

# State of the Long Term Care Insurance Industry

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KENTUCKY LEGISLATIVE RESEARCH COMMISSION

Dave Dillon, FSA, MAAA  
Senior Vice President & Principal  
Lewis & Ellis, Inc.



# Background



## LEVEL PREMIUM

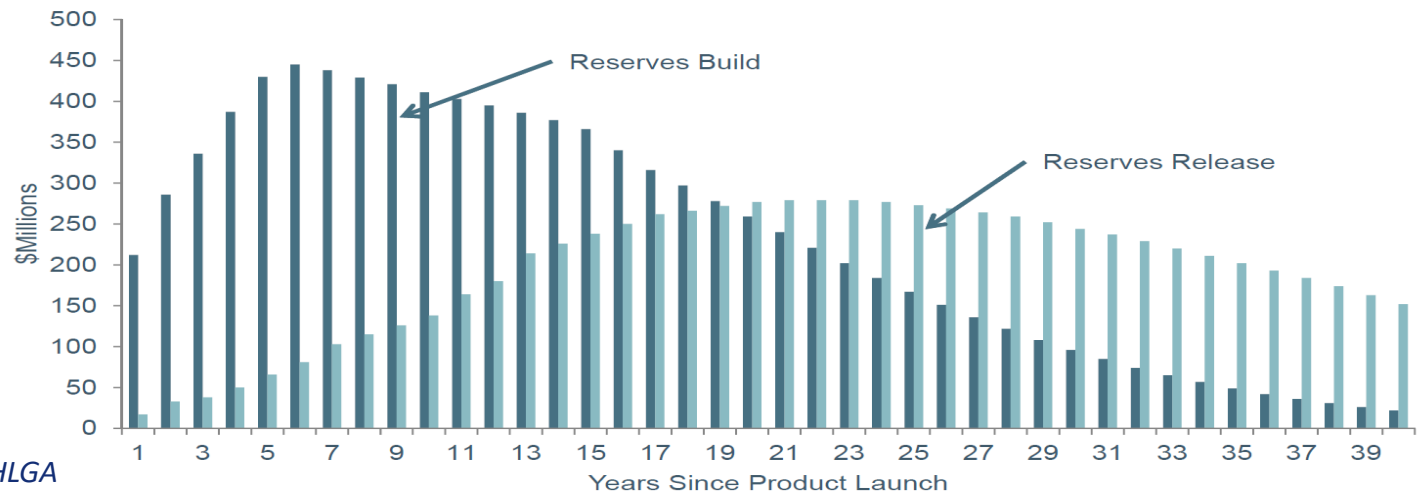
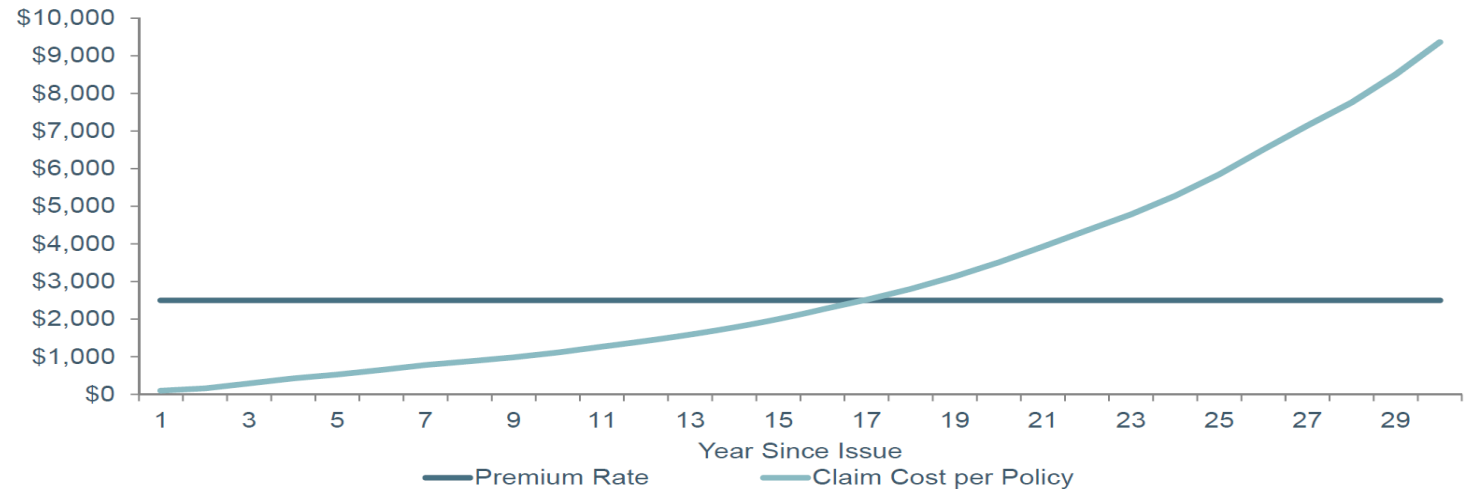
## PRE-FUNDS INCREASING COST

