

UNDERSTANDING LTC RATE STABILITY

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Presenters

- Tom Wildsmith—Moderator
- Warren Jones—Introduction, Process for Pricing Initial Premium Rates
- Shawna Meyer—Overview of the Requirements of the Pricing Actuary, Process for Pricing Initial Premium Rates
- Missy Gordon—Process for Preparing Premium Rate Increases for In-Force Policies, Reporting Requirements for Rate Filings and Certifications



Academy Health Practice Council Practice Note

Long-Term Care Insurance Compliance with the National Association of Insurance Commissioners Long-Term Care Insurance Model Regulation Relating to Rate Stability

http://actuary.org/files/Long_Term_Care_Rate_Stability_Practice_Note_2012_0.pdf

Long-Term Care Rate Stability Practice Note (2003)

http://actuary.org/files/Long_Term_Care_Rate_Stability_Practice_Note_2003.pdf

Tom Wildsmith, MAAA, FSA



Relevant ASOPS

- ASOP 18-Long-Term Care Insurance
- ASOP 25-Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages



Modifications and Additions to Current Practice Note

- Examples of initial pricing were eliminated
- Inclusion of reporting requirements for rate increases and certifications
- Work Group decided only a minor revision was required



I. Introduction

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Introduction

- NAIC Long-Term Care Insurance (LTCI) Model Regulation applicability to practicing LTCI pricing actuaries
- Practice Note in relation to Actuarial Standards of Practice (ASOPs)
- Use of LTCI Guidance Manual for LTCI pricing actuaries



Purpose of a Practice Note

- Published by Academy Practice Councils
- What a Practice Note is:
 - Information on current or emerging practice
 - Supplement to actuarial literature otherwise available
 - Description of methodologies within a range of practices
- What a Practice Note is not:
 - Interpretation of actuarial standards
 - Codification of generally accepted actuarial practice
 - Actuarial Standard of Practice



II. Overview of the Requirements of the Pricing Actuary

Shawna Meyer, MAAA, FSA



Overview of the Requirements of the Pricing Actuary

- Initial Premiums
 - Significant departure from LTCI Model Reg Section 19, removes initial loss ratio requirement and replaces it with an actuarial certification
 - Premium Increase on In-Force Business
 - Different requirements for business sold now than under original LTCI model regulation.
 - Requirement to justify in-force premium increase through projections of claims/premium
 - Disclosure of original assumptions not met that caused rate increase request
 - Certification that new premium schedule meets loss ratio requirement on original premium and increase in premium



III. Process for Pricing Initial Premium Rates

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Actuarial Certification Requirements

Actuarial Certification needs to include a statement that:

- The initial premium rate schedule is sufficient to cover anticipated costs under MAE

The actuary has reviewed and taken into consideration:

- The policy design and coverage provided
- The underwriting and claims adjudication processes



Valuation

- A complete description of contract reserves including:
 - Sufficient detail or sample calculations
- Should include a statement that:
 - The assumptions used for reserves contain margins for adverse experience
 - The net valuation premium for renewal years does not increase
 - The difference between the gross premium and the net valuation premium for renewal years is sufficient to cover expected renewal expenses



Premium Comparison to Previous Products

- Actuarial certification should include:
 - A statement that the premium rate schedule is not less than the premium rate schedule for existing similar policy forms also available from the insurer;
 - A comparison of the premium schedules for similar policy forms that are currently available from the insurer with an explanation of the differences



1. Review Product/Management Strategy

- Review company's past experience in LTCI
- Consider all applicable ASOPS
- Actuaries are bound by the specific requirements of the model reg. per section 10.B(2)(a)



Premium Stability

- Section 10.B(2)(a)
 - The actuary has discretion in setting specific assumptions
 - The actuary is required to set the initial premium such that:
 - Sustainable rates correspond to projected adverse experience up to moderate level
 - Premium rate schedule doesn't cover projected adverse experience beyond the moderate level



