



I N S U R A N C E
COMPACT
C O M M I S S I O N

**Report on Compact-Approved
Individual Long-Term Care Insurance
Rate Schedule Certifications**

Reporting Year 2018 Certifications Due May 1, 2019

**REPORT ON COMPACT-APPROVED
INDIVIDUAL LONG-TERM CARE INSURANCE
RATE SCHEDULE CERTIFICATIONS**

REPORTING YEAR 2018 DUE MAY 1, 2019

EXECUTIVE SUMMARY

The Interstate Insurance Product Regulation Commission Office (Compact Office) provides a report of the review of the 2018 certifications for Compact-approved individual long-term care insurance rate schedules. Companies have been submitting annual rate certifications since 2012 and triennial rate certifications since 2014. This is the inaugural year of this annual report.

This report provides a general overview of the number and status of rate schedules approved by the Compact Office in conjunction with Compact-approved individual long-term care insurance products along with details regarding the review process. Each Compacting State will also receive a separate member-only report listing the individual long-term care insurance products approved on the Compacting State's behalf by the Compact Office and detailed information about the associated rate schedule certifications.

The *Rate Filing Standards for Individual Long-Term Care Insurance* require a company with an approved rate schedule (whether currently marketed or no longer marketed) to submit an annual certification signed by a member of the American Academy of Actuaries with respect to the sufficiency of the rate schedule. Every three years, the company is required to file a triennial certification with an actuarial memorandum describing the assumptions used in the analysis and how they compare to the original pricing assumptions. The annual certification is due May 1st of each year starting in the year after the first full year in which the initial rate schedule was approved. The triennial certification is due May 1st of the reporting year starting in the third year (and every third year thereafter) after the first full year in which the rate schedule was approved. Each certification is based on cumulative data pertaining to the rate schedule through December 31st of the calendar year preceding the May 1st submission deadline.

Each annual and triennial rate certification is reviewed by a Compact Office actuary for compliance with the requirements in Section 3 of the *Rate Filing Standards*. A company must file a plan of action if it is not able to certify to the sufficiency of the rate schedule.

The Compact Office has reviewed and approved a total of 62 rate schedules, including both initial rate schedules and new business rate refresh schedules, submitted by a total of 25 companies in 45 filings in SERFF. Fifty-three percent of these rate schedules are currently marketed while the remaining are no longer being marketed. Since 2017, the Compact Office has received two in-force rate increase requests both exceeding 15% and has issued advisory opinions for each.

If you have any questions about this report, please contact the Compact Office at 202-471-3962 or comments@insurancecompact.org.

UNIFORM STANDARD REQUIREMENTS FOR CERTIFICATIONS

All companies with an individual long-term care insurance product with premium rate schedule(s) approved by the Compact Office must file an annual certification regarding the sufficiency of the premium rate schedule(s), as specified in Section 3 of the Uniform Standard IIPRC-LTC-I-3-RATEI, *Rate Filing Standards for Individual Long-Term Care Insurance-Issue Age Rate Schedules Only (Rate Filing Standards)*.¹ Please see [Appendix I](#) for background information on the Insurance Compact and the Individual Long-Term Care Insurance Uniform Standards. The relevant section of the *Rate Filing Standards* is provided in [Appendix II](#).

In brief, the certification is submitted by the company and prepared and signed by a member of the American Academy of Actuaries. The certification statement has different requirements for premium rate schedules that are currently marketed versus no longer marketed. Currently marketed rate schedules require a more comprehensive certification to be considered sufficient. Each year's certification must include a brief summary of the review that was performed to support the certification.

Every third year, the company must file a more detailed triennial memorandum that supports the annual certification. In years where the triennial memorandum is not filed, it must be available upon request by the Compact Office or a Compacting State where the Compact-approved product is approved for use.

Certifications and supporting memoranda, if applicable, for cumulative data through calendar year 2018 were due to the Compact Office by May 1, 2019 for premium rate schedules approved by the Compact Office prior to December 31, 2017. Triennial certifications were due for premium rate schedules approved in 2013 and 2016, respectively.

The Commission's Uniform Standards and Operating Procedures permit combination products of individual life or individual annuity with individual long-term care insurance benefit features either built-in to the policy or by rider. Generally, these product filings are individual life or annuity policies with a rider for individual long-term care insurance coverage. The individual long-term care forms, provisions and supporting documentation are reviewed for compliance with the applicable Uniform Standards for individual long-term care insurance including the *Rate Filing Standards*, as applicable.

