

**RATE FILING STANDARDS FOR
INDIVIDUAL LONG-TERM CARE INSURANCE**

MODIFIED RATE SCHEDULES

Drafting Note: These standards are only available if, in addition to the modified rate schedule, an issue age rate schedule is filed with and approved by the Interstate Insurance Product Regulation Commission and is offered to applicants.

Drafting Note: The initial rate filing and rate increase filing standards are combined so that applicable standards for initial rate and rate increase filings are located in one place and rate increase filings are handled consistently with initial rate filings across Interstate Insurance Product Regulation Commission member states.

Scope: These standards apply to initial rates and subsequent filings to increase premium rate schedules for individual long-term care insurance. Any product advertised, marketed or offered as long-term care insurance shall be subject to these standards when modified rate schedules are filed for use and permitted as posted on the Interstate Insurance Product Regulation Commission web site. Long-term care insurance shall provide benefits for one or more of the following: nursing home care, assisted living care or home health care and adult day care. These standards apply to all policies, riders, endorsements and amendments subject to the Core Standards for Individual Long-Term Care Insurance Policies adopted by the Interstate Insurance Product Regulation Commission, except for the following long term care products to which no specific rate standards apply:

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(1) Life insurance policies that permit payment of all or part of the death benefit when specified activities of daily living or cognitive impairment triggers are met and the payment of benefits is contingent upon receipt of long-term care services, and such payment does not exceed \$1.00 for each \$1.00 of permanent reduction in death benefits (for flexible premium adjustable life products, the death benefit may be one of the death benefit options described in the Interstate Insurance Product Regulation Commission standards for such products); and

(2) Annuity contracts that provide for the waiver of any applicable surrender or withdrawal charges upon payment of all or part of the account value when specified activities of daily living or cognitive impairment triggers are met and the payment of benefits is contingent upon receipt of long-term care services, and such payment does not exceed \$1.00 for each \$1.00 of permanent reduction in the account value.

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Availability: These standards are available for use in Interstate Insurance Product Regulation Commission member jurisdictions, except for any member jurisdiction that has opted out of these standards or has notified the Commission that modified rate schedules are not permitted in that jurisdiction. The Commission will maintain and publish on its website a list of the availability of these standards.

Date: 1/18/11

As recommended by the Product Standards Committee
Revisions reflect proposed amendments to the adopted standards.

Mix and Match: These standards are not available to be used in combination with State Product Components as described in Section 110(b) of the Operating Procedure for the Filing and Approval of Product Filings.

Self-Certification: These standards are not available to be filed using the Rule for the Self-Certification of Product Components File with the Interstate Insurance Product Regulation Commission.

All terms used in these standards shall have the same meaning as defined in the Core Standards for Individual Long-Term Care Insurance Policies.

As used in these standards the following definitions apply:

“Issue age rate schedules” are rate schedules where premiums are based on issue age and where premiums are not expected to change during the premium-paying period due to attained age or duration since issue. Single premium and limited pay plans (e.g., 20-pay policy) are allowed under this definition. The addition of increases in the benefit level that require additional premium, based on the issue age rate schedule applied at an insured’s current age at the time of each increase in the benefit level, are allowed under this definition.

“Modified rate schedules” are rate schedules where premiums are based on issue age and where premiums are scheduled to increase during the premium-paying period according to a specified pattern due to attained age or duration since issue as permitted by § 2B(6) of the Rate Filing Standards for Individual Long-Term Care Insurance—Modified Rate Schedules. Limited pay policies (e.g., 20-pay policy) and noncancellable policies are allowed under this definition.

“Exceptional rate schedule increase” means only those rate schedule increases where the Interstate Insurance Product Regulation Commission determines that the need for the rate schedule increase is justified, and may be applicable to only one or more states as determined by the Interstate Insurance Product Regulation Commission:

- (1) Due to changes in laws or regulations applicable to individual long-term care coverage;
or
- (2) Due to increased and unexpected utilization that affects the majority of insurers of similar products to that for which the rate schedule increase filing applies.

Drafting Note: As appropriate, the Interstate Insurance Product Regulation Commission may refer to the *NAIC Guidance Manual for the Rating Aspects of the Long-Term Care Insurance Model Regulation* in reviewing filings under these standards.

