate increase is 35% for inflation-protected policies and 20% for non-inflation-protected policies.

Recommended rate increases by state, in consideration of various histories of rate increase approvals, are listed in Appendix 2.

### Filing Correspondence Summary

- Template information request for multi-state rate increase filings, based on the list adopted by the NAIC Health Actuarial Task Force on March 23, 2018.
- New premium rate schedule, percentage increase for each rating scenario such as issue age, benefit period, elimination period, etc., from the existing and original rates.
- Rate increase history that reflects the filed increase.
- Actuarial Memorandum justifying the new rate schedule, which includes:
  - Lifetime loss ratio projection, with earned premiums and incurred claims discounted at the maximum valuation interest rate.
  - Reasons for the rate increase, including which pricing assumptions were not realized & why.
  - Statement that policy design, underwriting, and claims handling practices were considered.
  - A demonstration that actual and projected costs exceed anticipated costs and the margin.
  - The method and assumptions used in determining projected values should be reviewed in light of reported experience and compared to the original pricing assumptions and current assumptions.
  - Combined morbidity experience from different forms with similar benefits, whether from inside or outside the insurer, where appropriate to result in more credible historical claims as the basis for future claim costs.
  - Information (from NAIC *Guidance Manual for Rating Aspect of the Long-Term Care Insurance Model Regulation*, "Guidance Manual" Q&A): Morbidity, Lapse, Mortality, Interest
 
    - Comparison with asset adequacy testing reserve assumptions
    - Provide actuarial assumptions from original pricing and most recent rate increase filing, and have the original actuarial memorandum available upon request.

- Guidance Manual Checklist items: summaries (including past rate adjustments); average premium; distribution of business, including rate increases by state; underwriting; policy design and margins; actuarial assumptions; experience data; loss ratios; rationale for increase; reserve description
  - Assert that analysis complies with Actuarial Standards of Practice, including No. 18 & No. 41.
  - Numerical exhibits should be provided in Excel spreadsheets with active formulas maintained, where possible.
- Rate Comparison Statement of renewal premiums with new business premiums, if applicable.
- Policyholder notification letter – should be clear and accurate.
    - Provide a description of options for policyholders in lieu of or to reduce the increase.
    - If inflation protection is removed or reduced, is accumulated inflation protection vested?
    - Explain the comparison of value between the rate increase and policyholder options.
    - Are future rate increases expected if the rate increase is approved in full? If so, how is this communicated to policyholders?
    - How are partnership policies addressed?
- Supplementary information, based on a list developed by the MSA Team following review of initial pilot program filings:
    - Information on benefit utilization
    - Attribution of rate increase by factor
    - Reduced benefit option history and reasonability analysis
    - Investment returns
    - Expected loss ratio
    - Shock lapse history
    - Waiver of premium handling
    - Actual-to-expected differences
    - Assumption consistency with Actuarial Guideline 51 asset adequacy testing
- Following initial review of the filing, additional information was requested by the MSA Team related to:
    - Original pricing assumptions.
    - Lapse assumption by duration.
    - Premiums & incurred claims by calendar year based on original assumptions.
    - Distribution of inforce by inflation protection.
    - Loss ratios by lifetime/non-lifetime benefit period and with/without inflation protection.
    - Description of waiver of premium handling in premium & claim projections.
    - Commentary on COVID-19 short-term and long-term LTC impact

## Appendix 2

Examples of Rate Increases if a Reduced Benefit Option is not Selected

ABC Company				
Jurisdiction Example*	Past Cumulative Approved Increases	Increase to catch up	Recommended New	2021 Recommended Rate Incr
Example: state with average past approvals	55%	0%	35%	35%
Example: state with lower than average past approvals	27%	22%	35%	65%
*The recommendation for each state is based on the actual past cumulative approved increases in that state.				

**Appendix 3**

Potential Cost-Sharing Formula for Typical Circumstance

Cumulative rate increase since issue date is haircut by:

- 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%

Example: if the Texas approach or pre-cost sharing Minnesota approach results in a cumulative 210% rate increase since issue:

- Break 210% into the following components: 15%, 35%, 50%, 50%, 60%
- Post haircut approval is 100% of 15% + 90% of 35% + 75% of 50% + 65% of 50% + 50% of 60%
- = 15% + 32% + 38% + 33% + 30%
- = 147%

Legal justification for the cost-sharing formula is that the insurer should have had more information about the possibility of triple-digit rate increases than the consumer had.

Adjustments to the formula may be desired when an insurer’s solvency position is dependent on a certain level of rate increase approval. That is not the case with this insurer or filing.