As defined in the *Rate Filing Standards*, dollar-for-dollar long-term care insurance riders are subject to actuarial requirements and prior review under the *Rate Filing Standards*, but do not generally have associated rate certifications as dollar-for-dollar long-term care insurance is specifically excluded from Section 3 certification requirements. Dollar-for-dollar riders are defined in the *Rate Filing Standards* as riders to life insurance policies that permit payment of \$1.00 of death benefit to pay for \$1.00 of long-term care services or to annuity contracts that permit waiver of \$1.00 in surrender or withdrawal charges or payment of \$1.00 of account value to pay for \$1.00 of long-term care services.

¹ The Insurance Compact Office does not accept group long-term care insurance products as Uniform Standards for group long-term care insurance have not been developed to date.

Riders to life insurance policies or annuity contracts that are a continuation or extension of individual long-term care benefits are required to submit rate schedules for prior review and approval under the *Rate Filing Standards* and are subject to Section 3 certification requirements.

During the five-year review process, the individual long-term care insurance Uniform Standards were amended and took effect in October 2017, including the *Rate Filing Standards*. In the five-year review amendments, the due date for the annual / triennial certifications was moved from December 31st to May 1st and a requirement was added for the certification to identify the policy form to which the certification applies, including the start and, if applicable, end date of issue.

OVERVIEW OF 2018 ANNUAL AND TRIENNIAL RATE CERTIFICATIONS

For calendar year 2018, there were a total of 62 long-term care premium rate schedules subject to the yearly certification requirements in Section 3 of the *Rate Filing Standards*. Of these, 18 rate schedules were subject to the triennial requirement to submit the supporting memorandum described in Section 3.B(2) for the certification year 2018. All certifications were submitted via the System for Electronic Rate & Forms Filing (SERFF).²

The 62 rate schedules were submitted by 25 companies in 45 filings in SERFF. Some filings include multiple forms and rate schedules, such as for gender-distinct and unisex forms. Additionally, some filings include more than one rate schedule for the same form, since the *Rate Filing Standards* allow the filing of new business rate refresh schedules for future new business issues on a given form. Before 2017, these new business refresh rate schedules were included in the same product filing within SERFF as the original rate schedule. Since 2017, new business rate refresh schedules are required to be filed in a separate filing and associated using the Associated Filing feature in SERFF for Compact-approved filings. These new business rate refresh schedules are specifically defined in the *Rate Filing Standards* to be subject to compliance with initial rate filing requirements rather than in-force rate increase requirements.

Some approved rate schedules are not subject to the rate certification requirement, for two possible reasons. The first reason is the company has certified in the filing that the product was never issued. The second reason is the rate schedule has been subject to an in-force rate increase request exceeding 15%. Pursuant to Section 4.A(6) of the *Rate Filing Standards*, once a rate schedule for a Compact-approved product becomes subject to review and approval under state law due to a requested (or needed) increase exceeding 15%, the initial rate schedule is no longer subject to the rate certification requirements in the *Rate Filing Standards*.

² If the product filing includes the Compacting State, regulators of that state with access to the Compact instance in SERFF can view the information in this filing. In addition, Compact-approved product filings can be viewed using the SERFF Filing Access link at www.insurancecompact.org. The certifications are publicly available though companies may have requested trade secret protection for supporting materials pursuant to the Establishment of Conditions and Procedures for Public Inspection and Copying of Information and Official Records of the Interstate Insurance Product Regulation Commission.

The 62 initial and new business rate schedules may be summarized as follows:

- 33 rate schedules are currently marketed. The certification for currently marketed rate schedules is based on sufficiency to cover anticipated costs under moderately adverse experience, and that there are no increases anticipated over the life of the form. Of these currently marketed rates:
 - With respect to 32 of these rate schedules, the certifications indicated the respective rate schedule was sufficient using language substantively similar to that in the *Rate Filing Standards*.
 - With respect to one certification, the rate schedule was certified as sufficient to cover costs under moderately adverse experience, but not that no increases are anticipated. A new business rate refresh schedule has since been filed for this product and is currently under review.
- 29 rate schedules are no longer marketed. The certification for rate schedules that are no longer marketed is based on sufficiency to cover anticipated costs under best estimate assumptions. Of these rate schedules no longer marketed:
 - With respect to 22 rate schedules, the certifications indicated the respective rate schedule was sufficient using language substantively similar to that in the *Rate Filing Standards*.
 - With respect to four rate schedules associated with one company, the certification regarding sufficiency has not yet been made due to in-progress analysis.
 - With respect to three rate schedules, the certification was the rate schedules were no longer sufficient to cover anticipated costs under best estimate assumptions. In each case, a plan of action has been submitted and in-force rate action on these rate schedules may be anticipated.

