

RATE FILING STANDARDS FOR INDIVIDUAL LONG-TERM CARE INSURANCE

ISSUE AGE RATE SCHEDULES ONLY

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 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 only issue age rate schedules are available. 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 Standard for Individual Long-Term Care Insurance Policies adopted by the Interstate Insurance Product Regulation Commission.

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

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.

“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 companies 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) A filing of a premium 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 premium rate schedule but is considered a new initial rate schedule.

- (3) 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 and signed by a member of the American Academy of Actuaries providing 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;
 - (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 shall be provided in the actuarial memorandum supplied pursuant to Item (2)(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 rate schedule is not less than the premium rate schedule for existing similar policy forms with issue age rate schedules and comparable premium-paying periods also available from the company except for reasonable differences attributable to benefits; or, if there are situations where one

or some rates in a premium rate schedule are less than those in the premium rate schedule for existing products having similar benefits, a statement to that effect. In either case, details of the differences and the comparison work performed should be provided as part of Item (2)(f).

- (2) The document containing the premium rate schedules shall contain a statement that the premium rate schedules are those to which the information in the actuarial memorandum applies.
- (3) An actuarial memorandum shall be prepared 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 Items (1)(b) and (c);
 - (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 Item (3)(b) above that are the basis for the statement in Item (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 shall be clearly described. Significant deviations in margins are other than those produced utilizing generally accepted actuarial methods for smoothing and interpolating gross premium scales;
- (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 (including inflation and non-inflation) 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 premium rates with issue age rate schedule rates, at a reasonable selection of ages, for similar policy forms and comparable premium-paying periods also available from the company. The actuary should describe the situations where the premium rate schedules are less than those for existing products and detail the differences and testing done by the actuary to determine that the filed premiums are not inadequate.
- (3) 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.
- (4) Rate guarantee periods applicable to initial, new or additional long-term care coverage and in excess of five 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.

§ 3 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 for individual long-term care insurance policies:

A. GENERAL

- (1) If the rate schedule increase filing is being submitted on behalf of the company, include a letter or other document authorizing the firm to file on behalf of the company.

- (2) The request for approval of a rate schedule increase filing shall be submitted to the Interstate Insurance Product Regulation Commission at least 30 days prior to the required rate increase notice period as provided in the policy.
- (3) Include the Long-Term Care Insurance Potential Rate Increase Disclosure Form required by Section 9, Required Disclosure of Rating Practices of the NAIC Long-Term Care Insurance Model Regulation, Model #641.
- (4) A rate schedule increase with the same percentage increase applicable to all policies may be filed with the Interstate Insurance Product Regulation Commission based on the experience of such policy form in all states where the Interstate Insurance Product Regulation Commission has approved the form for use. If requested by the reviewer, the company shall detail the basis for its determination not to vary the rate increase percentage.
- (5)
 - (a) Where the same percentage rate schedule increase is not to be applied to all policies in force under an Interstate Insurance Product Regulation Commission filed policy form, the overall rate schedule increase shall be consistent with the loss ratio requirements of § 3B(3) when applied to such policy form in all states where the Interstate Insurance Product Regulation Commission has approved the form for use.
 - (b) The company shall detail the basis for its determination to vary the rate increase (e.g., certain states as an exceptional increase, certain level of benefits, certain ages). Such basis shall be generally consistent with the experience under the Interstate Insurance Product Regulation Commission filed policy form, but may rely on credible experience from other sources (e.g., company's national experience, industry experience).
- (6) A rate schedule increase shall not introduce a new rating characteristic that was not included as a rating characteristic in the initial rate filing.

Drafting Note: At the time of drafting these standards, the Interstate Insurance Product Regulation Commission generally does not believe that sufficient data on insured experience is available to vary a rate schedule increase by state or region, but cannot be sure sufficient data cannot be produced in the future. To the extent a company desires to vary a rate schedule increase by state or region, it should recognize that any lack of sufficient data for the form in each state or region may present a significant hurdle to the approval of such a rate schedule increase request. However, it is recognized that any industry or actuarial study that indicates a clear and substantiated basis for varying the level or length of incurred claims by state or region could provide support for varying a rate schedule increase consistent with such study. If industry or actuarial study indicating a clear and substantiated basis to vary a rate schedule increase by state or region becomes available subsequent to adoption of these standards, the Interstate Insurance Product Regulation Commission will revisit the appropriateness of varying a rate schedule increase by state or region for future issues.

Drafting Note: The use of “policy form” is not intended to eliminate the filing of a consistently based premium rate schedule increase to multiple policy forms with similar benefits and underwriting based on the same assumptions and their total experience to date.

