MODEL REGULATION/BULLETIN CHANGE ITEMS
5-Year Review, Phase 6 (Long-term Care Insurance Uniform Standards)

Model Regulation/Bulletin Change Items

The Interstate Insurance Product Regulation Compact requires that any Uniform Standard established by the Commission for long-term care insurance products must provide the same or greater protections for consumers as contained in the Long-Term Care Insurance Model Act and Long-Term Care Insurance Model Regulation adopted as of 2001. Article IV, Section 2 of the Compact also states that the Commission shall consider whether any subsequent amendments to the NAIC Long-Term Care Insurance Model Act or Long-Term Care Insurance Model Regulation adopted by the NAIC require amending of the Uniform Standards for long-term care insurance products.

On December 18, 2013, the NAIC adopted a Model Long-Term Care Bulletin developed by the Senior Issues (B) Task Force to address rate increases on in-force long-term care insurance policies, including older policies and closed blocks sold prior to 2000. On August 19, 2014, the NAIC adopted revisions to the Long-Term Care Insurance Model Regulation #641. The Model Regulation revisions primarily address the current regulatory framework regarding the issue of long-term care insurance rate increases prospectively for new policies.

The following items are potential revisions to the Uniform Standards for long-term care insurance products based upon the amendments to the Long-Term Care Insurance Model Regulation or the Model Bulletin.

1. Right to Reduce Coverage and Lower Premium
2. Nonforfeiture Benefits - Contingent Benefit On Lapse
3. Due Date for Annual Submission Requirements Subsequent To Initial Rate Filings
4. Phased In Rate Schedule Increase
5. Actuarial Memorandum Requirements For Rate Schedule Increase Filings
6. Rate Schedule Increases – Requirements for Portion of Business To Which the Increase Applies
7. Personal Worksheet and Rate Increase Disclosure
8. Actuarial Certification Requirements - Composite Margins and Reserves
9. Actuarial Memorandum Requirements
1. RIGHT TO REDUCE COVERAGE AND LOWER PREMIUM

APPLIES: § 3BB. Right to Reduce Coverage and Lower Premiums of the Core Standards for Individual Long-Term Care Insurance Policies

CURRENT PROVISIONS:

(1) This section does not apply to a life insurance policy or rider that provides long-term care benefits only in the form of an acceleration of the death benefit.

(2) The policy shall include a provision that allows the insured (owner if there is one designated under the policy) to reduce coverage and lower the policy or premium in at least one of the following ways:

   (a) Reducing the maximum benefit; or

   (b) Reducing the daily, weekly or monthly benefit amount.

(3) The company may also offer other reduction options that are consistent with the policy design or the company’s administrative processes.

(4) The policy shall contain the following conditions with respect to the right to reduce coverage and lower premiums benefit, consistent with the requirements of § 27 of the Model Regulation:

   (a) The provision shall include a description of the ways in which coverage may be reduced and the process for requesting and implementing a reduction in coverage.

   (b) The age to determine the premium for the reduced coverage shall be based on the age used to determine the premiums for the coverage currently in force.

   (c) The company may limit any reduction in coverage to plans or options available for that policy form and to those for which benefits will be available after consideration of claims paid or payable.

   (d) If a policy is about to lapse, the company shall provide a written reminder to the policyholder of his or her right to reduce coverage and premiums in the notice required by § 3CC(2) of this standard.

COMMENTS:

IIPRC Office Comments/Observations: The IIPRC Office notes that there were changes made to Section 27 Right to Reduce Coverage and Lower Premiums in NAIC Long-Term
MODEL REGULATION/BULLETIN CHANGE ITEMS
5-Year Review, Phase 6 (Long-term Care Insurance Uniform Standards)

Care Model Regulation #641 that could impact the requirements in the corresponding provisions of these Uniform Standards.

IIPRC Office Recommendation: The IIPRC Office suggests that the Product Standards Committee (PSC) consider the following revisions to § 3.BB to be consistent with the revisions to Section 27 of the NAIC Long-Term Care Model Regulation:

(2) The policy shall include a provision that allows the insured (owner if there is one designated under the policy) to reduce coverage and lower the policy or premium in at least one of the following ways:

(a) Reducing the maximum benefit; or

(b) Reducing the daily, weekly or monthly benefit amount.

(3) The company may also offer other reduction options that are consistent with the policy design or the company’s administrative processes.

(4) In the event the reduction in coverage involves the reduction or elimination of the inflation protection provision, the company shall allow the policyholder to continue the benefit amount in effect at the time of the reduction.

(45) The policy shall contain the following conditions with respect to the right to reduce coverage and lower premiums benefit, consistent with the requirements of § 27 of the Model Regulation:

(a) The provision shall include a description of the ways in which coverage may be reduced and the process for requesting and implementing a reduction in coverage.

(b) The age to determine the premium for the reduced coverage shall be based on the age used to determine the premiums for the coverage currently in force. The premium for the reduced coverage shall:

(i) be based on the same age and underwriting class used to determine the premium for the coverage currently in force; and

(ii) be consistent with the approved rate table.

(c) The company may limit any reduction in coverage to plans or options available for that policy form and to those for which benefits will be available after consideration of claims paid or payable.
(d) If a policy is about to lapse, the company shall provide a written reminder to the policyholder of his or her right to reduce coverage and premiums in the notice required by § 3CC(2) of this standard.

**IIPRC staff update following the May 17, 2016 AWG call and AWG recommendation to the PSC:** The AWG agreed with the recommended language.

**IIPRC staff update following the August 2, 2016 PSC call and PSC final recommendation:** The PSC agrees with the recommended revision.
2. NONFORFEITURE BENEFITS – CONTINGENT BENEFIT ON LAPSE *

APPLIES: § 3T(4) Nonforeiture Benefits of the Core Standards for Individual Long-Term Care Insurance Policies

CURRENT PROVISIONS:

(1) The contingent benefit on lapse benefit contained in a long-term care policy, or added by rider, endorsement, or amendment to a long-term care policy at issue, shall be subject to the following requirements:

   (a) (i) The policy shall indicate that a contingent benefit on lapse shall be triggered for an insured every time a company increases the premium rate schedule (issue age or modified) to a level which results in a cumulative increase in the insured’s premium equal to or exceeding the percentage of the insured’s initial premium rate schedule set forth below, based on the insured’s issue age, and the policy lapses within 120 days of the due date of the premium so increased. The owner shall be notified at least sixty (60) days prior to the due date of the premium reflecting the premium rate schedule increase.

