

Draft date: 11/16/23

*2023 Fall National Meeting  
Orlando, Florida*

### **LONG-TERM CARE ACTUARIAL (B) WORKING GROUP**

Thursday, November 30, 2023

1:00 – 2:30 p.m.

Floridian Ballroom G-I - Level 1 - Bonnet Creek


### **ROLL CALL**

Paul Lombardo, Co-Chair	Connecticut	Anna Krylova	New Mexico
Fred Andersen, Co-Chair	Minnesota	Bill Carmello	New York
Sanjeev Chaudhuri	Alabama	David Yetter	North Carolina
Sarah Bailey	Alaska	Laura Miller	Ohio
Ahmad Kamil	California	Andrew Schallhorn	Oklahoma
Benjamin Ben	Florida	Timothy Hinkel	Oregon
Weston Trexler	Idaho	Jim Laverty	Pennsylvania
Scott Shover	Indiana	Carlos Vallés	Puerto Rico
Nicole Boyd	Kansas	Andrew Dvorine	South Carolina
Marti Hooper	Maine	Aaron Hodges	Texas
Kevin Dyke	Michigan	Tomasz Serbinowski	Utah
William Leung	Missouri	Joylynn Fix	West Virginia
Michael Muldoon	Nebraska	Shelly Knorr	Wisconsin
Jennifer Li	New Hampshire		

NAIC Support Staff: Eric King

### **AGENDA**

1. Consider Adoption of its Oct. 2 and Spring National Meeting Minutes—  
*Fred Andersen (MN)*  
*and Paul Lombardo (CT)*
2. Consider Adoption of a Modification to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51)* —*Fred Andersen (MN) and Paul Lombardo (CT)*
3. Hear an Update on a Single Long-Term Care Insurance (LTCI) Multistate Rate Review Approach—*Fred Andersen (MN) and Paul Lombardo (CT)*
4. Discuss Any Other Matters Brought Before the Working Group  
— *Fred Andersen (MN) and Paul Lombardo (CT)*



## 5. Adjournment

Draft: 10/24/23

Long-Term Care Actuarial (B) Working Group  
Virtual Meeting  
October 2, 2023

The Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met Oct. 2, 2023. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sanjeev Chaudhuri (AL); Ahmad Kamil (CA); Weston Trexler (ID); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Frank Horn (NY); Craig Kalman (OH); Jim Laverty (PA); Aaron Hodges and R. Michael Markham (TX); and Tomasz Serbinowski (UT). Also participating was: Michael Sink (OR).

1. Discussed a Referral from the Health Risk-Based Capital (E) Working Group

Andersen said the Working Group received a referral (Attachment XX) from the Health Risk-Based Capital (E) Working Group regarding *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51). He said the referral requests the addition of a sentence to AG 51 that clarifies that regardless of which annual statement blank (health, life/accident/health & fraternal, or property/casualty) an insurer files, it must make an AG 51 filing if the AG 51 filing requirement criteria are met.

Dyke asked if it might be better to add the clarification to the *Annual Statement Instructions*. Lombardo said the quickest way to address the referral is to make the clarification in AG 51, and the Working Group can discuss additions to the *Annual Statement Instructions* in the future.

Andersen said the Working Group will expose draft language to add the clarification to AG 51 for public comment.

2. Discussed a Single Long-Term Care Insurance Multistate Rate Review Approach

Andersen said the Working Group was asked by the Long-Term Care Insurance (EX) Task Force to develop a single long-term care insurance (LTCI) rate increase review methodology for use in multistate actuarial (MSA) filing reviews to replace the currently used Minnesota and Texas approaches. He said a single approach was last discussed during the Working Group's Aug. 12 meeting. He said he wants to continue discussing whether older age/higher duration/higher past rate increase policyholders should have more limited future rate increases than younger policyholders and what financial impact this will have on insurers. He said the Working Group has discussed how many more increased premiums older policyholders can be expected to pay based on persistency, continuance, and mortality tables, and if this is a low number, if older policyholders should be subjected to the rate increase. He said the Working Group has asked the industry to compile metrics on the present value of expected future premium payments for older policyholders.