MAE Requirements

- Final determination of sustainability under moderately adverse deviations should be acceptable to the actuary and approval from management is advisable
- Some portions of adverse experience may be addressed from sources not directly resulting from explicit margins in pricing



Assumptions for Premium Stability

- In setting the assumptions for sustainable premiums the actuary may review/consider:
 - The insurer's product line management strategy
 - The insurer's approach toward in-force premium increases
 - A company's marketing, administrative, and billing methods
 - The mix of business
 - The insurer's experience and expertise with LTCI
 - The effects of entering into various reinsurance treaties



Policy Language and Design

- The Model Reg requires that “a statement that the policy design and coverage provided have been reviewed and taken into consideration”
- The actuary may want to consider:
 - How does the proposed product design and policy form language compare with the company’s existing LTCI forms?
 - What assumptions will be affected by any product or language changes?
 - What has been the insurer’s morbidity, persistency/lapse, and mortality experience and investment yield history?



Underwriting Considerations

- Section 10.B.(2)(c) of the Model Reg
- Actuary may consider the following with respect to underwriting:
 - How underwriting processes and guidelines compare with those used with other policy forms and what has been the insurer's experience on those forms?
 - Is the insurer new?
 - How closely is the underwriting process followed and what are the impacts on the long-term morbidity of the product line?



Claim Adjudication Considerations

- Regarding proposed claims adjudication processes, the actuary may consider the following:
 - How these processes compare with processes used on other LTCI forms
 - What has been the insurer's experience on other policy forms with these claims adjudication processes
 - Effect on case management strategies



2. Set Initial Assumptions and Premiums

Pricing Margins

- Actuaries may build margins into pricing assumptions by:
 - Using best estimates for each assumption and add an explicit margin to satisfy MAE requirement
 - Add sufficient margins to specific pricing assumptions and satisfy MAE in total
 - Other
 - For example: The margin may be established using best estimate assumptions and pricing with a higher profit target



Pricing Margins, cont.

- When setting assumptions the actuary should consider:
 - Which assumptions are most critical to premium stability
 - Conducting sensitivity tests to better understand profitability and premium stability
 - How do key assumptions compare to recent company experience
 - Comparing investment income rates to investment strategy and expected future interest rates
 - Providing a copy of documentation to the valuation actuary



Morbidity Improvement

- More analysis is appropriate when assuming future improvement
- When assuming morbidity improvement the actuary should also consider:
 - Underlying source of morbidity improvement and effect that the underlying source may have on other assumptions
 - Assumption that anticipated future improvements will be due to reduced claim frequency
 - Increased use of alternate plans of care
 - Potential for increased future utilization and claim continuance
 - Difference between insured and general population



3. Test the Margin for Moderately Adverse Experience

- Actuary is required by ASOP 18 to perform sensitivity testing of reasonable variation in assumptions
- Once premium rates are determined, the actuary tests the margin built into pricing for MAE
- Two commonly used structures for testing are:
 - Testing adverse experience separately for each of the assumptions
 - Testing adverse experience for all assumptions concurrently



Number of Scenarios

- In determining the number of scenarios to test and the level of adverse experience to test, the actuary may consider:
 - Credibility for each of the best estimate assumptions
 - Conform to ASOP 25
 - Mix-of-business assumptions
 - Change-over-time assumptions
 - Management strategy



4. Company Review and Agreement

- The actuary should review the pricing work with an appropriate level of company management
- The actuary may review the work with the valuation actuary
 - ensure compliance with certification aspects relating to reserve levels
- The actuary should recommend comparisons of pricing assumptions to actual experience (ASOP 18, Sect. 37)



5. Documentation

- The actuary should appropriately document work done in support of initial pricing and actuarial certification
- Specific documentation could include:
 - Actuarial memorandum
 - Description of valuation basis for active life reserves
 - Analysis showing that the difference between gross premium and net valuation premium is sufficient to cover expected renewal expense
 - Comparison of gross premiums of the plan filed to gross premiums on other policy forms



Documentation, cont.