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<tr>
<th>Issue Age</th>
<th>Percent Increase Over Initial Premium Rate Schedule</th>
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(ii) In the event any long-term care policy was issued at least 20 years

(b) The policy shall also indicate that a contingent benefit on lapse will also be triggered for an insured for policies with a fixed or limited premium paying period every time the company increases the premium rate schedule (issue age or modified) to a level that results in a cumulative increase in the premium rate schedule for the insured equal to or exceeding the percentage of the insured’s initial premium rate schedule set forth below based on the insured’s issue age, the policy lapses within 120 days of the due date of the premium rate schedule so increased, and the ratio in § 2.T(4)(d)(ii) is forty percent (40%) or more. The owner shall be notified at least sixty (60) days prior to the due date of the premium reflecting the premium rate schedule increase.

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This provision shall be in addition to the contingent benefit provided by § 2.T(4)(a) above and where both are triggered, the benefit provided shall be at the option of the insured.
The policy shall indicate on or before the effective date of a substantial premium increase as defined in § 2.T(4)(a) above, the company shall:

(i) Offer to reduce policy benefits provided by the current coverage without the requirement of additional underwriting so that required premium payments are not increased;

**Drafting Note:** The insured’s right to reduce policy benefits in the event of the premium increase shall not affect any other right to elect a reduction in benefits provided under the policy.

(ii) Offer to convert the coverage to a paid-up status with a shortened benefit period in accordance with the terms of §§ 2.T(4)(d) and (e), if applicable. This option may be elected at any time during the 120-day period referenced in § 2.T(4)(a); and

(iii) Notify the policyholder that a default or lapse at any time during the 120-day period referenced in § 2.T(4)(a) shall be deemed to be the election of the offer to convert in § 2.T(4)(c)(ii) above unless the automatic option in § 2.T(4)(d)(iii) applies.

The policy shall indicate on or before the effective date of a substantial premium increase as defined in § 2.T(4)(b) above, the company shall:

(i) Offer to reduce policy benefits provided by the current coverage without the requirement of additional underwriting so that required premium payments are not increased;

**Drafting Note:** The insured’s right to reduce policy benefits in the event of the premium increase does not affect any other right to elect a reduction in benefits provided under the policy.

(ii) Offer to convert the coverage to a paid-up status where the amount payable for each benefit is ninety percent (90%) of the amount payable in effect immediately prior to lapse times the ratio of the number of completed months of paid premiums divided by the number of months in the premium paying period. This option may be elected at any time during the 120-day period referenced in § 2.T(4)(b); and

(iii) Notify the policyholder that a default or lapse at any time during the 120-day period referenced in § 2.T(4)(b) shall be deemed to be the election of the offer to convert in § 2.T(4)(d)(ii) above if the ratio is forty percent (40%) or more.
The policy shall state that the contingent benefit upon lapse shall be effective from the policy issue date.

The contingent benefit on lapse benefit shall be appropriately captioned in the policy, rider, endorsement, or amendment;

**COMMENTS:**

*Industry Comments:* The Industry Advisory Committee (IAC) notes that changes should be made to §3T(4)(a) to reflect recent additions to Section 28D.(7) of NAIC Long-Term Care Model Regulation #641.

*IIPRC Office Comments/Observations:* The IIPRC Office notes that in addition to the changes noted by the IAC, there were also changes to Section 28 D.(5) and (6) that could impact the requirements in the corresponding provisions of these Uniform Standards.

*IIPRC Office Recommendation:* The IIPRC Office suggests that the PSC consider the following revisions to § 3.T(4)(a),(c) and (d) to be consistent with the revisions to Section 28D of the NAIC Long-Term Care Model Regulation, and determine if the language adequately addresses the prospective nature of the revisions to § 3.T(4)(d):

(4) The contingent benefit on lapse benefit contained in a long-term care policy, or added by rider, endorsement, or amendment to a long-term care policy at issue, shall be subject to the following requirements:

(a) **For policies issued prior to [insert the effective date of the amendments to this standard]*** The policy shall indicate that a contingent benefit on lapse shall be triggered for an insured every time a company increases the premium rate schedule (issue age or modified) to a level which results in a cumulative increase in the insured’s premium equal to or exceeding the percentage of the insured’s initial premium rate schedule set forth below, based on the insured’s issue age, and the policy lapses within 120 days of the due date of the premium so increased. The owner shall be notified at least sixty (60) days prior to the due date of the premium reflecting the premium rate schedule increase.

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<th>Triggers for a Substantial Premium Increase</th>
<th>Percent Increase Over Initial Premium Rate Schedule</th>
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(i) For policies issued after [insert the effective date of the amendments to this standard], the above requirements apply, except that all values above 100% shall be reduced to 100%; and

(ii) In the event any long-term care policy was issued at least 20 years prior to the effective date of the increase, a value of 0% shall be used in place of all values in the table;

(b) The policy shall also indicate that a contingent benefit on lapse will also be triggered for an insured for policies with a fixed or limited premium paying period every time the company increases the premium rate schedule (issue age or modified) to a level that results in a cumulative increase in the premium rate schedule for the insured equal to or exceeding the percentage of the insured’s initial premium rate schedule set forth below based on the insured’s issue age, the policy lapses within 120 days of the due date of the premium rate schedule so increased, and the ratio in § 2.T(4)(d)(ii) is forty percent (40%) or more. The owner shall be notified at least sixty (60) days prior to the due date of the premium reflecting the premium rate schedule increase.

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This provision shall be in addition to the contingent benefit provided by § 2.T(4)(a) above and where both are triggered, the benefit provided shall be at the option of the insured.

(c) The policy shall indicate on or before the effective date of a substantial premium increase as defined in § 2.T(4)(a) above, the company shall:

(i.) Offer to reduce policy benefits provided by the current coverage without the requirement of additional underwriting consistent with the requirements of §3.BB so that required premium payments are not increased;
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Drafting Note: The insured’s right to reduce policy benefits in the event of the premium increase shall not affect any other right to elect a reduction in benefits provided under the policy.

(ii) Offer to convert the coverage to a paid-up status with a shortened benefit period in accordance with the terms of §§ 2.T(4)(d) and (e), if applicable. This option may be elected at any time during the 120-day period referenced in § 2.T(4)(a); and

(iii) Notify the policyholder that a default or lapse at any time during the 120-day period referenced in § 2.T(4)(a) shall be deemed to be the election of the offer to convert in § 2.T(4)(c)(ii) above unless the automatic option in § 2.T(4)(d)(iii) applies.