### *3 Key Reasons for Increasing Costs*

1. Age – More likely to need long-term care
2. Underwriting – Wears off over time
3. Benefit Options – Inflation Protection

## CHALLENGES

1. Low interest rates
2. Low lapse rates in later years
3. Decreasing mortality rates
4. Capital requirements
5. Regulatory Requirements



Source: NOHLGA



# Losses Become Difficult to Overcome



- LTC premium base decreases while claim costs increase.
- Rate increases needed to offset deviations grow over time.
- Regulatory pressure on large rate increases.
- If losses aren't offset by rate increases, could result in reserve corrections.
- Solvency risk is highly correlated to a carrier's amount of 1<sup>st</sup> generation policies.

Rate Increase Required to Offset Future Losses

Deviation	Yr. 5	Yr. 10	Yr. 15	Yr. 20
+10% Claims	7%	11%	18%	27%
-1% Lapse	10%	16%	24%	34%
-1% Interest	8%	14%	20%	27%
All Three	28%	44%	64%	92%

Source: NOHLGA



# Regulating LTC Blocks



## National Association of Insurance Commissioners (NAIC)

- LTC Insurance (B/E) Task Force
  - Insurance Business Transfer Concept
  - Solvency Concerns/Guaranty Association
  - Reporting of Developments in Experience
  - Rate Increase Uniformity
- LTC Valuation Subgroup
  - Actuarial Guideline 51 effective 12/31/2017
  - Experience Reporting Review



# Regulating LTC Blocks



## NAIC

- LTC Pricing Sub-Group

- Goal - develop a framework to achieve greater uniformity, transparency and predictability in the review and approval of LTC rate increase requests.
- Fairness of Benefit Reductions
  - ❖ LTC Benefit Adjustment Subgroup (Inflation topic)
  - ❖ “Trendy” Options
- [https://www.naic.org/cmte\\_b\\_ltc\\_price\\_sg.htm](https://www.naic.org/cmte_b_ltc_price_sg.htm)



# Regulatory Approaches to Rate Increases



## LTC Pricing Approaches

1. Prior to 2000, lifetime loss ratio e.g. 60%
2. 2000-2014, rate stabilization – moderately adverse, 58/85 rule, disincentivizes underpricing
3. After 2014, NAIC Model #641 (~12 states)
  - a) 10% minimum margin
  - b) Annual certification of rates
  - c) Regulator can consider alternative increases, schedules
  - d) Modified 58/85



# Regulatory Approaches to Rate Increases



## LTC Review Approaches

1. Lots of state variation, primarily due to “recoupment of past losses” and “delays”
2. Approaches
  - a) Actuarially supported for specific statute
  - b) “If-Knew” premium
  - c) Prospective present value
  - d) Nationwide average premium
  - e) Blended cost sharing approach by layer of Increase
  - f) Rate increase caps, including by age
  - g) Moratorium or limits on increase requests



# Regulatory Approaches to Rate Increases



## LTC Review Approaches

- 3. Phase Ins
- 4. Guarantees
  - a) 2 years, 3 years, 5 years.... 15 years, Never Again?
  - b) Actuarial vs. Legal perspective
- 5. Landing Spots
  - a) The largest rate increases are often on the policies with inflation protection.
  - b) Determine the actuarially equivalent increase where a policyholder with a 5% compound inflation rider can mitigate say a 100% rate increase down to 0% as long as they reduce the inflation percentage.
  - c) Consumers typically get to keep the current inflated daily benefit and still have some inflation protection.





# Closed Rate Filings Since 2010



State	Filing Count	Avg Days Until Decision	Percent		
			Approved as Requested	Average % Requested	Average % Approved
KY	301	116	33%	49%	26%
Max	411	899	90%	67%	49%
75%ile	253	220	47%	52%	32%
Average	212	215	38%	48%	26%
Median	206	172	36%	48%	25%
25%ile	174	115	22%	43%	20%
Min	9	25	8%	34%	11%

Source: California DOI



# Closed Rate Filings Since 2010



When Rate Request Equals:											
		<20%		20-40%		40-60%		80-100%		>100%	
		Approved vs Requested		Approved vs Requested		Approved vs Requested		Approved vs Requested		Approved vs Requested	
State											
KY		88%		77%		50%		31%		39%	
Max		555%		104%		193%		92%		100%	
75%ile		104%		81%		70%		55%		61%	
Average		104%		67%		58%		40%		43%	
Median		89%		68%		52%		40%		39%	
25%ile		79%		55%		39%		19%		22%	
Min		44%		9%		0%		7%		6%	

Source: California DOI



# Transamerica 2021 Rate Increases



- On December 15, 2020, Transamerica submitted proposed rate increases for 4 blocks of LTC business.
  - The Company requested the same 61% rate increase for each blocks, regardless of an individual’s policy or benefit provisions (e.g., Benefit Period, Cost of Living Adjustments, etc.)
  - The experience for these 4 blocks were aggregated to support the requested rate increase.
    - L&E/DOI requested the experience and projections separately by block to determine the appropriateness of the rate increase.
  - The following table shows the number of impacted consumers for each block. The KRTA block includes the retired Teachers Association policies, which accounts for the majority of the business in these filings.