B. ACTUARIAL SUBMISSION REQUIREMENTS

- (1) Include an actuarial certification prepared and signed by a member of the American Academy of Actuaries providing at least the following information:
 - (a) A statement that, if the requested rate schedule increase is implemented, and the underlying assumptions, which reflect moderately adverse conditions, are realized, no future rate schedule increases are anticipated;
 - (b) A statement that the rate schedule increase filing is in compliance with the requirements of these standards;
 - (c) A statement that the rate schedules submitted are those to which the information in the actuarial memorandum applies; and

Drafting Note: The inclusion of both Items (a) and (c) above is intended to preclude the ability of the Interstate Insurance Product Regulation Commission and the company to agree, independently of the actuary’s certification, to a rate schedule increase other than that to which the certification applies.

- (2) Include an actuarial memorandum complying with the Actuarial Standards of Practice (in particular ASOP 18) and providing at least the following information with respect to the form as approved for use in Interstate Insurance Product Regulation Commission states:
 - (a) Lifetime projections of earned premiums and incurred claims based on the filed rate schedule increase and consistent with the requirements of § 3A(4) and (5) to provide complete experience; and the method and assumptions used in determining the projected values, including a reflection and disclosure of any assumptions that deviate from those used in pricing other policy forms approved by the Interstate Insurance Product Regulation Commission and currently available for sale;
 - (i) Annual values for the five (5) years preceding and the three (3) years following the projection date shall be provided separately;
 - (ii) The projections shall include the development of the lifetime loss ratio, unless the rate schedule increase is an exceptional rate schedule increase;
 - (iii) The projections shall demonstrate compliance with subsection (3), below, of this section of the standards;
 - (iv) For an exceptional rate schedule increase:

- (I) The projected experience should be limited to the increases in claims expenses attributable to the approved reasons for the exceptional rate schedule increase; and
- (II) In the event that the Interstate Insurance Product Regulation Commission determines that there are potential offsets to the higher claims costs associated with the exceptional rate schedule increase, the appropriate net projected experience shall be used; and
- (v) The projections shall be based on the expected premium income and claims experience to which the rate increase will be applied with a separate projection for the expected premium income and claims experience to which no rate increase will be applied;

Drafting Note: Projected experience performed according to §3B(2) may use actuarial judgment based on the experience of the company or industry using Interstate Insurance Product Regulation Commission, state or national data.

- (b) Disclosure of how reserves have been incorporated into the rate schedule increase whenever the rate schedule increase will trigger a contingent benefit on lapse;
 - (c) Disclosure of the analysis performed to determine why a rate schedule increase 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 in providing the certification in § 3B(1), above. The disclosure should describe the sources and levels of margins incorporated into the premiums after the rate schedule increase that are the basis for the statement in § 3B(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 shall be clearly described. Significant deviations in margins are other than those produced utilizing generally accepted actuarial methods for smoothing and interpolating premium schedules;
 - (d) A statement that the policy design, underwriting and claims adjudication practices have been taken into consideration; and
 - (e) A statement that the rate schedule after the rate schedule increase is not greater than the rate schedule for new business approved for use by the Interstate Insurance Product Regulation Commission except for differences attributable to benefits, unless sufficient information to demonstrate such differences are justified is provided.
- (3) All rate schedule increases shall comply with the following requirements with respect to the portion of the business to which the rate schedule increase is to apply:

- (a) Exceptional rate schedule increases shall provide that seventy percent (70%) of the present value of projected additional premiums resulting from the exceptional increase will be returned as benefits;
 - (b) Rate schedule increases shall be calculated such that the sum of the accumulated value of incurred claims, excluding active life reserves, and the present value of future projected incurred claims, excluding active life reserves, are not less than the sum of:
 - (i) The accumulated value of the initial earned premium times fifty-eight percent (58%);
 - (ii) Eighty-five percent (85%) of the accumulated value of prior rate schedule increases filed with the Interstate Insurance Product Regulation Commission under this standard on an earned basis;
 - (iii) The present value of future projected initial earned premiums times fifty-eight percent (58%); and
 - (iv) Eighty-five percent (85%) of the present value of projected premiums not included in (iii), above, on an earned basis;
 - (c) In the event that the rate filing incorporates an exceptional rate schedule increase and other increases, the values in § 3B(3)(b)(ii) and § 3B(b)(iv) shall also include seventy percent (70%) for exceptional rate schedule increase amounts; and
 - (d) All present and accumulated values used in the determination of any rate schedule increase shall use the maximum valuation interest rate for contract reserves specified in Appendix A of the NAIC Health Insurance Reserves Model Regulation, Model #10.
- (7) For guaranteed renewable policies, if the company has guaranteed premiums will not increase after the insured has attained a specified age, the actuary shall certify that the basis for the proposed rate increase does not include adverse experience for such insureds.