- Specific documentation could include (cont.):
 - Actuarial certification used for initial filing
 - Description of assumptions made with respect to underwriting and claims adjudication
 - Documentation of the sensitivity analysis performed on moderately adverse experience certification
 - A reference of the latest copy of the NAIC Guidance Manual



Documentation, cont.

- Documentation should include definition of MAE
 - Not defined in NAIC model reg or in ASOP 18
 - Specified amount of margin for MAE may vary by assumption(s) or company based on such factors as:
 - Actuary's interpretation of MAE
 - Actuary's confidence in and credibility ascribed to underlying assumptions
 - Sensitivity of pricing results to variations in assumptions
 - Actuary's judgment of effect of combinations of various assumptions , their degree and likelihood of being adverse
 - Company's tolerance of adverse financial results before considering increase of in-force premiums



IV. Process for Preparing Premium Rate Increases for In-Force Policies

Missy Gordon, MAAA, FSA



1. Review Original Filing Material

- Required by Section 20.B.(3)(c) of the Model Reg
- Specific steps and questions to ask include:
 - Original pricing assumptions
 - Assumptions regarding underwriting and claims adjudication
 - Assumptions regarding marketing, distribution and mix of business
 - Product line management strategy concerning profitability in the event of adverse experience
 - MAE conditions identified at time of original filing



2. Review Experience to Identify Sources of Adverse Experience

- Actuary analyzes experience to date to determine the source of adverse experience
- Examples of sources of adverse experience:
 - Longer lengths of benefit periods resulting in higher-than-anticipated numbers of cognitive claims
 - Higher costs of service than anticipated due to anticipated savings resulting from case management that weren't realized
 - Higher-than-expected claim payments due to higher-than-anticipated persistency



Review Experience to Identify Sources of Adverse Experience, cont.

- Section 3.2.1 of ASOP 18 requires the actuary to consider the degree of credibility of the data from the entity when determining whether an in-force premium increase is necessary
- Section 20.B.(3)(c) of the Model Reg requires the actuary to consider whether the source of adverse experience is being caused by company-specific sources or by industry-wide experience



3. Determine if the Rate Increase is an “Exceptional Increase”

- Section 4.B.(1) of the Model Reg defines “exceptional increase” as that for which the commissioner determines the need for the premium rate increase is justified:
 - Due to changes in laws or regulations applicable to LTC coverage in this state; or
 - Due to increased or unexpected utilization that affects the majority of insurers with similar products



4. Compare Original Risk Margins and Adverse Experience

- Section 20.B.(3)(c) of the Model Reg requires disclosure of the analysis performed to determine why a rate adjustment is necessary, which pricing assumptions were not realized and why, and what other actions taken by the company have been relied upon by the actuary
- When comparing actual experience to MAE defined at the time of original pricing, the actuary may consider the following:
 - Whether adverse experience in one assumption has been offset by better-than-anticipated experience in other assumptions
 - Whether the product line management strategy documented at the time of original pricing has been appropriately reflected in the comparison



5. Calculate New Premium Schedule

- Section 20.B.(2) of the Model Reg requires certification by a qualified actuary that:
 - If the requested premium rate schedule increase is implemented and the underlying assumptions, which reflect moderately adverse conditions, are realized, no further premium rate schedule increases are anticipated;
 - The premium rate filing is in compliance with the provisions of this section



Calculate New Premium Schedule, cont.

- According to Section 20.B.(3)(d) of the Model Reg, the actuary should consider any changes to the product (i.e. policy design, underwriting, and claims adjudication that may affect the future experience)
- The actuary might also wish to consider:
 - Effect of shock lapses, election of reduced benefit options, and anti-selection that may result from an in-force premium increase
 - Impact of known material changes in policy design, underwriting, claims adjudication, or management strategy



Calculate New Premium Schedule, cont.