(d) The policy shall indicate on or before the effective date of a substantial premium increase as defined in § 2.T(4)(b) above, the company shall:

(i) Offer to reduce policy benefits provided by the current coverage without the requirement of additional underwriting consistent with the requirements of § 3.BB so that required premium payments are not increased;

Drafting Note: The insured’s right to reduce policy benefits in the event of the premium increase does not affect any other right to elect a reduction in benefits provided under the policy.

(ii) Offer to convert the coverage to a paid-up status where the amount payable for each benefit is ninety percent (90%) of the amount payable in effect immediately prior to lapse times the ratio of the number of completed months of paid premiums divided by the number of months in the premium paying period. This option may be elected at any time during the 120-day period referenced in § 2.T(4)(b); and

(iii) Notify the policyholder that a default or lapse at any time during the 120-day period referenced in § 2.T(4)(b) shall be deemed to be the election of the offer to convert in § 2.T(4)(d)(ii) above if the ratio is forty percent (40%) or more.
(e) The policy shall state that the contingent benefit upon lapse shall be effective from the policy issue date.

(h) The contingent benefit on lapse benefit shall be appropriately captioned in the policy, rider, endorsement, or amendment;

**IIPRC staff update following the May 17, 2016 AWG call:** Because it appears the Model changes apply to new policy forms, the AWG agreed to review revised language drafted by the IIPRC staff for its next call. Suggested alternative language is as follows:

(4) The contingent benefit on lapse benefit contained in a long-term care policy, or added by rider, endorsement, or amendment to a long-term care policy at issue, shall be subject to the following requirements:

(a) The policy shall indicate that a contingent benefit on lapse shall be triggered for an insured every time a company increases the premium rate schedule (issue age or modified) to a level which results in a cumulative increase in the insured’s premium equal to or exceeding the percentage of the insured’s initial premium rate schedule set forth below, based on the insured’s issue age, and the policy lapses within 120 days of the due date of the premium so increased. The owner shall be notified at least sixty (60) days prior to the due date of the premium reflecting the premium rate schedule increase.

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(i) In the event any long-term care policy was issued at least 20 years prior to the effective date of the increase, a value of 0% shall be used in place of all values in the table:

(b) The policy shall also indicate that a contingent benefit on lapse will also be triggered for an insured for policies with a fixed or limited premium paying period every time the company increases the premium rate schedule (issue age or modified) to a level that results in a cumulative increase in the premium rate schedule for the insured equal to or exceeding the percentage of the insured’s initial premium rate schedule set forth below based on the insured’s issue age, the policy lapses within 120 days of the due date of the premium rate schedule so increased, and the ratio in § 2.T(4)(d)(ii) is forty percent (40%) or more. The owner shall be notified at least sixty (60) days prior to the due date of the premium reflecting the premium rate schedule increase.

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<th>Year</th>
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Triggers for a Substantial Premium Increase

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This provision shall be in addition to the contingent benefit provided by § 2.T(4)(a) above and where both are triggered, the benefit provided shall be at the option of the insured.

(c) The policy shall indicate on or before the effective date of a substantial premium increase as defined in § 2.T(4)(a) above, the company shall:

(i) Offer to reduce policy benefits provided by the current coverage without the requirement of additional underwriting consistent with the requirements of §3.BB so that required premium payments are not increased;

(d) The policy shall indicate on or before the effective date of a substantial premium increase as defined in § 2.T(4)(b) above, the company shall:

(i) Offer to reduce policy benefits provided by the current coverage without the requirement of additional underwriting consistent with the requirements of §3.BB so that required premium payments are not increased;

Drafting Note: The insured’s right to reduce policy benefits in the event of the premium increase shall not affect any other right to elect a reduction in benefits provided under the policy.

(ii) Offer to convert the coverage to a paid-up status with a shortened benefit period in accordance with the terms of §§ 2.T(4)(d) and (e), if applicable. This option may be elected at any time during the 120-day period referenced in § 2.T(4)(a); and

(iii) Notify the policyholder that a default or lapse at any time during the 120-day period referenced in § 2.T(4)(a) shall be deemed to be the election of the offer to convert in § 2.T(4)(c)(ii) above unless the automatic option in § 2.T(4)(d)(iii) applies.

IIPRC staff update following the June 14, 2016 AWG call and AWG recommendation to the PSC: The Working group agreed to the drafted changes to the recommendation.
IIPRC staff update following the August 2, 2016 PSC call and PSC final recommendation:

It was noted that the Industry Advisory Committee suggested in their June 16th comment letter that 4(a) and 4(b) reference contingent benefit on lapse for “an insured (owner if there is one designated under the policy)” for consistency with other sections of the uniform standards and to make those changes in several areas of the standards. The PSC agrees with the recommended revision, including changing the language in 4(a) and 4(b) to “an insured (owner if there is one designated under the policy).”
MODEL REGULATION/BULLETIN CHANGE ITEMS
5-Year Review, Phase 6 (Long-term Care Insurance Uniform Standards)

3. DUE DATE FOR ANNUAL SUBMISSION REQUIREMENTS SUBSEQUENT TO INITIAL RATE FILINGS

APPLIES: § 3B.(3) of the Rate Filing Standards for Individual Long-Term Care Insurance - Issue Age Rate Schedules Only and Rate Filing Standards for Individual Long-Term Care Insurance - Modified Rate Schedules

CURRENT PROVISIONS:

(3) The actuarial certification required pursuant to § 3.B(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 Commission. The actuarial memorandum required pursuant to § 3.B(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 schedules as approved by the Interstate Insurance Product Regulation Commission.

Industry Comments: The IAC did not provide comments on this Model revision.

IIPRC Office Comments/Observations: The IIPRC Office notes that new Subsection 15L.(2)(c) of NAIC Long-Term Care Model Regulation #641 requires that the actuarial certification required under the annual submission requirements subsequent to initial rate filings be based on calendar year data and submitted no later than May 1st.

IIPRC Office Recommendation: The IIPRC Office suggests that the PSC consider the following revisions to § 3.B.(3) to be consistent with the revisions to Subsection 15L.(2)(c) of the NAIC Long-Term Care Model Regulation:

(3) The actuarial certification required pursuant to § 3.B(1) must be based on calendar year data and submitted annually no later than December 31st May 1st of each year starting in the first full year after following the first full year in which the initial rate schedules as approved by the Interstate Insurance Product Regulation Commission. The actuarial memorandum required pursuant to § 3.B(2) must be submitted every three years no later than December 31st May 1st of the reporting year starting in the third full year after the first full following the year in which the initial rate schedules as approved by the Interstate Insurance Product Regulation Commission.