Jan Graeber (American Council of Life Insurers—ACLI) said ACLI looked at the impact of a cap on rate increases for older attained ages and later durations. She said one block was analyzed, and it was found that 50% of policyholders were over age 80, and 25% were over age 85. She said ACLI continues to support the Task Force's initial charge of developing a consistent national approach to LTCI rate increase reviews in a timely manner that eliminates cross-state rate inequities. She said she wants to highlight that actuarial justification of a rate increase is foundational to the viability of any insurance product, and limiting rate increases for older policyholders is not grounded in actuarial science and is inconsistent with the Task Force's original charge. She said ACLI recognizes there are policy challenges, and that some adjustments may be needed to the MSA recommendation on a case-by-case basis, but the adjustments should be an exception, not the rule. She said ACLI will continue to support

actuarially justified recommendations from the MSA process but cannot support changes to the methodology that are not actuarially justified.

Ray Nelson (America's Health Insurance Plans—AHIP) said for the block that ACLI analyzed, AHIP used standard mortality tables for analysis and found that policyholders aged 80 were expected to pay seven more premiums, and those aged 85 were expected to pay between five and six more premiums. He said as a rule, the data shows there will be significant premium volume from these older aged insureds.

Muldoon asked Graeber and Nelson what issues companies would have with implementing rate increases using attained age when the policies were sold on an issue-age basis. Graeber said the concern is that policies were priced on an issue-age basis and the fact that there is no class for attained age was raised by ACLI members. There is also concern that there could be discrimination issues with limits based on attained age. She said many companies use legacy systems for their blocks, and the systems will need to be modified to implement and limit rate increases using attained age. Lombardo said carriers have historically offered to effectively adjust rate increases based on attained age, even though the product was issue-age priced, and this is not a new concept for them. He said some carriers have also implemented reduced benefit options that vary by a class that was not identified in the original pricing. He said he does not know how many states have reviewed and allowed reduced benefit options or rate increases that vary by a class that was not identified in the initial pricing. Nelson said some companies have said they have tried to implement attained age variations by reverse engineering using the issue age.

Lombardo said he thinks this can be accomplished by applying durational factors to each issue age. He said he does not know if this addresses the industry's concern that these modifications be actuarially justified. He said he thinks it is possible to develop a structure that ensures an insured never pays more than the value of their expected benefit at that time. He said the biggest issue commissioners, superintendents, and directors of insurance departments have when evaluating a rate increase request is how to limit increases for older, longer-duration policyholders. Graeber said the ACLI does not think such adjustments cannot or should not be made but does not think a one-size-fits-all solution is appropriate for different blocks with diverse characteristics. She said the recommendation that comes from the MSA process needs to be actuarially justified, and states can discuss the characteristics of a given block with companies if needed. She said embedding an adjustment factor in the process seems to deviate from the Task Force's initial charge. Lombardo said the initial charge has changed somewhat over time, and states are now looking for a consistent product from the MSA process that they can use as part of their analyses.

Andersen asked if there were any objections to the Working Group continuing to pursue the issue of reducing rate increases for older, longer-duration policyholders. There were no objections.

Andersen said there is a proposal to modify the Minnesota approach as a way of developing the single LTCI rate increase review methodology. He said the cost-sharing formula will be modified to increase companies' cost-sharing burden as cumulative rate increases grow. He asked participants to consider this proposal prior to it being discussed during the Working Group's next meeting.