- Cost of any benefits that result from the contingent benefit upon lapse benefit if applicable
- Impact of the loss ratio requirements applied to the premium rate schedule
- Whether the rate increase is recouping past losses
- Changes needed to the statutory reserve basis to allow the valuation reserve actuary to establish reserves with appropriate margins and the possible need for premium deficiency reserves



Calculate New Premium Schedule, cont.

- Per Sections 20.B, C, and G of the Model Reg, testing is required to ensure the rate schedule is in compliance, specifically:
 - Testing the margin for MAE
 - Testing the renewal premium schedule to determine if it is greater than new business premium rate schedules
 - Testing the premium rate schedule for compliance with the loss ratio requirement
 - Testing if a majority of policyholders are eligible for the contingent benefit upon lapse as required by Section 20.G



6. Conduct Company Review and Agreement

- The actuary reviews the pricing work with company management, including:
 - Sources of adverse experience
 - Changes made to the assumptions relating to product line management or margins for adverse experience
 - Prior and current intentions about future possible increases
- The actuary may also communicate to the valuation actuary increases to premiums on in-force business and assumptions used



7. Produce Documentation

- Section 4.1 of ASOP 18 requires the actuary to produce documentation to support the pricing work
- Documentation similar to the initial pricing work, but includes additional information highlighted in Section 20.B.(3) of the Model Reg
- The documentation is usually maintained over the life of the policy form



8. Ensure Experience Monitoring is in Place

- The Model Reg contains several provisions that require annual monitoring and reporting of experience (described in Sections 20.D, E, F, G, and H)
- When providing the required documentation as described in Section 20.D, the actuary may consider:
 - Providing a copy of the original actual experience and projections submitted in the rate increase filing
 - Displaying the updated actual experience and projections in a similar format as the original projections
 - Using the same number of years as in the rate increase filing



Ensure Experience Monitoring is in Place, cont.

- Reflecting any changes in the assumptions used in the updated projections
- Comparing the actual results to projected values for the one additional year of experience and/or on a lifetime basis
- Stating that the actual results are not expected to equal the original projected values when the original projected values include moderately adverse conditions
- Separating any new issues from the in-force business used in the rate-increase filing



V. Reporting Requirements for Rate Filings and Certifications

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Reporting Requirements for Rate Filings and Certifications

Actuarial reporting is required under different circumstances: initial filing, rate-increase filing, and, in some jurisdictions and with the Interstate Insurance Product Regulation Commission, for annual rate filings. Filing a rate increase may lead to additional filings.

- Regarding the compliance of Sections 10 and 20, annual rate filings, and the documentation requirements of Section 4.1 in ASOP No. 18, consideration may be given to various items relating to the initial filing assumptions, the underlying data collected, and the determination of assumptions for projections of future experience



Reporting Requirements for Rate Filings and Certifications, cont.

- The following considerations may be taken into account:
 - Whether rates initially were filed nationally or by jurisdiction, when defining class; the appropriateness of combining blocks; and variances in the length of the premium paying period or any rate guarantee;
 - What may be the cause of a potential rate increase?
 - What are the moderately adverse circumstances?
 - What is the method of calculation and any approximations that include implicit margins?
 - What is the method of developing assumptions for active-life, disabled-life, or aggregate lives?



Reporting Requirements for Rate Filings and Certifications, cont.

- What claim-termination rates and parameters are used to derive termination rates?
- Whether claim reserves reflected in deriving the reported incurred claims or claim experience are sufficient as well as the reasonableness of the claim reserve pattern;
- What assumptions are used by the valuation area in performing the gross premium valuation?
- What are loss ratios at a) initial filing, b) prior to any rate increase, c) to the rate increase portion of the new rate, and d) after any rate increase? Also, what are loss ratio actual-to-expected ratios, both before and after the rate increase?



Questions and Answers



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