IIPRC staff update following the May 10, 2016 PSC Member Call and PSC final recommendation: The PSC agreed with the recommendation in the report consistent with
changes to Model Regulation #641 to amend the due date for the annual actuarial certification and triennial actuarial memorandum to May 1st and to note that this is based on calendar year data.
MODEL REGULATION/BULLETIN CHANGE ITEMS
5-Year Review, Phase 6 (Long-term Care Insurance Uniform Standards)

4. PHASED IN RATE SCHEDULE INCREASE

APPLIES: § 4.A.(1) of the Rate Filing Standards for Individual Long-Term Care Insurance - Issue Age Rate Schedules Only, and Rate Filing Standards for Individual Long-Term Care Insurance - Modified Rate Schedules

CURRENT PROVISIONS:

(1) When a rate schedule increase for a specified individual long-term care insurance policy form does not exceed a rate increase of fifteen percent (15%), the filing shall be subject to the review and approval or disapproval of the Interstate Insurance Product Regulation Commission.

Industry Comments: The IAC suggested language to allow companies to file rate schedule increases that are less than actuarially justified and that may be on a phased-in basis over a specified period of time, such as 5% for the next three years, as permitted by the NAIC Long-Term Care Insurance Model Regulation and Bulletin.

IIPRC Office Comments/Observations: The IIPRC Office notes that the NAIC Long Term Care Rate Increase Model Bulletin adopted in December of 2013 states:

In lieu of a single increase, the [Department] may approve a series of scheduled rate increases that are actuarially equivalent to the single amount requested by the insurer over the lifetime of the policy. The entire series would be approved at one time as part of the current rate increase filing. For pre-rate-stability policy forms, the approval includes a three-year monitoring provision similar to that currently applicable to post-rate-stability rate increases to allow modification of later increases that were not appropriate based on the experience following the initial rate increase. When determining the rate comparison for new business, forms subject to a series of increases shall not be included.

In addition, of Section 20B.(2)(c) of the NAIC Long-Term Care Model Regulation states:

The insurer may request a premium rate schedule increase less than what is required under this section and the commissioner may approve such premium rate schedule increase, without submission of the certification in Subparagraph (a) of this paragraph, if the actuarial memorandum discloses the premium rate schedule increase necessary to make the certification required under Subparagraph (a) of this paragraph, the premium rate schedule increase filing satisfies all other requirements of this section, and is, in the opinion of the commissioner, in the best interest of policyholders.
**IIPRC Office Recommendation:** The IIPRC Office suggests that the PSC consider the following revisions to § 4.A.(1) as suggested by the IAC to be consistent with revisions to Section 20B.(2)(c) of the NAIC Long-Term Care Model Regulation and with the NAIC Long-Term Care Rate Increase Model Bulletin:

1. When a rate schedule increase for a specified individual long-term care insurance policy form does not exceed a rate increase of fifteen percent (15%), the filing shall be subject to the review and approval or disapproval of the Interstate Insurance Product Regulation Commission. A company may request a rate schedule increase less than what is required under this section and the Interstate Insurance Product Regulation Commission may approve such rate schedule increase if the actuarial memorandum discloses the rate schedule increase necessary to make the certification required under C(1)(a), the rate schedule increase filing satisfies all other requirements of this section and is, in the opinion of the Interstate Insurance Product Regulation Commission, in the best interest of policyholders.

**Drafting Note:** The company will be permitted to file a rate schedule increase for a specified individual long-term care insurance policy form on a phased in basis over a specified period of time (such as 5% for the next three years).

**IIPRC staff update following the May 17, 2016 AWG call:** The group discussed the Model’s allowance of approving a rate increase less than a “certified” (or actuarially justified) rate increase. No consensus developed. Some ideas that were discussed ranged from: IIPRC could review and approve all rate increases, especially if phased in such that cumulative rate increases over time didn’t exceed x% (say 3 or 5%) a year;

- IIPRC could approve rate increases up to 15% even if less than actuarially justified, as long as the actuarially justified rate was less than say 25% or some other threshold;
- IIPRC could approve justified rate increases up to 15%; IIPRC could approve rate increases less than actuarially justified as long as a process to determine the final approved rate included the member states impacted;
- IIPRC could approve lower increases (up to 15%) as long as there had not been a previously implemented rate increase over the last 3 years (or some other number);
- IIPRC could approve lower increases (up to 15%) as long as the Company certified it would use this new Loss ratio as a benchmark for future rate filings.

It was noted that no rate increases on inforce policies have been submitted to the IIPRC at this time. The Group was asked to think about a process that their state would be comfortable with (and similar to the existing allocation of authority to the IIPRC) with respect to handling rate increase
requests that were less than “actuarially justified”. They were also encouraged to develop questions for industry input for the first public call.

**IIPRC staff update following the June 14, 2016 AWG call:** The group discussed the Model’s allowance of approving a rate increase less than a “certified” (or actuarially justified) rate increase. The members on the call agreed that there is no actuarial/technical reason to object to this change or to impose additional restrictions on the rate increase approval process. The group also thought the language was clear that the 15% threshold in the standards would be applied to the requested/approved level of rate increase, not the “certified” level of rate increase.

The group reviewed the draft language and agreed that the Model language referencing “the best interest of the policyholder” was not appropriate for an IIPRC standard and should be stricken.

The drafting note was also reviewed and no concerns were noted. It was confirmed that a “phase-in” relates to a single rate increase request/approval, and does not describe a series of separate rate increase requests.

No other changes are proposed with respect to the language in the IIPRC report.

(1) When a rate schedule increase for a specified individual long-term care insurance policy form does not exceed rate increase of fifteen percent (15%), the filing shall be subject to the review and approval or disapproval of the Interstate Insurance Product Regulation Commission. A company may request a rate schedule increase less than what is required under this section and the Interstate Insurance Product Regulation Commission may approve such rate schedule increase if the actuarial memorandum discloses the rate schedule increase necessary to make the certification required under C(1)(a) and the rate schedule increase filing satisfies all other requirements of this section and is, in the opinion of the Interstate Insurance Product Regulation Commission, in the best interest of policyholders.