COMPACT OFFICE REVIEW PROCESS FOR CERTIFICATIONS

Each certification submitted for calendar year 2018 was reviewed by an actuary who is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. The Compact Office has three actuaries on its staff. Most of the certifications that were not required to submit the triennial supporting memorandums were reviewed by the Compact Office's newest actuary, Naomi Kloeppersmith, who joined in July of this year. All of her certification reviews were performed under the direction and with the guidance of a senior actuary, Jeanne Daharsh, who has been with the Compact Office since 2011 and has several years' experience reviewing long-term care rate certifications. The triennial certifications were reviewed by Jeanne Daharsh and by Katie Campbell, who has been an actuary with the Compact Office since 2015.

Each certification and supporting memorandum, if applicable, was reviewed for compliance with Section 3 of the *Rate Filing Standards*. For any required items not addressed, or for any questions the reviewing actuary had concerning the certification, comments were sent as objections/correspondence in SERFF. The company then responded, with possible updates to the certification documents as needed, to meet requirements. Sometimes, multiple iterations of the objection and response process were needed for the reviewing actuary to determine the certification met the Uniform Standard requirements.

COMMON CERTIFICATION COMPLIANCE ISSUES

In review of the 2018 certifications, the Compact Office actuaries noticed several issues with initial submissions that were common across multiple companies. As part of the review process, the Compact Office actuaries worked with the filing companies to bring the certifications into compliance with the *Rate Filing Standards*, and these issues were generally resolved to the reviewing actuary's satisfaction. Additionally, before May 1, 2020, the Compact Office plans to proactively identify these issues in informational sessions for filers, with the hope that future initial submissions will more fully meet the requirements without additional prompting from the Compact Office during the review process. The common compliance issues are briefly described below.

Certification Language Incomplete for Currently Marketed Non-Cancellable Forms

For premium rate schedules that are currently marketed, the actuary must certify that "the premium rate schedule continues to be sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated." If the actuary is unable to certify as such, then the rate schedule is considered not sufficient, and the company must provide a plan of action within 60 days.

Several certification submissions for non-cancellable forms (generally long-term care insurance riders used with life insurance policies or annuity contracts) did not include the second portion of the required certification, a statement that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated. Instead, they referenced the non-cancellable nature of the form and stated that premium increases are not allowed.

The certifications must opine as to the premium sustainability over the "life of the form," rather than the life of the individual policy. Although these forms are non-cancellable, these premium rate schedules are currently marketed, and so it is possible for the company to act by filing and implementing a new business rate refresh schedule for future issues and no longer offer the current rate schedule. In these cases, the certifying actuary was asked to include this statement in the certification. If not able to certify to sufficiency of the rate schedule over the life of the form, the certifying actuary was required to include a statement as to whether a new business rate refresh schedule is anticipated for filing.

No Review of Industry or Third-Party Experience with Low Credible Internal Experience

Certifications must include a summary of the review performed in support of the certification. For many premium rate schedules, the form's experience is not yet credible enough to support the development of actuarial assumptions needed in determining premium sufficiency. Most often, these premium rate schedules were originally priced based on industry or third-party experience, since the company did not have relevant internal experience.

In many certification submissions, the certifying actuary cited the lack of credibility of internal experience as justification for not updating the assumptions used for determining premium

sufficiency, without reviewing updated industry or third-party experience. Actuarial Standard of Practice (ASOP) No. 18, “Long-Term Care Insurance,” includes the requirement:

To the extent that industry or noninsured data were used in determining assumptions for estimating benefit costs or establishing reserves, an actuary reviewing LTC insurance plan experience should be aware of significant changes in such data. To the extent such changes are material, the actuary should apply such new data in a timely and appropriate fashion when reviewing the appropriateness of premium rates and reserves.

At a minimum, the certifying actuary was required to document the extent of compliance with ASOP No. 18.

Start or End Issue Dates Not Specified

The Uniform Standard requires that the policy form, the issue start date, and the issue end date, if applicable, be clearly stated in the certification document. Several certifications did not include all of the requisite information, which in some cases led to confusion as to which set of rates the certification applied (in the case of multiple rate schedules in the same SERFF filing), or whether or not the rate schedules were currently marketed.

The reviewing actuary asked the company to document the issue start date and end date to ensure consistency across the year-to-year certifications and future requested rate action.