Andersen said Serbinowski provided a draft of a proposed methodology that builds on the Minnesota approach. He said the proposed methodology features a much quicker blending into the lower if-knew premium from the makeup premium and eliminates the cost-sharing component. He said the industry agreed that there would be an appropriate mix of consumer protection and guarding against insurer financial distress during the early years of a policy's life, but argued rate increases will be far too low later in a policy's life. He asked if the Working Group should continue to evaluate and possibly modify the proposed approach. Lombardo said if the proposed

methodology had been applied earlier in a product's lifespan, there would have been opportunities for more significant rate increases earlier. He said applying the methodology midway through the product's lifespan reduces allowable rate increases. He asked if there could be an adjustment to the methodology that recognizes what point in the lifespan the block is currently at. Serbinowski said he does not know of an easy way to do this. He said the proposed methodology may be too restrictive for legacy blocks of business. Andersen asked participants to analyze whether adjustments to either the Minnesota or Serbinowski approaches can produce a resolution to inadequate rate increases later in a product's lifespan.

Andersen said some states have expressed that the explicit cost-sharing formula in the Minnesota approach is very helpful when discussing rate increases with consumers and interested parties, as it can be shown that insurers are absorbing a substantial part of the actually needed rate increase. He asked participants if there were any additional considerations that should be made for developing a single LTCI rate increase review methodology. Sink asked if there should be a mechanism to prevent increases in administrative costs and profits when rates are increased. Andersen said the Minnesota approach sets a dollar amount of original profitability per policyholder that will not be exceeded.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

Meetings/Member Meetings/B CMTE/HATF/2023\_Fall/10-02-23 LTCAWG/Minutes\_LTCAWG\_10-02-23.docx

## Draft Pending Adoption

Attachment --  
Health Actuarial (B) Task Force  
8/12/23

Draft: 8/21/23

Long-Term Care Actuarial (B) Working Group  
Seattle, Washington  
August 12, 2023

The Long-Term Care Actuarial (B) Working Group of the Health Actuarial (B) Task Force met in Seattle, WA, Aug. 12, 2023. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Wes Trexler (ID); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Anna Krylova (NM); Michael Cebula (NY); Craig Kalman (OH); Andrew Schallhorn (OK); Jim Laverty (PA); Aaron Hodges and R. Michael Markham (TX); and Tomasz Serbinowski (UT).

### 1. Adopted its July 19, June 7, and May 1 Minutes

Lombardo said the Working Group met July 19, June 7, and May 1. During these meetings, the Working Group took the following action: 1) discussed comments received on a request for comments on various long-term care insurance (LTCI) rate increase review methodologies; 2) discussed comments received on exposures of ideas for a single LTCI rate increase review methodology for use in multistate actuarial (MSA) filing reviews; and 3) discussed comments received on proposals to revise the Nationally Coordinated LTCI Rate Increase Review Checklist and comments received on an exposure of the Minnesota and Texas LTCI rate increase review methodologies.

Dyke made a motion, seconded by Schallhorn, to adopt the Working Group's July 19 (Attachment XX), June 7 (Attachment XX), and May 1 (Attachment XX) minutes. The motion passed unanimously.

### 2. Discussed Drafting Changes to VM-25

Lombardo said drafting changes to VM-25, Health Insurance Reserves Minimum Reserve Requirements, of the *Valuation Manual* to add tables from the American Academy of Actuaries (Academy) and Society of Actuaries (SOA) Research Institute's final Long-Term Care Insurance Mortality and Lapse Study were last discussed during the Working Group's Oct. 17, 2022, meeting. Serbinowski said he has begun drafting language for VM-25 and Appendix A-010, Minimum Reserve Standards for Individual and Group Health Insurance Contracts of the *Accounting Practices and Procedures Manual* (AP&P Manual) to incorporate the tables. He said the Working Group will schedule a meeting soon to discuss this draft language and work towards exposing changes to incorporate the tables from the Academy and SOA Study into VM-25 and Appendix A-010.