§ 1 CRITERIA FOR REVIEW FOR ALL RATE FILINGS

A. GENERAL

The Interstate Insurance Product Regulation Commission will review rate filings for individual long-term care insurance policies and may disapprove any rate filing for one or more of the following reasons:

- (1) The premiums charged are unreasonable in relation to the benefits provided, excessive, inadequate, or unfairly discriminatory;
- (2) The provisions permit the company to vary premiums for insureds, and the variances are not based upon sound underwriting and sound actuarial principles reasonably related to actual or reasonably anticipated loss experience;
- (3) The premiums unfairly discriminate between individuals of the same actuarial risk class, or between risks of essentially the same degree of hazard;
- (4) The premiums discriminate on the basis of race, color, creed, national origin, or sexual orientation;
- (5) The premiums unfairly discriminate on the basis of marital status or civil union status in states where civil union relationships are recognized; however, this does not prohibit actuarially justified spousal, couple, partner, or civil union discounts; or
- (6) The rate filing fails to comply with the standards.

§ 2 ADDITIONAL SUBMISSION REQUIREMENTS FOR INITIAL RATE FILINGS

The following additional submission requirements apply to initial rate filings for individual long-term care insurance policies:

A. GENERAL

- (1) If the initial rate filing is being submitted on behalf of the company, include a letter of authorization from the insurance company submitted by the party authorized to submit the filing.
- (2) Include a certification by an authorized representative of the company that, in addition to the modified rate schedule, an issue age rate schedule has been filed or is being filed and will be offered to applicants.
- (3) A filing of a modified rate schedule for an existing policy form that increases one or more premium rates and does not decrease any premium rate and is to be applicable only to policies issued after a defined issue date is not considered an increase to a modified rate schedule but is considered a new initial rate schedule.

Deleted: The following additional submission requirements apply to initial rate filings for individual long-term care insurance:

- (4) For guaranteed renewable policies, if the company has guaranteed premiums will not increase after the insured has attained a specified age, the company shall certify that the basis for future rate increases will not include adverse experience for such insureds. However, this certification does not preclude the company from utilizing the actual experience of the insureds beyond the specified age in projecting the experience of any other segments of the insured population for which rate increases are permitted.

B. ACTUARIAL SUBMISSION REQUIREMENTS

- (1) An actuarial certification prepared, dated and signed by a member of the American Academy of Actuaries who provides the information shall be included and shall provide at least the following information:
 - (a) A statement that the initial premium rate schedule is sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated;
 - (b) A statement that the policy design and coverage provided have been reviewed and taken into consideration;
 - (c) A statement that the underwriting and claims adjudication processes have been reviewed and taken into consideration;
 - (d) A set of statements relating to contract reserves and their relation to gross premiums:
 - (i) A statement that the assumptions used for reserves contain reasonable margins for adverse experience;
 - (ii) A statement that the net valuation premium for renewal years does not increase, except in a manner consistent with scheduled premium changes permitted under § 2B(6);
 - (iii) A statement that the difference between the gross premium and the net valuation premium for renewal years is sufficient to cover expected renewal expenses; or if such a statement cannot be made, a complete description of the situations where this does not occur must be provided in the actuarial memorandum supplied pursuant to § 2B(3)(d); and
 - (iv) A statement as to whether or not the reserve morbidity assumptions used include any provision for morbidity improvement.
 - (e) A statement that the premium rates in the modified rate schedule are not less than the premium rate schedule for existing similar policy forms with modified rate schedules, equivalent patterns of scheduled premium increases and comparable

premium paying periods also available from the company except for reasonable differences attributable to benefits.

If there are situations where one or some rates in a premium schedule are less than those in the premium rate schedule in each state for existing products having similar benefits, a statement to that effect shall be provided in lieu of the applicable statement above. In either case, details of the differences and the comparison work performed shall be provided as part of [§ 2B\(3\)\(f\)](#).

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(2) A statement that the premium rate schedules are those to which the information in the actuarial memorandum applies. This statement shall be contained in the document containing the premium rate schedules.

