**Utah Proposal for an Alternative Approach to LTCI Rate Increase Reviews**

Background

Over the last several years, the Multistate Actuarial LTCI Rate Review Team (MSA) team has used two methodologies to evaluate the appropriateness of LTCI rate increases:

* A blended if-knew and make up with cost sharing method (MN method); and
* A prospective present value method (TX method).

Each method has its strengths and weaknesses. Criticisms of the MN method included arbitrariness of the cost sharing formula. A criticism of the TX method, especially when applied to legacy blocks with prior rate increases, was that it may result in counterintuitive results.

I’d like to propose a method that could be considered a modification of the MN method that, in my opinion, is preferable to either of the two methods mentioned above.

The method still uses a blend of if-knew and make-up premium. However, there are some additional bounds on the make-up premiums. More importantly, the method puts more weight on the if-knew premium and foregoes cost-sharing adjustments.

Outline of the New Method

First, an if-knew increase and a make-up increase need to be calculated. At a high level, they represent the low and high of the range of “reasonable” rate increases.

***An if-knew increase is an increase from the original rates that, if applied from inception (retrospectively), would result in a specified target loss ratio.***

My initial proposal would be to use a target loss ratio of 60%, regardless of the actual initial pricing target, and to calculate all present values using the applicable valuation rate.

***A make-up increase is an increase from the original rates, that if applied to the future premiums (prospectively), would result in a specified target lifetime loss ratio. The make-up increase could not result in a future loss ratio lower than the specified target loss ratio.***

The last condition prevents the company that already has a high past loss ratio from using the make-up increase to result in a lower future loss ratio (recouping past losses).

My initial proposal would be to not allow the future loss ratio to drop below 60%.

Second, the two increases would be blended with the weight applied to the make-up premium being the fraction (on a present value basis) of the life-years remaining. This is a departure from the MN method. The MN method uses:

Percentage of lives remaining = policies in-force / all policies issued

My alternative proposal would use:

Percent of life-years remaining = PV of future life-years / PV of total life-years

Finally, the approvable rate increase (from current rates) would be such that it would result in a cumulative increase equal to the blended increase calculated above.

General Observations

Unlike the TX method, this method does not require much information with regard to the original pricing assumptions. This is also my reason for proposing a 60% target loss ratio rather than the company’s actual target loss ratio at the time of the pricing. The actual pricing target loss ratio is often unavailable or poorly documented, and typically is calculated using assumed investment returns that are higher than the applicable valuation rates.

Most regulators would not allow an increase that results in a very low future loss ratio. This approach uses a make-up increase that would generally pass the requirement that both future and lifetime loss ratios exceed the statutory minimum.

The blending factor accounts for the stage of life of the block even if persistency is very high. To the extent that future life-years correlate with future premium, this approach limits the company’s ability to increase rates when most premium was already collected and future premiums make up only a small percentage of lifetime premium.

Items That Would Need to be Specified

The minimum lifetime and future loss ratios used in the definitions of the if-knew and make-up increases.

The interest rates used to calculate present values. These could be valuation rates applicable to the block or rates based on available yields.