### 3. Discussed a Referral from the Health Risk-Based Capital (E) Working Group

Lombardo said the Working Group has received a referral (Attachment XX) through the Health Actuarial (B) Task Force from the Health Risk-Based Capital (E) Working Group regarding *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51). He said the Health Risk-Based Capital (E) Working Group is developing criteria for insurers that file their annual statements on Life/Accident/Health & Fraternal Blanks to potentially file on Health Blanks in the future, and concerns were raised that it needs to be made clear that a move to the Health Blank does not remove an insurer's obligation to submit an AG 51 filing if the criteria for filing under AG 51 is still met. He said the Working Group will discuss the referral at its next meeting.

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### 4. Heard a Presentation on Public/Private LTC Funding Solutions

Steve Schoonveld (FTI Consulting) gave a presentation (Attachment XX) on public/private collaborations to increase consumer access to long-term care (LTC) financing, services, and support.

### 5. Heard an Update on a Single LTCI Multistate Rate Review Approach

Andersen said the Working Group has discussed developing a single LTCI rate increase review methodology for use in MSA filing reviews at its past few meetings. He said the MSA Team does not want to continue to use the Texas and Minnesota approaches if they produce illogical results and result in untimely rate increase approvals, and the Working Group wants to have a single methodology in use soon. He said Serbinowski provided a draft of a proposed methodology that builds on the Minnesota approach structure that allows an insurer to receive a rate increase in earlier product years that gets the insurer closer to its original economic expectations, and then in later product years ensures that policyholders do not pay more than the value of their expected claims and related expenses. He said the proposed methodology would diverge from an increase that returns the insurer to its original expectations more quickly than the Minnesota approach, and it would result in a lower rate increase. He said he modeled modifications to the Minnesota approach that will produce higher rate increases than it yields as is but does not grade down from the insurer's original expectations as quickly as Serbinowski's proposal. He said the MSA Team examined the Texas approach and found that it does not work well for older blocks of business, especially those that have had rate increases that predate the use of the Texas approach.

Andersen said members of the MSA Team agree that older policyholders that have experienced past rate increases should have lower future rate increases than shorter-duration policyholders that have not experienced as many rate increases. He said large rate increases for older policyholders do not seem appropriate, as they have fewer remaining premiums to be paid than younger policyholders, and the effect of large increases on few remaining premiums does not create much of a financial impact on the insurer.

Andersen said he wants the Working Group to discuss the following issues, which need to be addressed in order to develop a single methodology to present to the Long-Term Care Insurance (EX) Task Force in a timely fashion: 1) whether adjustments to the Minnesota approach's cost-sharing formula can result, generally, in older age/higher duration/higher past rate increase policyholders having their future rate increases be more limited than under the current approach; 2) whether such an adjusted Minnesota approach would align with key principles such that it could be considered a candidate for the single actuarial approach; and 3) whether interest rate history and expectations should be a part of a single actuarial approach like it is with the Minnesota approach.

Andersen asked if members of the Working Group, interested state regulators, or interested parties share the concern for a need for limiting future rate increases for older age/higher duration/higher past rate increase policyholders. Lombardo said he and Connecticut, and he imagines all of the states, do not have an expectation that a policyholder who has paid 20 to 25 years of premium already and is not expected to pay a significant number of future premiums should receive as high of a rate increase as a policyholder who is expected to pay future premiums for 25 to 30 more years. He said he understands that different insurers have different distributions of policyholder attained ages within their blocks, and any formula to reduce increases for older policyholders would depend on these distributions. Trexler said he agrees with Lombardo, and he wants to see if such a formula can be integrated into Serbinowski's proposal.

Serbinowski asked how a closed block of policies should be defined. He asked if a block is considered closed after the last policyholder dies or lapses, or if it is when a specified percentage of total premiums have been paid. He

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said with few remaining policyholders, a 50% rate increase may only result in a loss ratio decrease of 0.1%. He said his proposal for a single approach does not require there to be a definition of when a block is closed.

Lombardo said he has seen a growing support from insurance department commissioners for the use of a single approach in MSA reviews. He said a single approach is easier to explain, and more supportable. The weighting of the Minnesota and Texas approaches that varies depending on characteristics of the block does not translate well to commissioners. He said he believes having a single approach will allow the MSA Team to reach better outcomes more quickly than with the current blending of approaches.