(3) An actuarial memorandum prepared, dated and signed by the member of the [American Academy of Actuaries](#) who provides the information shall be included and shall address and support each specific item required as part of the actuarial certification, comply with Actuarial Standard of Practice (ASOP) 18 and provide at least the following information:

(a) An explanation of the review performed by the actuary prior to making the statements in [§ 2B\(1\)\(b\)](#) and [§ 2B\(1\)\(c\)](#);

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(b) A complete description of pricing assumptions;

Drafting Note: ASOP No. 18, the NAIC *Guidance Manual for the Rating Aspects of the Long-Term Care Insurance Model Regulation* and the Academy of Actuaries Practice Note “Long-Term Care Insurance, Compliance with the NAIC Long-Term Care Insurance Model Regulation Relating to Rate Stability” all provide details concerning the key pricing assumptions, underlying actuarial judgments and the manner in which premium rates are to be tested.

(c) Sources and levels of margins, incorporated into the gross premiums determined in [§ 2B\(3\)\(b\)](#) above that are the basis for the statement in [§ 2B\(1\)\(a\)](#) of the actuarial certification and an explanation of the analysis and testing performed in determining the sufficiency of the margins. Significant deviations in margins between ages, sexes, plans or states must be clearly described. Significant deviations in margins are other than those produced utilizing generally accepted actuarial methods for smoothing and interpolating gross premium scales;

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(d) (i) A complete description of those situations, if any, where the difference between the gross premium and the net valuation premium for renewal years is not sufficient to cover expected renewal expenses; and

(ii) A table of sample ages and coverages demonstrating the extent and the results of this review;

- (e) A complete description of any morbidity improvement assumption used in pricing or reserves for the product together with the rationale for the assumption and its effect on premium and reserve levels; and

Drafting Note: At the time of drafting these standards, the Interstate Insurance Product Regulation Commission generally does not believe that sufficient credible data on insured experience is available to justify the use of morbidity improvements in pricing or reserve assumptions but cannot be sure that it cannot be produced in the future. As noted in the NAIC Health Insurance Minimum Reserve Model Regulation, Model #10, “Morbidity improvement is a change, in the combined effect of claim frequency and the present value of future expected claim payments given that a claim has occurred, from the current morbidity tables or experience that will result in a reduction in [premiums or] reserves. It is not the intent of this provision to restrict the ability of the actuary to reflect the morbidity impact for a specific known event that has occurred, and that is able to be evaluated and quantified. This last sentence is intended to provide allowances for a known event, such as a new drug release, but at the time of this writing, there are no specific examples that could be pointed to in the recent past that would have met this standard. **This is intended to be an extremely rare event.**” [emphasis supplied]

- (f) A comparison of the modified rate schedule premiums with the issue age rate schedule premiums and comparable premium-paying periods also available from the company as required by § 2B(7) with a demonstration of the actuarial equivalence of the premium schedules reflecting appropriate assumption differences.

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The actuary should describe the situations where the modified rate schedule premiums are less than those for existing products with equivalent patterns of scheduled premium increases and comparable premium paying periods also available from the company, except for reasonable differences attributable to benefits, and detail the differences and testing done by the actuary to determine that the filed premiums are not inadequate.

- (4) After reviewing the initial rate filing, the Interstate Insurance Product Regulation Commission may request an actuarial demonstration that benefits are reasonable in relation to the premiums charged. The actuarial demonstration shall include either premium and claim experience on similar policy forms, adjusted for any premium or benefit differences, relevant and credible data from other sources, or both.
- (5)
 - (a) Rate guarantee periods applicable to initial, new, or additional long-term care coverage and in excess of five (5) years from the effective date of such coverage shall not be permitted. This provision does not preclude a noncancellable policy or a guaranteed renewable policy that guarantees premiums will not increase after an insured has attained a specified age as defined in the policy.
 - (b) Additional premium for rate guarantee periods applicable to initial, new or additional long-term care coverage shall not be permitted.