COMMON TRIENNIAL MEMORANDUM ISSUES

There were several additional issues with the actuarial memorandums initially submitted in support of the 2018 triennial certifications that were common across multiple companies. As part of the review process, the Compact Office actuaries worked with the filing companies to bring the memorandums into compliance with the Uniform Standard, and these issues were generally resolved to the reviewing actuary’s satisfaction. The Compact Office plans to include discussion of these common triennial memorandum issues in the informational sessions for filers mentioned above.

No or Insufficient Description of Experience Data Source and/or Credibility

The standard requires that the memorandum supporting the certification include a detailed explanation of the data sources and review performed by the actuary prior to making the certification and also requires a description of the credibility of the experience data. This information must be provided for all data the actuary uses to support the certification. The reviewing actuary required the memorandum include this level of detail.

No Sensitivity Analysis Performed or Failure to Fully Describe Sensitivity Analysis

ASOP No. 18 Section 3.5 states “3.5 Sensitivity Testing—The actuary should perform sensitivity testing of reasonable variations in assumptions prior to finalization of assumptions. Where the data used for establishing actuarial assumptions have limited statistical credibility, the range of sensitivity testing should be expanded.” The memorandum must describe sensitivity testing and results of sensitivity testing assumptions. If the certifying actuary determines that no sensitivity

testing of one or more assumptions is justified, the memorandum must describe the actuarial basis for that determination.

Not Including Responses to Objections in the Memorandum

In response to objections regarding information that must be in the memorandum, several companies responded to the objections under the correspondence schedule in SERFF and did not update the memorandum. The reviewing actuary required the memorandum be complete and include the requested information provided in the response to objections with an updated signature and date of the certifying actuary.

CONCLUSION

The Compact Office provides its inaugural annual report on the annual and triennial certifications for Compact-approved individual long-term care insurance rate schedules for the 2018 reporting period. The Compact Office welcomes input from member regulators, including regulatory actuaries, regarding additional information it would like to see included in future reporting regarding the individual long-term care insurance rate schedule certifications.

APPENDIX I

BACKGROUND ON THE INSURANCE COMPACT AND INDIVIDUAL LONG-TERM CARE INSURANCE UNIFORM STANDARDS

The Insurance Compact

The Insurance Compact, known formally as the Interstate Insurance Product Regulation Commission, is an agreement between Compacting States to accept products approved by the Compact Office pursuant to detailed Uniform Standards, which have the force and effect of law and are binding in Compacting States. In order for Uniform Standards to be effective, they must be adopted by a minimum of two-thirds of the Compacting States, i.e., Commission members, and each Compacting State has a sovereign right to opt out of a Uniform Standard. For these reasons, the Uniform Standards are detailed and comprehensive, reflecting stringent form and actuarial requirements. Product filings undergo a thorough form and actuarial review for compliance with the relevant Uniform Standard(s).

Long-Term Care Uniform Standards

Requirements for filing an LTC product with the Compact Office are codified in several Uniform Standards:

- IIPRC-LTC-I-3-CORE, *Core Standards for Individual Long-Term Care Insurance Policies*
- IIPRC-LTC-I-3-APP *Individual Long-Term Care Insurance Application Standards*
- IIPRC-LTC-I-3-OC, *Individual Long-Term Care Insurance Standards for the Outline of Coverage*
- IIPRC-LTC-I-3-RATEI, *Rate Filing Standards for Individual Long-Term Care Insurance—Issue Age Rate Schedules Only*
- IIPRC-LTC-I-3-RATEM, *Rate Filing Standards for Individual Long-Term Care Insurance—Modified Rate Schedules*
- IIPRC-LTC-I-3-ADV, *Standards for Individual Long-Term Care Insurance Advertising Material*
- IIPRC-LTC-I-3-BEN, *Standards for Long-Term Care Insurance Benefit Features*
- IIPRC-LTC-I-3-AMEND, *Standards for Riders, Endorsements or Amendments used to Effect Individual Long-Term Care Insurance Policy Change*

The annual certification requirements which are the subject of this report are codified in Section 3 of the Uniform Standard IIPRC-LTC-I-3-RATEI, *Rate Filing Standards for Individual Long-Term Care Insurance (Rate Filing Standards)*, which is excerpted in [Appendix II](#). The *Rate Filing Standards* were originally adopted on August 13, 2010, and effective December 1, 2010, and amendments were adopted pursuant to the five-year review process on June 26, 2017, and effective October 10, 2017.