Birny Birnbaum (Center for Economic Justice—CEJ) said the CEJ supports a single approach. He said it may be better to consider the dynamics of small, closed blocks of business rather than differences within a block. He asked how likely it is that a particular block of policies will have age differences of 30 years, as well as how many blocks of business and consumers will be affected. He asked how the age where rate increases would be reduced will be determined, whether it will be a specified age or if the age would be determined based on a percentage impact on premium. Lombardo said the Working Group has been considering these issues as they relate to how a single approach will treat reduced increases for older policyholders. Birnbaum asked if the reduction in increase formula will be applied consistently from state to state and if there is a risk of legal action being taken for unfair discrimination against certain classes of policyholders. Andersen said he does not believe there is a risk of legal action, as the adjustment will only be a change to the slope of rates by attained age. He said ideally, all states will apply the formula consistently, but the final rate increase determination is at each state's discretion.

Jan Graeber (American Council of Life Insurers—ACLI) said any single approach recommendation needs to be grounded in actuarial science. She said ACLI members believe modifications to rate increases based on attained age and duration cannot be a one-size-fits-all solution due to the variance in block characteristics. She said the ACLI asserts that rate increases at older attained ages affect insurers' financial status. She said the ACLI reviewed a rate increase filing for a block with over 3,000 policyholders and grouped the seriatim data by whether a policyholder was on the claim, of policy issue age, and attained the age at the time of the claim. She said the ACLI found that almost 50% of premiums were attributable to policyholders over age 80, and roughly 25% of premiums were attributable to those over age 85. She said the present values of future premiums were calculated for attained ages 80 and 85. She said some of these policyholders may pay premiums for only two years, but some may pay premiums for seven to 10 more years. She said there was a 100-year-old active policyholder who was still paying premiums. She said many policyholders continue to pay premiums after a rate increase because they realize there is a potential benefit that is far greater than the cost of increased rates. She said the ACLI has concerns that administering rate increases that vary by attained age will be burdensome for insurers, as systems for policies that were sold on an issue-age basis will need to be modified to use attained age-based rating.

Ray Nelson (America's Health Insurance Plans—AHIP) said he agrees with Graeber that a one-size-fits-all approach is not appropriate.

Andersen said the Working Group will schedule a meeting dedicated to the discussion of the attained age rate increase modification issue. He said information that Graeber said the ACLI found for premiums attributable to older issue ages will be helpful for this discussion, as will similar information from any other interested parties. He said the Working Group will schedule another meeting to address removing the cost-sharing component of the Minnesota approach for consideration in using a modified Minnesota approach as a basis for the single approach.

Lombardo said there is a great sense of urgency in developing a single approach, and the Working Group is willing to dedicate a significant amount of time over the next few months to developing a single approach.



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Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/ ...

**To: Long-Term Care Actuarial (B) Working Group Members, Interested Regulators, and Interested Parties**

The Health Risk-Based Capital (E) Working Group established the Health Test Ad Hoc Group in 2018 to review the health test language within the Annual Statement Instructions due to inconsistencies in reporting of health business across the different blanks, as well as a significant amount of health business reported on the life and fraternal blank. Through the evaluation and discussion of changes to the health test, there was a question brought up as to whether an entity would still be required to comply with Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51) requirements for long-term care insurance (LTCI) business if the entity moved from the life blank to the health blank. In consideration of the Health Risk-Based Capital (E) Working Group's request for a sentence to be added to AG 51 to clarify the applicability to insurers filing health blanks, the Long-term Care Actuarial (B) Working Group is considering the following wording that would indicate that regardless of the blank the entity files, AG 51 filing is required by the entity if the criteria stated in the Guideline are met.