**Drafting Note:** The company will be permitted to file a rate schedule increase for a specified individual long-term care insurance policy form on a phased in basis over a specified period of time (such as 5% for the next three years).

**IIPRC staff update following the July 12, 2016 AWG call and AWG recommendations and observations to the PSC:** During final review of recommendations, the group discussed the Model’s allowance of approving a rate increase less than a “certified” (or actuarially justified) rate increase. The following observations with respect to the impact of this change were made:

(1) This change could result in more rate increases receiving approval as opposed to advisory opinions than prior to the change given some members’ experience of certified rates increases typically exceeding 15% in state filings. In these situations, uniformity of rate increases would occur as all policyholders received the 15% increases as opposed to the increase decisions that may vary in each member state.

(2) It was also observed that in situations where an increase was approved that was less than the certified increase, this information may need to be incorporated into the policyholder disclosure.

Both of these items related to public policy aspects of implementing rate increases.
The drafting note was also discussed. It was observed that:

(1) The Model Bulletin reference to phased-in increases specified that the phase in should be “actuarially equivalent to the single amount” while the proposed drafting note only gave the example of “such as 5% for the next three years,” which if compounded would exceed 15%.

(2) The concern was expressed that the Compact review, like in states, is a technical, actuarial review and approval and that in many states, the options added to the NAIC LTC Model Regulation, including both the ability to approve less than an actuarially justified rate increase or to phase in a rate increase, were ones within the purview of the Commissioner so should still stay with the Commissioner and not the Compact.

(3) Some members had concerns that such a phase in could be difficult to communicate to policyholders.

(4) Others observed that although a phase-in approach is permitted in the Model, it seemed impractical when rate increase amounts were small, such as the 15% increase to which the IIPRC is limited.

These last two items are related to public policy aspects of implementing rate increases.

No changes from the prior proposed edits were made with respect to the language in the IIPRC report.

**IIPRC staff update following the August 2, 2016 PSC Member Call and request for feedback:** The Product Standards Committee expressed serious reservations that the proposed language could undermine the explicit 15% threshold for when rate increase requests would be subject to the review and approval or disapproval of Compacting States. The PSC expressed that it would likely not be in favor of the new language if it were intended to allow a rate increase of 15% or less to be submitted, reviewed and approved by the Commission when the rate schedule increase necessary to make the certification, required under Section 4.C(1)(a) of the Rate Filing Standard for Individual Long-Term Care Insurance exceeds 15%. The PSC is contemplating caveating the new language in Section 4.A(1), by clarifying in the existing sentence of this subsection that only when the rate schedule increase necessary to make the certification required under Section 4.C(1)(a) does not exceed 15%, that the increase request will be subject to the review and approval or disapproval of the Commission.

The PSC also recommended adding a provision to the drafting note specifying that it is permitted if the phase in is actuarially equivalent to the approved increase.

**Drafting Note:** The company will be permitted to file a rate schedule increase for a specified individual long-term care insurance policy form on a phased in basis over a specified period of time (such as 5% for the next three years) if the phase in is actuarially equivalent to the approved increase.

**IIPRC staff update following the August 16, 2016 PSC Member Call and Final PSC Recommendation:** The PSC received no Public Comments regarding this item. The PSC discussed the suggested revision limiting both the amount certified and the amount requested to 15% or less, and decided that this did not eliminate the previously stated concerns. The
Committee concluded that the purpose of the amendments to the NAIC Long-Term Care Insurance Model Regulation was to provide states with flexibility and Commissioner discretion for large rate increase requests, and that no change should be recommended to the current provisions, so that requests for premium rate schedule increases less than actuarially justified or for phased in rates should be filed directly with the states.
5. ACTUARIAL MEMORANDUM REQUIREMENTS FOR RATE SCHEDULE INCREASE FILINGS

APPLIES: § 4.C.(2) of the Rate Filing Standards for Individual Long-Term Care Insurance - Issue Age Rate Schedules Only and Rate Filing Standards for Individual Long-Term Care Insurance - Modified Rate Schedules

CURRENT PROVISIONS:

(2) An actuarial memorandum prepared, dated and signed by a member of the American Academy of Actuaries who provides the information shall be included and shall comply 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 § 3.A(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 § 4.C(3), below;

(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 § 3.B(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 § 3.B(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 § 3.B(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.

**IIPRC Office Comments/Observations:** The IIPRC Office notes that revisions to Section 20B(3)(f) of NAIC Long-Term Care Model Regulation #641 add requirements related to demonstration that the actual and projected costs exceed anticipated costs and that the composite margin is projected to be exhausted.

**IIPRC Office Recommendation:** The IIPRC Office suggests that the PSC consider whether the current provision in §4.C.(2) should be amended as follows to be consistent with the revisions to Section 20B(3)(f) of the NAIC Long-Term Care Model Regulation:

(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.

(f) A demonstration that actual and projected costs exceed costs anticipated at the time of initial pricing under moderately adverse experience and that the composite margin specified in §2 B(1)(d) is projected to be exhausted.

**IIPRC staff update following the June 28, 2016 AWG call and AWG recommendation to the PSC:** The AWG agreed with the recommended language.

**IIPRC staff update following the August 2, 2016 PSC call and PSC final recommendation:** The PSC agreed with the recommended language.
6. RATE SCHEDULE INCREASES – REQUIREMENTS FOR PORTION OF BUSINESS TO WHICH THE INCREASE APPLIES

APPLIES: §4.C.(3) of the Rate Filing Standards for Individual Long-Term Care Insurance - Issue Age Rate Schedules Only and Rate Filing Standards for Individual Long-Term Care Insurance - Modified Rate Schedules

CURRENT PROVISIONS:

(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 § 3.B(3)(b)(ii) and § 3.B(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).

Industry Comments: The IAC suggested amending §4.C.(3) to apply to rate schedule increases for policy forms filed prior to six months after the adoption date of the amended
uniform standards and adding a new subsection for rate schedule increases for policy forms filed on or after six months from the adoption date of the amended uniform standards to be consistent with the addition of Section 20.1 C of NAIC Long-Term Care Model Regulation #641.

*IIPRC Office Comments/Observations*: The IIPRC Office notes that there were additions to NAIC Long-Term Care Model Regulation #641 in Section 20.1 Premium Rate Schedule Increases for Policies Subject to Loss Ratio Limits Related to Original Filings that could impact the requirements in the corresponding provisions of these Uniform Standards.