Annual and Triennial Submission Requirements

Section 3 of the *Rate Filing Standards* requires an annual submission subsequent to the initial rate filings for individual long-term care insurance policies. These requirements apply to any revised rate schedules that increase premium rates only with respect to new business, but they do not apply after the approval of rate schedule increase filings for in-force business.

Beginning for the first full year after which a rate schedule has been approved, *the Rate Filing Standards* require an annual certification as to premium sufficiency be prepared and signed by a Member of the American Academy of Actuaries on behalf of the company.

To be considered sufficient, the required certification varies by whether the premium rate schedule is currently marketed or is no longer marketed. For a currently marketed rate schedule, the actuary must certify that the premium rate schedule continues to be sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated. For a rate schedule that is no longer marketed, the actuary must only certify that the premium rate schedule continues to be sufficient to cover anticipated costs under best estimate assumptions.

If such a certification cannot be made, the actuary must state that the premium rate schedule or the margins for adverse experience may no longer be sufficient. The company must then submit to the Compact Office a plan of action, including a time frame, for the reestablishment of adequate margins.

In addition to the appropriate certification, the certification must include a brief description of the review performed in support of the certification. There is no prescribed approach to reviewing the premiums for sufficiency. Some common approaches are:

- Updating model assumptions to current best estimates and projecting cash flows over the life of the business.
- Sensitivity testing (shock different assumptions to measure impact) to see if premiums are still sufficient under moderately adverse scenarios.
- Review updated experience and compare with thresholds for moderately adverse; if updated experience is more favorable than moderately adverse, premiums could be considered sufficient.

A more detailed description of the review process must be included in a supporting memorandum. This information should include a detailed description of the review performed by the actuary in support of the statement made in the certification, as well as a description of any data sources and experience studies used in the development of assumptions, how the updated assumptions compare to those used in the original pricing of the product, a discussion of the credibility of any experience studies, and an explanation of any testing performed to determine current margins. Every three years, as the triennial submission requirement, this memorandum must be submitted for review by

the Compact Office with the annual certification. In all other years, the memorandum must be available upon request.

Certifications and supporting memorandums, if applicable, are due to the Compact no later than May 1st of the year following the calendar year for which the certification applies. For calendar year 2018, certifications were due to the Compact Office by May 1, 2019 for premium rate schedules approved by the Compact Office as of December 31, 2017. Triennial certifications were due for premium rate schedules approved in 2013 and 2016, respectively.

APPENDIX II

EXCERPT FROM INDIVIDUAL LONG-TERM CARE INSURANCE ISSUE AGE RATE SCHEDULES ONLY

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

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

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

A. GENERAL

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

B. ACTUARIAL SUBMISSION REQUIREMENTS

- (1) An actuarial certification prepared, dated and signed by 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 of the sufficiency of the premium rate schedule approved by the Interstate Insurance Product Regulation Commission including:
 - (i) For the rate schedules currently marketed,
 - a. The premium rate schedule continues to be sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated; or
 - b. If the above statement cannot be made, a statement that margins for moderately adverse experience may no longer be sufficient. In this situation, the company shall provide to the IIPRC, within 60 days of the date the actuarial certification is submitted to the IIPRC, a plan of action, including a time frame, for the re-establishment of adequate margins for moderately adverse experience. Failure to submit a plan of action to the IIPRC within 60 days or to comply with the time frame stated in the plan of action constitutes grounds for the IIPRC to withdraw or modify its approval of the Product Filing pursuant to Section 108 of the Operating Procedure for the Filing and Approval of Product Filings.

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

- (ii) For the rate schedules that are no longer marketed,
 - a. That the premium rate schedule continues to be sufficient to cover anticipated costs under best estimate assumptions; or
 - b. That the premium rate schedule may no longer be sufficient. In this situation, the company shall provide to the IIPRC, within 60 days of the date the actuarial certification is submitted to the IIPRC, a plan of action, including a time frame, for the re-establishment of adequate margins for moderately adverse experience.

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

- (b) A description of the review performed that led to the statement and disclosure of any planned management action relating to this statement.
- (2) An actuarial memorandum dated and signed by a member of the American Academy of Actuaries who prepares the information shall be prepared to support the actuarial certification and shall comply with ASOP 18 and provide at least the following information:
- (a) A detailed explanation of the data sources and review performed by the actuary prior to making the statement in § 3.B(1)(a).
 - (b) A complete description of experience assumptions and their relationship to the initial pricing assumptions.

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

- (c) A description of the credibility of the experience data.
 - (d) An explanation of the analysis and testing performed in determining the current presence of margins.
- (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.

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