Please review the proposed addition to Section 3 of AG 51 below and provide comments to [eking@naic.org](mailto:eking@naic.org) by Wednesday,, October 18:

3. Scope

This Guideline shall apply to a company with over 10,000 inforce lives covered by long-term care insurance contracts as of the valuation date, **regardless of which Annual Statement blank (Health, Life/Accident/Health & Fraternal, or Property/Casualty) the company files with its domiciliary state's insurance regulatory authority**. All long-term care insurance contracts, whether directly written or assumed through reinsurance are included. Accelerated death benefit products or other combination products where the substantial risk of the product is associated with life insurance or an annuity are not subject to this Guideline.

Thanks,  
Eric

# Minnesota approach to LTC rate increase reviews

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Fred Andersen, FSA, MAAA

Chief Life Actuary, Minnesota Department of Commerce

# Original 2015 Minnesota considerations

- Balance is key with LTC
  - Protecting individual policyholders
  - Help prevent further financial distress for LTC insurers
    - Recognition of severe insurer losses for most LTC blocks
  - Every aspect of our method is still grounded in that
- Cost-sharing is justified
  - Companies generally did not alert consumers that rates could double or triple over time
  - Companies had or should have had more information than consumers on the possibility of rates doubling or tripling
  - Continued theme of balance:
    - Not “no rate increases” but
    - Developed cost-sharing formula that lowers rate increases as otherwise approvable rates double, triple, or more from original rates

# Original 2015 Minnesota considerations

- Avoid policyholders paying higher premiums over time than their expected claims and associated costs
  - Also known as “shrinking block” issue
    - Increasing rates on remaining policyholders to get company back to original loss ratio leads to an increasing burden on shrinking number of persisting policyholders
  - Blended makeup / if-knew aspect was developed to address this issue
    - Keeping in mind the desired balance, as well
    - Allowing only the if-knew premium as the maximum rate would cause too much financial distress to insurers, in our minds
    - The blended approach reduces financial distress while also ensuring policyholders get fair value from their policies even at increased rates

# Minnesota method development & vetting

- Goal in 2015: develop an objective method that incorporates these principles and will be approvable by the commissioner
- Vetting, documentation, application:
  - Public vetting by the NAIC LTC Pricing Subgroup several years ago
  - Public vetting by the NAIC LTC (EX) Task Force
  - The method is documented in the NAIC LTC Multistate Rate Review Framework
  - The method has been applied to 247 rate increase filings since 2015 and seems to be working / incorporating the principles
    - Balance seems to be applied
      - Mitigates extreme rate increases
      - Mitigates extreme financial losses for the blocks
  - The method has been applied to each MSA team recommendation
    - No negative feedback on report comment periods or in webinars

# Other application issues

- Phase ins
  - Goals:
    - Lessen the shock of a steep rate increase
    - Informed consumers re: RBC decision
  - We will pre-approve an x-year phase-in
  - The policyholder notification letter will state each increase related to the phase in
  - We believe this provides more complete information for policyholders faced with RBO decisions
  - Phase in maximums:
    - 15% for typical case, moderate total rate increase approvals
    - 20% for higher total rate increase approvals
    - 20% or higher annual phase-in possible if solvency concerns would be exacerbated by lower phase-in amount
  - Phase-in period tends to be 4 years or less
  - Another area where we try to apply balance

# Other application issues

- Waiting periods between rate increase requests
  - In Minnesota, waiting periods are aligned with the phase-in period
  - Don't want too long of a waiting period, potentially leading to delayed reflection of adverse experience and spiked subsequent rate increases
  - The next filing can be made before the end of the phase-in period
  - Implementation must wait until the end of the phase-in period



# Potential improvement

- Experience in Minnesota and comments from other states:
  - Concern about extent of very high-age policyholders receiving additional rate increases
    - On top of very high rate increases that have already occurred
- Consideration for adjustment to Minnesota method
  - Adjustment to cost-sharing formula
    - Still maintain the “balance”
    - Reduce extent of further rate increases for very high-aged policyholders
    - Example:
      - Increase last cost-sharing threshold to 200%
      - Increase cost-sharing for cumulative rate increases in excess of 200%