*IIPRC Office Recommendation*: The IIPRC Office suggests that the PSC consider the following revisions to §4.C.(3) and (4) as proposed by the IAC to be consistent with the revisions to Section 27 of the NAIC Long-Term Care Model Regulation:

(3) All rate schedule increases applicable to policies issued under policy forms filed prior to [date six months after the date these changes are adopted by the Interstate Insurance Product Regulation Commission] shall comply with the following requirements with respect to the portion of the business to which the rate schedule increase is to apply:

[No other change to (3)]

(4) All rate schedule increases applicable to policies issued under policy forms filed on or after [date six months after the date these changes are adopted by the Interstate Insurance Product Regulation Commission] 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 lesser of (i) accumulated value of actual incurred claims, excluding active life reserves, and (ii) the accumulated value of historic incurred claims, excluding active life reserves, plus 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 the greater of (A) fifty-eight percent (58%) and (B) the lifetime loss ratio consistent with the original filing including margins for moderately adverse experience:
(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 the greater of (A) fifty-eight percent (58%) and (B) the lifetime loss ratio consistent with the original filing including margins for moderately adverse experience; and

(iv) Eighty-five percent (85%) of the present value of projected premiums not included in § 4.B(3)(b)(iii), above, on an earned basis;

(v) Expected claims shall be calculated based on the original filing assumptions assumed until new assumptions are filed as part of a rate increase. New assumptions shall be used for all periods beyond each requested effective date of a rate increase. Expected claims are calculated for each calendar year based on the in-force at the beginning of the calendar year. Expected claims shall include margins for moderately adverse experience; either amounts included in the claims that were used to determine the lifetime loss ratio consistent with the original filing or as modified in any rate increase filing.

(c) In the event that the rate filing incorporates an exceptional rate schedule increase and other increases, the values in § 3.B(3)(b)(ii) and (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).

(45) 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.

**IIPRC staff update following the June 28, 2016 AWG call and AWG recommendation to the PSC:** The AWG agreed with the recommended language.

**IIPRC staff update following the August 2, 2016 PSC Call:** IIPRC staff noted that the Industry Advisory Committee suggested that (4)(b) should say “the accumulated value of historic expected claims” since otherwise it would say that a company takes the lesser of actual
claims and historic claims, and both of these are the same. Staff reviewed the revisions to Model 641 and suggests the following changes to be consistent with the Model language:

| 4 (b) Rate schedule increases shall be calculated such that the sum of the lesser of (i) accumulated value of actual incurred claims, excluding active life reserves, and or (ii) the accumulated value of historic incurred expected claims, excluding active life reserves, plus the present value of future projected expected incurred claims, excluding active life reserves, will not be less than the sum of: |

**IIPRC staff update following the August 2, 2016 PSC call and PSC final recommendation:**
The PSC agreed with the recommended language including the revision to 4(b) to be consistent with Model Regulation #641.
7. PERSONAL WORKSHEET AND POTENTIAL RATE INCREASE DISCLOSURE FORMS

APPLIES: Appendix A (Personal Worksheet) and Appendix C (Potential Rate Increase Disclosure) of the Standards for Forms Required To Be Used With an Individual Long-Term Care Insurance Application

COMMENTS:

Industry Comments: The IAC suggests that Appendix A – Personal Worksheet and Appendix C – Potential Rate Increase Disclosure be replaced by Appendices B and F recently adopted by the NAIC Senior Issues (B) Task Force.

IIPRC Office Comments/Observations: The IIPRC Office notes the NAIC revised appendices were finalized as a result of changes to the NAIC Long-Term Care Model Regulation.

IIPRC Office Recommendation: The IIPRC Office suggests that the PSC consider replacing Appendix A – Personal Worksheet and Appendix C – Potential Rate Increase Disclosure with Appendices B and F as adopted by the NAIC Senior Issues (B) Task Force.

New APPENDIX A (NAIC Appendix B)

Drafting Note: Companies shall at a minimum provide all of the information shown below and in the same order. The company may include additional information related to this long-term care insurance coverage in relevant and readable language. Bracketed statements indicate the companies should choose the applicable statement, are allowed flexibility in inserting numerical ranges, etc.

Long-Term Care Insurance Personal Worksheet

This worksheet will help you understand some important information about this type of insurance. State law requires companies issuing this [policy] [certificate] [rider] to give you some important facts about premiums and premium increases and to ask you some important questions to help you and the company decide if you should buy this [policy] [certificate] [rider]. Long-term care insurance can be expensive and it may not be right for everyone.

Premium Information

The premium for the coverage you’re considering will be [$_________ per [insert payment interval] or a total of [$_________ per year] [a one-time single premium of $____________].
The premium quoted in this worksheet isn’t guaranteed and may change during the underwriting process and in the future while this [policy] [certificate] [rider] is in force.

Drafting Note: Companies will insert payment interval – monthly, quarterly, etc. and the appropriate dollar amount.

Type of Policy & The Company's Right to Increase Premiums on the Coverage You Choose:

[Noncancellable - The company can’t increase your premiums on this [policy] [certificate] [rider]].

[Guaranteed renewable - The company can increase your premiums on this [policy] [certificate] [rider] in the future if it increases the premiums for all [policies] [certificates] [riders] like yours in this state.]

[Paid-up - This [policy] [certificate] [rider] will be paid-up after you have paid all of the premiums specified in your [policy] [certificate] [rider].]

Drafting Note: Companies will insert the appropriate policy type and the associated bracketed statement. Premium guarantees shall not be shown on this form.

Premium Increase History

[Name of company] has sold long-term care insurance since [year] and has sold this [policy] [certificate] [rider] since [year].

[The company has never increased its premiums for any long-term care [policy] [certificate] [rider] it has sold in this state or any other state.]

[The company has not increased its premiums for this [policy] [certificate] [rider] or similar [policies] [certificates] [riders] in this state or any other state in the last 10 years.]

[The company has increased its premiums on this [policy] [certificate] [rider] or similar [policies] [certificates] [riders] in the last 10 years. A summary of those premium increases follows.]

Drafting Note: If the summary of premium increases is extensive, the company may disclose the required premium increase history via an addendum attached to this worksheet. The company may substitute the language below for the last sentence in the paragraph above and include the full summary as an attachment to this worksheet.

“Over the past 3 years, the company has increased premiums by ___%.” “A summary of premium increases in the last 10 years is attached to this worksheet.”
Companies that have increased premiums by 30% or more in the last ten years must include the following statement: “There was a 30% or greater premium increase in [insert year].” “A summary of premium increases in the last 10 years is attached to this worksheet.”

