TO: IIPRC Product Standards Committee

FROM: IIPRC Actuarial Working Group

DATE: July 27, 2010

At the request of the Management Committee and the Product Standards Committee, the Actuarial Working Group is providing feedback on the frequency, level and reasons for rate increase requests on products with post-rate stabilization initial rates as well as feedback on the usefulness and scope of interim data reporting for initial rates approved by the Interstate Insurance Product Regulation Commission (IIPRC).

Rate Increases for Products with Initial Rates Developed and Approved under Rate Stabilization

The Actuarial Working Group finds the data in response to questions, in the recent survey sent to all jurisdictions, regarding rate increases on products approved post-rate stabilization may not be sufficiently credible though notwithstanding, it generally shows a fairly low number of rate increases on post-rate stabilized initial rates.

Based on the responses from 49 jurisdictions, 35 jurisdictions responded they have adopted rate stability at some point in the past ten years. Of these 35 jurisdictions, 24 jurisdictions provided data with the remaining jurisdictions indicating the data was not readily available. Based on the initial data, both the number of rate increases and the range of rate increases appear high which may be attributable to including information about rate increases on forms and initial rates designed or approved prior to rate stabilization. The Working Group observed that it might still be too early to know with certainty whether rate stabilization is having the intended effect of limiting significant rate increases. However, the Actuarial Working Group makes the general observation that proportionate to the number of form and initial rates designed and/or approved post-rate stabilization, few rate increases have been sought for initial rates designed or approved under rate stabilization. For the jurisdictions who have seen rate increases in the post-rate stabilization era, the rate increase has generally exceeded 15%.

The Actuarial Working Group does not take a position on the rate approach generally outlined by the Management Committee, where rate increases exceeding a certain threshold would be reviewed and approved by the states. On one hand, true uniformity for long-term care insurance products, which are asset-based in nature, is achieved by having the IIPRC review both initial rates and rate increases under the Rate Filing Standards for Long-Term Care Insurance. On the other hand, excessive rate increases, which are not expected for rate-stabilized products, could be directly handled by each state with the option to rely upon the IIPRC advisory review. The Actuarial Working Group believes the actual percentage threshold is generally a public policy question which it defers to the Product Standards Committee and/or Management Committee

States reported in the survey the most frequent reasons cited in support of a rate increase were lower than expected lapse rate and higher than expected claim incidence rate followed by the unexpected rate of return on assets. As further explained, the Actuarial Working Group supports the implementation of a reporting requirement to be put in place well before a rate increase is needed or sought.

Reporting Requirements for Products and Initial Rates Approved by the IIPRC

The Actuarial Working Group supports the collection of data for initial rates for IIPRC-approved individual long-term care insurance policies. Under the proposed Rate Filing Standards for Individual Long-Term Care Insurance, a company is subject to reporting requirements only after approval of a rate increase. Regular reporting requirements should start after the approval of the initial rates so that both the company and regulators can monitor the performance of these initial rates in order to better understand the need and scope of any potential rate increases.

The precision of key assumptions that are the basis for initial rates, such as lapse rates, claim incidence, and rate of return on invested assets, is not fully known until the associated product has been in the marketplace for a few to several years. It is prudent for both the companies and the regulators to understand how the performance of these assumptions change over the life of the product.

The Actuarial Working Group suggests the Product Standards Committee consider including a reporting requirement for a company to submit an annual actuarial certification to the IIPRC and a detailed actuarial memorandum every three years. The annual actuarial certification would not be as detailed as the triennial actuarial memorandum proposed to be required after a rate increase is approved, but the detailed information for the annual actuarial certification would be kept by the company and available upon regulator request.

The actuarial certification should certify the continued appropriateness of rates and an opinion as to anticipating future rate schedule increases, along with a summary of the review performed by the company's actuary to support these conclusions.