KY Policy Count	Non-KRTA	KRTA	TOLIC	NEA	Total
<b>Total</b>	<b>1,194</b>	<b>3,803</b>	<b>939</b>	<b>313</b>	<b>6,249</b>
<b>Total</b>	<b>19%</b>	<b>61%</b>	<b>15%</b>	<b>5%</b>	<b>100%</b>



# Transamerica 2021 Rate Increases



- Benefits under these LTC policies are generally considered “rich” or “generous” (i.e., lifetime benefit periods, including inflation protection)
- Policies containing similar benefits are not sold in the market today.
- The following table illustrates the % of business by:
  - Inflation vs. Non-inflation protection
  - Lifetime vs. Non-lifetime benefits

<b>KY Policy Distribution</b>	<b>Non-KRTA</b>	<b>KRTA</b>	<b>TOLIC</b>	<b>NEA</b>	<b>Total</b>
Non-inflation, Limited Benefit	13%	5%	14%	2%	8%
Non-inflation, Lifetime Benefit	11%	12%	15%	10%	12%
Inflation, Limited Benefit	51%	20%	30%	18%	27%
Inflation, Lifetime Benefit	26%	63%	42%	70%	53%



# Transamerica 2021 Rate Increases



- Loss Ratio experience and projection by policy form.

Description	Non-KRTA	KRTA	TOLIC	NEA	Total
Past Loss Ratio	57%	62%	70%	38%	60%
Future w/o Rate Increase	326%	340%	323%	271%	322%
Lifetime w/o Rate Increase	102%	93%	117%	102%	105%
Future w/ Rate Increase	220%	233%	219%	181%	218%
Lifetime w/ Rate Increase	94%	89%	108%	90%	97%

- Within the Kentucky Insurance Code, the minimum lifetime loss ratio for LTC products 60%.
  - A lifetime loss ratio is the present value of projected claims over the present value of projected premiums. With a lifetime loss ratio of 60%, the insurance company would expect to pay out \$60 on claims for every \$100 collected from policyholders.
  - Without any rate increase, Transamerica expected a 105% lifetime loss ratio (KRTA 93%).
  - With the 61% requested rate increase, Transamerica expected a 97% lifetime loss ratio (KRTA 89%).



# Transamerica 2021 Rate Increases



- Key Rate Filing Characteristics

Description	Non-KRTA	KRTA	TOLIC	NEA	Total
Cumulative Past Increase	+237.2%	+184.1%	+206.2%	+273.2%	+201.7%
Needed to match Nationwide Average	+7.5%	+28.1%	-0.3%	-14.6%	+17.1%
Approvable Based on Target Since Inception	-25.5%	-27.0%	-5.5%	-22.8%	-22.5%
60% Lifetime (L&E high level estimate)	+335.9%	+442.5%	+367.4%	+207.1%	+398.3%
Minnesota (Blended If-Knew)	+300.4%	+396.4%	+271.2%	+95.3%	+340.9%
TX Method (PPV Method)	+29.4%	+66.7%	+59.2%	+23.8%	+56.9%
Less than Current Marketed Rate Levels*	Yes	Yes	Yes	Yes	

\*During review it was discovered Transamerica has left the LTC market and no longer issues policies. The Comparison was done to the most recently marketed rates.

- Rate Increase Mitigation Offers

1. Benefit Reduction and Cost Sharing Endorsement. Reduction to current benefit amounts (e.g., Maximum Daily Benefit, Maximum Monthly Benefit, etc.). Application of Cost Sharing to Claim Payments (Ranging from 18% to 25% depending on benefit period and inflation) and a 10 Year Rate Guarantee for accepting this option.
2. Buyout option: Equal to 75% of the estimated value of the policy



# Transamerica 2021 Rate Increases



- On May 26, 2021, the Department approved the following:
  - A one-time rate increase 40% for the policies with richer coverage (i.e., lifetime benefit periods or inflation protection)
  - A one-time increase of 15% for policies with limited benefit periods and/or without inflation protection.
- The approval included the following conditions:
  - Transamerica agreed to provide a 10-year rate guarantee for all policyholders.
  - Transamerica will still offer the 2 rate increase mitigation options to policyholders.



THANK YOU

QUESTIONS?