- (6) Modified rate schedules shall only be permitted on policies if they meet the following constraints designed to (i) require significant prefunding, (ii) provide a resulting pattern of premium rates that is easily understood by the applicant and (iii) limit the increase to a realistic amount as the insured approaches age 65.
- (a) Scheduled premium rate increases shall only be permitted on policies which incorporate automatic benefit increases (built into the policy or added by policy, rider or endorsement);
 - (b) Scheduled premium increases shall only occur during periods when benefits are also increasing;
 - (c) Scheduled premium increases shall not be permitted after attained age 65;
 - (d) A premium schedule with scheduled increases shall meet the following requirements:
 - (i) The initial premium shall not be less than forty percent (40%) of the premium for a policy with the same benefits, including automatic benefit increases, but with no scheduled premium changes, which policy form is to be offered under § 2B(7); Deleted: Item
 - (ii) The initial premium shall not be less than one hundred and ten percent (110%) of the premium for a policy with the same or similar benefits but without automatic benefit increases; and
 - (iii) The final percentage increase shall not be more than ten percent (10%) of the premium prior to such increase if the increases are annual;
 - (e) If the scheduled increase is defined as a dollar amount, the dollar amount may not increase by duration for any insured. If the scheduled increase is defined as a percentage, the percentage may not increase by duration for any insured. Any schedule that reduces the amount or percentage of such scheduled premium increases shall have a reasonable pattern;

Drafting Note: The drafters of these standards do not see an obvious reason for a schedule of premium increases that is other than a constant percentage increase or a constant dollar increase. However, the standards should not exclude more complex options. There should be valid reasons for using a more complex option and the reviewer should be satisfied that the complex pattern can be understood by applicants/policyholders. A complex pattern should not be used simply to allow for the use of the lowest possible initial premium.

- (f) Acceptable patterns involving a constant dollar amount of increase shall be reviewed by comparing the amount of such increase as a percentage of the premium rate prior to the last scheduled increase and not the initial premium rate;

(g) A scheduled premium increase shall not occur more than three (3) years from the prior increase, or issue date of the policy. If scheduled premium increases are not annual, each increase shall be either:

(i) The same dollar amount, but not more than twelve percent (12%) if increases are bi-annual or not more than eighteen percent (18%) if increases occur every three (3) years, such percentage applied to the level premium for a policy with the same benefits used to determine the minimum initial premium in § 2B(6)(d)(i) above; or

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(ii) The same percentage, but not more than § 2B(6)(d)(iii) above;

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(h) Section 2B(6) is not applicable to policy forms with guaranteed purchase options or other inflation protection provisions where the increase in premiums is directly related to the increase in benefits due to the exercise of the guaranteed purchase option or other similar inflation protection provisions; and

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(i) In no event shall any scheduled premium exceed three (3) times the initial scheduled premium.

(7) If a policy form is being filed with a modified rate schedule in accordance with § 2B(6), the company shall also provide the following:

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(a) The same policy form but with issue age rate schedules;

(b) A provision in the policy that provides the policyholder with the option at each scheduled premium rate increase to modify the policy so that there are no further scheduled premium increases;

(c) A statement describing the methodology the company intends to use to provide credit for prefunding in the event the policyholder elects the option in § 2B(7)(b) above;

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(d) If the policyholder wishes to further modify the policy to reduce the future premiums required under § 2B(7)(b), such change would occur in accordance with the downgrade provisions of the policy;

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(e) A sample description of the manner in which scheduled premium rates will be explained to the applicant which need not show every scheduled premium rate; and

(f) A sample of the manner in which the policy will show each scheduled premium increase, the amount of the resulting premium after such increase and the period for which the resulting premium is applicable.

§ 3 ANNUAL SUBMISSION REQUIREMENTS SUBSEQUENT TO INITIAL RATE FILINGS AND PRIOR TO APPROVAL OF RATE SCHEDULE CHANGES

The following annual submission requirements apply subsequent to initial rate filings for individual long-term care insurance policies. These requirements do not apply after the approval of rate schedule increase filings, at which time the requirements of § 4 apply.

Drafting Note: In accordance with § 2A(2), these submission requirements apply to rate schedules initially filed with the Interstate Insurance Product Regulation Commission, including revised rate schedules that increase premium rates only with respect to new business issued under a policy form.

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A. GENERAL

- (1) If the items are being submitted on behalf of the company, include a letter of authorization from the insurance company.