Questions About Your Income

You do not have to answer the questions that follow. They’re intended to make sure you’ve thought about how you’ll pay premiums and the cost of care your insurance doesn’t cover. If you don’t want to answer these questions, you should understand that the company might refuse to insure you.

What resources will you use to pay your premium?
- Current income from employment
- Current income from investments
- Other current income
- Savings
- Sell investments
- Sell other assets
- Money from my family
- Other

If you’ll be paying premiums with money received only from your own income, a rule of thumb is that you may not be able to afford this [policy] [certificate] [rider] if the premiums will be more than 7% of your income.

Could you afford to keep this [policy] [certificate] [rider] if your spouse or partner dies first?
- Yes
- No
- Hadn’t thought about it
- Don’t know
- Doesn’t apply

What would you do if the premiums went up, for example, by 50%?
- Pay the higher premium
- Call the company/agent
- Reduce benefits
- Drop the [policy] [certificate] [rider]
- Don’t know

Drafting Note: The company is not required to use the bracketed question above if the coverage is fully paid up or is noncancellable.

What is your household annual income from all sources? (check one)
- [Less than $10,000]
- [$10-19,999]
- [$20-29,999]
- [$30-50,000]
- [More than $50,000]

Drafting Note: The companies may choose the income ranges to put in the brackets to fit its suitability standards.

Do you expect your income to change over the next 10 years? (check one)
- No
- Yes, expect increase
- Yes, expect decrease

If you plan to pay premiums from your income, have you thought about how a change in your income would affect your ability to continue to pay the premium?
- Yes
- No
- Don’t know
Will you buy inflation protection? (check one)
☐ Yes ☐ No

Inflation may increase the cost of long-term care in the future.

If you don’t buy inflation protection, how will you pay for the difference between future costs and your daily benefit amount?
☐ From my income ☐ From savings ☐ From investments ☐ Sell other assets ☐ Money from my family ☐ Other

The national average annual cost of long-term care in [insert year] was [insert $ amount], but this figure varies across the country. In ten years the national average annual cost would be about [insert $ amount] if costs increase 5% annually.

Drafting Note: The projected cost can be based on federal estimates in a current year. This figure should also be used when calculating the cost of long-term care in the “approximate cost $____ for that period of care” question found below. In the above statement, the second figure will equal 163% of the first figure.

What [elimination period][waiting period][cash deductible] are you considering?

[Number of days ________ in [elimination period][waiting period]

Approximate cost of care for this period: $________
($xxx per day times number of days in [elimination period][waiting period], where “xxx” represents the most recent estimate of the national daily average cost of long-term care)

[Cash Deductible $________]

How do you plan to pay for your care during the [elimination period][waiting period][deductible period]? (check all that apply)
☐ From my income ☐ From my savings/investments ☐ My family will pay

Questions About Your Savings and Investments

Not counting your home, about how much are all of your assets (your savings and investments) worth? (check one)
☐ [Less than $20,000] ☐ [$20,000-$29,999] ☐ [$30,000-$49,999] ☐ [More than $50,000]

Drafting Note: Companies may choose the asset ranges to put in the brackets to fit its suitability standards.

Do you expect the value of your assets to change over the next ten years? (check one)
□ No □ Yes, expect to increase □ Yes, expect to decrease

If you’re buying this [policy] [certificate] [rider] to protect your assets and your assets are less than $50,000, experts suggest you think about other ways to pay for your long-term care.

Disclosure Statement

□ The answers to the questions above describe my financial situation.

Or

□ I choose not to complete this information.

(Check one.)

□ I agree that the company and/or its agent (below) has reviewed this worksheet with me including the premium, premium increase history and potential for premium increases in the future. I understand the information contained in this worksheet. (This box must be checked.)

Drafting Note: For direct mail situations, the lead in sentence should be changed to “I agree that I have reviewed this worksheet including the premium....”

Signed:__________________________________________________________

(Applicant) __________________________ (Date)

[□ I explained to the applicant the importance of answering these questions.

Signed:__________________________________________________________

(Agent) __________________________ (Date)

Agent’s Printed Name:__________________________________________________________]

[In order for us to process your application, please return this signed worksheet to [name of company], along with your application.]

[My agent has advised me that this long-term care insurance [policy] [certificate] [rider] doesn’t seem to be suitable for me. However, I still want the company to consider my application.

Signed:__________________________________________________________

(Applicant) __________________________ (Date)

Drafting Note: Choose the appropriate sentences depending on whether this is a direct mail or agent sale.

Someone from the company may contact you to discuss your answers and the suitability of this [policy] [certificate] [rider] for you.
Drafting Note: When the Long-Term Care Insurance Personal Worksheet is furnished to employees and their spouses under employer group policies, the text from the heading “Disclosure Statement” to the end of the page may be removed.

New APPENDIX C (NAIC Appendix F)

**Instructions:** Insurers shall provide all of the following information to the applicant regarding premium, premium adjustments, potential premium increases, and policyholder options in the event of a premium increase except as noted below. This form does not need to be provided in the event the policy does not reserve the right to increase rates.

As used in this Appendix:

“Policy” shall mean policy, certificate, or rider, as applicable.

“Premium” shall include premium schedules, as applicable.

Companies may substitute whichever term is appropriate to reflect the long-term care insurance for which the applicant is applying.

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**Long-Term Care Insurance**

**Potential Premium Increase Disclosure Form**

| Important Notice: Your long-term care insurance company may increase the premium for your policy every year. You have certain rights and it’s important that you understand them before you buy a long-term care insurance policy. Please read this information and be sure you understand it before you buy a policy. |

| This policy is guaranteed renewable. Companies can increase the premiums for guaranteed renewable policies in the future. The company cannot increase your premiums because you’re older or your health declines. It can increase premiums based on the experience of all individuals with a policy like yours. |

1. **What Is Your Premium?**

   The agent/company has quoted you a premium of [S_______] for this policy. This is not a final premium. The premium might change during the underwriting process or if you choose different benefits. The premium you’ll be required to pay for your policy will be shown on the schedule page of your policy.

2. **How Will I Know If My Premium Is Changing?**
The company will send you a notice. The notice will include the new premium and when you will start paying it. It also will give you ways you could avoid paying a higher premium. One likely choice will be to keep your insurance policy, but with fewer or lower benefits than you bought. Another choice may be to stop paying premiums and have a “paid-up” policy with fewer or lower benefits than the policy you bought. You may have other choices.