§ 4 REQUIREMENTS SUBSEQUENT TO APPROVAL OF A RATE SCHEDULE INCREASE FILING APPROVED BY THE INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

- (1) For each rate schedule increase that is implemented, the company shall file with the Interstate Insurance Product Regulation Commission for review updated projections, as defined in § 3B(2)(a) above, annually for the next three (3) years and include a comparison of actual results to projected values. The Interstate Insurance Product

Regulation Commission may extend the period to greater than three years if actual results are not consistent with projected values from prior projections.

- (2) If any premium rate in an implemented rate schedule increase is greater than 200% of the comparable rate in the initial premium schedule, lifetime projections, as defined in § 3B(2)(a) above, shall be filed with the Interstate Insurance Product Regulation Commission for review every five (5) years following the end of the required period in (1), above.
- (3) If the Interstate Insurance Product Regulation Commission determines that the actual experience following a rate schedule increase does not adequately match the projected experience and that the current projections under moderately adverse conditions demonstrate that incurred claims will not exceed the proportions of premiums specified in § 3B(3) above, the Interstate Insurance Product Regulation Commission may require the company to implement either of the following:
 - (a) Premium rate schedule adjustments; or
 - (b) Other measures to reduce the difference between the projected and actual experience.

Drafting Note: It is expected that actual experience will not exactly match projected. During the period when projections are monitored as indicated in Items (1) and (2) above, the Interstate Insurance Product Regulation Commission shall determine that there is not an adequate match if the differences in earned premiums and incurred claims are not in the same direction or the difference as a percentage of the projected is not of the same order.

- (4) If the majority of policies to which the rate schedule increase filing is applicable are eligible for the contingent benefit on lapse, as defined in the policy, the company shall file:
 - (a) A plan, subject to Interstate Insurance Product Regulation Commission approval, for improved administration or claims processing procedures, or both, designed to eliminate the potential for a further deterioration of experience that would require future rate schedule increases (or demonstrate that appropriate administrative and claims processing procedures have been implemented); otherwise the Interstate Insurance Product Regulation Commission may impose the condition in Item (5) below; and
 - (b) The original anticipated lifetime loss ratio, and the rate schedule increase that would have been calculated according to § 3B(3), above, had the greater of the original anticipated lifetime loss ratio or fifty-eight percent (58%) been used in the calculation in § 3B(3)(b)(i) and (iii), above.
- (5) For a rate schedule increase filing that meets the following criteria, the Interstate Insurance Product Regulation Commission shall review, for all policies subject to the filing, the projected lapse rates and past lapse rates during the twelve (12) months

following each rate schedule increase to determine if significant adverse lapsation has occurred or is anticipated:

- (a) The rate schedule increase is not the first rate schedule increase requested for the subject policy form(s);
 - (b) The rate schedule increase is not an exceptional rate schedule increase; and
 - (c) The majority of the policies to which the rate schedule increase is applicable are eligible for the contingent benefit on lapse, as defined in the policy.
- (6) In the event that significant adverse lapse experience has occurred, is anticipated in the rate schedule increase filing, or is evidenced in the actual results as presented in the updated projections provided by the company following the requested rate schedule increase, the Interstate Insurance Product Regulation Commission may determine that a rate spiral exists. Following the determination that a rate spiral exists, the Interstate Insurance Product Regulation Commission may require the company to offer, without underwriting, to all in force insureds subject to the rate schedule increase, the option to replace existing coverage with one or more reasonably comparable products being offered by the company or its affiliates.
- (a) The offer shall:
 - (i) Be subject to the approval of the Interstate Insurance Product Regulation Commission;
 - (ii) Be based on sound actuarial principles and be based on an issue age rate schedule; and
 - (iii) Provide that the maximum benefits payable under any new policy accepted by an insured shall be reduced by comparable benefits already paid under the existing policy; and
 - (b) The company shall maintain the experience of all the replacement insureds separate from the experience of insureds originally issued the policy forms. In the event of a request for a rate schedule increase on the policy form, the rate schedule increase shall be limited to the lesser of:
 - (i) The maximum rate schedule increase determined based on the combined experience; and
 - (ii) The maximum rate increase determined based only on the experience of the insureds originally issued the form plus ten percent (10%).