B. ACTUARIAL SUBMISSION REQUIREMENTS

- (1) An actuarial certification prepared, dated and signed by the member of the American Academy of Actuaries who provides the information shall be included and shall provide at least the following information:

- (a) A statement of the sufficiency of the premium rate schedule approved by the Interstate Insurance Product Regulation Commission including:

(i) For the rate schedules currently marketed.

a. The premium rate schedule continues to be sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated; or

b. If the above statement cannot be made, a statement that margins for moderately adverse experience may no longer be sufficient. In this situation, the company shall provide to the IIPRC, within 60 days of the date the actuarial certification is submitted to the IIPRC, a plan of action, including a time frame, for the re-establishment of adequate margins for moderately adverse experience. Failure to submit a plan of action to the IIPRC within 60 days or to comply with the time frame stated in the plan of action constitutes grounds for the IIPRC to withdraw or modify its

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Deleted: (i) . For the rate schedules currently marketed, the initial premium rate schedule continues to be sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated;

<#>For the rate schedules that are no longer marketed;

a. That the initial premium rate schedule may no longer continues to be sufficient to cover anticipated costs under best estimate assumptions; or

b. That the premium rate schedule may no longer be sufficient.

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approval of the Product Filing pursuant to Section 108 of the Operating Procedure for the Filing and Approval of Product Filings.

Drafting Note: When a company files a statement that margins for moderately adverse experience may no longer be sufficient, the IIPRC will immediately notify each Compacting State where the premium rate schedule applies.

(ii) For the rate schedules that are no longer marketed.

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a. That the premium rate schedule continues to be sufficient to cover anticipated costs under best estimate assumptions; or

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b. That the premium rate schedule may no longer be sufficient. In this situation, the company shall provide to the IIPRC, within 60 days of the date the actuarial certification is submitted to the IIPRC, a plan of action, including a time frame, for the re-establishment of adequate margins for moderately adverse experience.

Drafting Note: When a company files a statement that the premium rate schedule may no longer be sufficient, the IIPRC will immediately notify each Compacting State where the premium rate schedule applies.

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(b) A description of the review performed that led to the statement.

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(2) An actuarial memorandum dated and signed by the member of the American Academy of Actuaries who prepares the information shall be prepared to support the actuarial certification and shall comply with ASOP 18 and provide at least the following information:

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(a) A detailed explanation of the data sources and review performed by the actuary prior to making the statement in § 3B(1)(a).

(b) A complete description of experience assumptions and their relationship to the initial pricing assumptions.

Drafting Note: ASOP No. 18, the NAIC *Guidance Manual for the Rating Aspects of the Long-Term Care Insurance Model Regulation* and the Academy of Actuaries Practice Note “Long-Term Care Insurance, Compliance with the NAIC Long-Term Care Insurance Model Regulation Relating to Rate Stability” all provide details concerning the key pricing assumptions, underlying actuarial judgments and the manner in which experience should be monitored.

(c) A description of the credibility of the experience data.

Date: 1/18/11

As recommended by the Product Standards Committee

Revisions reflect proposed amendments to the adopted standards.

- (d) An explanation of the analysis and testing performed in determining the current presence of margins.
- (3) The actuarial certification required pursuant to § 3B(1) must be submitted annually no later than December 31st of each year starting in the first full year following the year in which the initial rate schedules as approved by the Interstate Insurance Product Regulation Committee. The actuarial memorandum required pursuant to § 3B(2) must be submitted every three years no later than December 31st of the reporting year starting in the third full year following the year in which the initial rate schedule as approved by the Interstate Insurance Product Regulation Commission.

Drafting Note: The Product Standards Committee is comfortable with requiring the filing of the actuarial memorandum on a triennial basis only with the company performing analysis and monitoring experience annually. The company must be able to provide the actuarial memorandum supporting the actuarial certification upon request by any Member state included in the filing.

§ 4 ADDITIONAL SUBMISSION REQUIREMENTS FOR RATE SCHEDULE INCREASE FILINGS

Drafting Note: These requirements do not apply when a company files for a revised rate schedule that increases premium rates only with respect to new business issued under a policy form or for initial rate filings.

The following additional submission requirements apply to rate schedule increase filings that apply to in-force policies for individual long-term care insurance:

** Remaining text omitted for the limited purpose of showing the proposed amendments. **