**IIPRC staff update following the May 10, 2016 PSC Member Call and PSC final recommendation:** The PSC agreed to update the personal worksheet (Appendix A) and potential rate increase disclosure (Appendix C) in the Standards for Forms Required to be Used with an Individual Long-term Care Insurance Application to reflect the updated forms adopted by the NAIC.
8. ACTUARIAL CERTIFICATION REQUIREMENTS – COMPOSITE MARGINS AND RESERVES

APPLIES: §2B.(1) of the Rate Filing Standards for Individual Long-Term Care Insurance - Issue Age Rate Schedules Only and Rate Filing Standards for Individual Long-Term Care Insurance - Modified Rate Schedules

CURRENT PROVISIONS:

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;

(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 § 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 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 §2B(3)(f).

COMMENTS:

IIPRC Office Comments/Observations: The IIPRC Office notes that §2B.(1)(d) should be considered for amendment due to the revisions to Section 10B(2)(d) and (f) of NAIC Long-Term Care Model Regulation #641. §2.B.(1)(d) of the Rate Filing Standards is similar to the referenced section of the Model, but does not include requirements to provide detail or sample calculations of reserve amounts or the new clarifying language with respect to the methodology of performing the net/gross ratios.

Industry Comments: The IAC submitted the following draft revisions related to the composite margins, but suggested that they be added to the end of §2B.(3)(c):

For policy forms filed on or after [six months after the date these changes are adopted by the Interstate Insurance Product Regulation Commission], there is an expectation that the margin will be at least 10% of the present value of incurred claims. A composite margin that is less than 10% may be justified in uncommon circumstances. The proposed amount, full justification of the proposed amount and methods to monitor developing experience that would be the basis for withdrawal of approval for such lower margins must be submitted. A composite margin lower than otherwise considered appropriate for a stand-alone long-term care policy may be justified for long-term care benefits provided through a life policy or an annuity contract. Such lower composite margin, if utilized, shall be justified by appropriate actuarial demonstration addressing margins and volatility when considering the entirety of the product.

IIPRC Office Recommendation: The IIPRC Office suggests that the PSC consider the following revisions to §2B.(1)(d) to be consistent with the revisions to Section 10B(2)(d) and (f) of the NAIC Long-Term Care Model Regulation addressing composite margins and reserve requirements:

(d) A set of statements relating to contract reserves and their relation to gross premiums:

(i) A statement that the premiums assumptions used for reserves contain reasonable margins at least the minimum margin for moderately
adverse experience defined in (i) or the specification of and justification for a lower margin as required by (ii).

(i) A composite margin shall not be less than 10% of lifetime claims.

(ii) A statement that the net valuation premium for renewal years does not increase;

(ii) A composite margin that is less than 10% may be justified in uncommon circumstances. The proposed amount, full justification of the proposed amount and methods to monitor developing experience that would be the basis for withdrawal of approval for such lower margins must be submitted.

(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 § 2B(3)(d); and

(iii) A composite margin lower than otherwise considered appropriate for the stand-alone long-term care policy may be justified for long-term care benefits provided through a life policy or an annuity contract. Such lower composite margin, if utilized, shall be justified by appropriate actuarial demonstration addressing margins and volatility when considering the entirety of the product.

Drafting Note: For the justification required in (iii) above, examples of such considerations, if applicable to the product and company, might be found in Society of Actuaries research studies entitled “Quantification of the Natural Hedge Characteristics of Combination Life or Annuity Products Linked to Long-Term Care Insurance” (2012) and “Understanding the Volatility of Experience and Pricing Assumptions in Long-Term Care Insurance Programs” (2014).

(iv) A statement as to whether or not the reserve morbidity assumptions used include any provision for morbidity improvement.

(iv) A greater margin may be appropriate in circumstances where the company has less credible experience to support its assumptions used to determine the premium rates.

Drafting Note: Actual margins may be included in several actuarial assumptions (e.g. mortality, lapse, underwriting selection wear-off, etc.) in addition to some of the margin in the morbidity assumption. The composite margin is the total of such margins over best-estimate assumptions.

(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 § 2B(3)(f).

(f) A statement that reserve requirements have been reviewed and considered. Support for this statement shall include:

(i) Sufficient detail or sample calculations provided so as to have a complete depiction of the reserve amounts to be held; and

(ii) 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. An aggregate distribution of anticipated issues may be used as long as the underlying gross premiums maintain a reasonably consistent relationship.

IIPRC staff update following the June 28, 2016 AWG call and AWG recommendation to the PSC: The AWG agreed with the recommended language.

IIPRC staff update following the August 2, 2016 PSC call and PSC final recommendation: The PSC agreed with the recommended language.
9. ACTUARIAL MEMORANDUM REQUIREMENTS

APPLIES: §2.B.(3) of the Rate Filing Standards for Individual Long-Term Care Insurance - Issue Age Rate Schedules Only and Rate Filing Standards for Individual Long-Term Care Insurance - Modified Rate Schedules

CURRENT PROVISION:

(3) An actuarial memorandum prepared, dated and signed by a 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 § 2.B.(1)(b) and § 2.B.(1)(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 §2.B.(3)(b) above that are the basis for the statement in §2.B.(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.

COMMENTS:

IIPRC Office Comments/Observations: The IIPRC Office notes that §2.B.(3)(c) and a new (d) should be considered for amendment due to the revisions to Section 10B(3)(c) and (d) of NAIC Long-Term Care Model Regulation #641. The revision in Section 10.B(3)(c) does not limit disclosure of deviations to “significant” deviations and Model provision (3)(d) is not currently listed in the standards. The addition of the suggested new (d) would align with the revisions suggested under Clarification Item 3.

IIPRC Office Recommendation: The IIPRC Office suggests that the PSC consider the following revisions to §2.B.(3)(c) and a new (d) to be consistent with the revisions to Section 10.B(3)(c) and (d) of the NAIC Long-Term Care Model Regulation. The current §2.B.3(d) – (f) would then be lettered (e)–(g).

(c) Sources and levels of margins, incorporated into the gross premiums determined in § 2.B.(3)(b) above that are the basis for the statement in § 2.B.(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) A demonstration that the gross premiums include the minimum composite margin specified in § 2.B.(1)(d);

**IIPRC staff update following the June 28, 2016 AWG call and AWG recommendation to the PSC:** The AWG agreed with the recommended language.

**IIPRC staff update following the August 2, 2016 PSC call and PSC final recommendation:**
The PSC agreed with the recommended language.