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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.

 

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 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.

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

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