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Long-Term Care News

SOCIETY OF ACTUARIES

LONG TERM CARE INSURANCE SECTION

Landing Spots: Offsetting premium increases through changes to inflation protection

By Mike Bergerson and John Hebig

page 5

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To join the section, SOA members and non-members can locate a membership form on the Long Term Care Insurance Section Web page at http://www.soa.org/ltc/

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Chairperson's Corner

Bob Hanes

As I complete my year as chair of the LTC Section Council and "exit stage left," I would like to thank all of the council members and friends of the council for their dedication to the section's mission and enthusiastic participation in the efforts we promoted and conducted. Thanks also go to the SOA staff members, Leslie Smith and Joe Wurzburger, for helping along the way to keep us moving within the appropriate boundaries. Vince Bodnar will succeed me as council chair. I wish him the best of luck in steering the ship.

As a rolling stone gathers no moss, the LTC Section stayed very active during the year. Some of the highlights included:

- LTC Section Survey: With Joe Furlong at the helm, the section conducted a membership survey to understand what's working well and where there is room for improvement. We learned that the section membership highly values the *Long-Term Care News* newsletter but does not routinely visit the LTC Section's webpage or use other social media resources (e.g., LinkedIn). Consequently, emphasis on relevant content for the newsletter will remain a priority and efforts to enhance the information on the section's webpage will be increased. Suggestions from the membership on valuable content for all outlets are encouraged!

- LTC Experience Study: An updated version of the LTC Experience Study covering calendar years 2000 to 2011 was completed and released. Many members of the section were involved in this important effort. The report is available on the SOA website at https://www.soa.org/Research/Experience-Study/ltc/default.aspx. Also available for downloading are the accompanying Excel workbooks. They allow the user to construct a wide variety of different analyses of the studied assumptions. Thank you to all who worked on this important project!

- Current LTC Industry Pricing Study: Jim Glickman and Roger Loomis led this creative and thought-provoking project to compare pricing assumptions for three different generations of LTC products. A key objective of the study was to evaluate the likelihood for future premium rate increases for the three generations. The evidence showed that by using actual experience and more conservatism, the apparent need for rate increases has been decreasing for each successive generation. Several presentations of the findings have been made at industry meetings and a paper is in progress.

- Regulator calls and presentations: The section helped to organize 2 presentations for the regulators who evaluate the myriad LTC filings to provide information on pricing and reserving for standalone LTC products and the inner workings of the growing-in-popularity LTC combination products. The objectives of these sessions were to enhance the regulators' understanding of the different products to assist them in their filing evaluations. We thank our contacts at the NAIC and the SOA staff for making these sessions possible.

- Connection with the Institut des Actuaires (IA): Etienne Dupourqué has been leading a joint effort between the Institut des Actuaires in France and the SOA—and our section in particular—to discuss and take advantage of each country's best practices related to LTC insurance. Key objectives of this effort include identifying LTC pricing methodologies that better reflect LTC risks, addressing regulatory concerns surrounding LTC, and strengthening the LTC industries in our respective countries. This effort is picking up steam, so please contact the section council if you would like to become more involved.

I hope 2015 has been a productive and re-invigorating year for your LTC efforts. Here's to more of the same in 2016! If you want to get more involved with the LTC Section, please reach out to any of the council members or the SOA staff and they will be more than happy to fulfill that request. ■

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Farewell 2015!

By Juliet Spector

As we say farewell to 2015, I would like to reflect on the various topics that we covered in the newsletter this year. I have had the opportunity to work with different perspectives and leaders in the LTCi industry. I am extremely proud of the variety and the depth of articles that we have been able to offer this year. In addition to our regular column, we delivered 17 articles this year. The topics we have covered this year have run the gamut and include:

1. Strategies To Manage A Closed Block Of Long-Term Care Business
2. LTC Transactions: After So Many Years of No Interest, Why Now?
3. Can Japan Serve as a Model for U.S. Health and Long-Term Care Systems?
4. Economic Capital for LTC for "One in 200" Events
5. 2015 National Academy of Social Insurance Roundtable
6. The Link between Retirement Security and Long-Term Care
7. Pseudodementia: An Insurable Condition
8. Benefits to Offset LTC Premium Increases: Evaluating Options
9. Soft Data: Another Side of the Story
10. Long-Term Care Planning & Insurance for High-Net-Worth Clients
11. Overview of the ILTCI Conference
12. Are Cognitive Constraints a Barrier to Annuitization
13. Joint French Institut Des Actuaries and Society of Acutaries Project on LTCI
14. Long Term Care Insurance Section Council 2015 Survey Results
15. Landing Spots: Offsetting premium increases through changes to inflation protection
16. LTC Combo Products: The challenges ahead
17. The IIPRC and Product Filing Submissions: Three examples

We also launched our cognitive corner this year. In addition to hearing from the editor and the chair of the council in the newsletters, this edition we also launched our "Upfront with the SOA Staff Fellow" series.

I would like to thank all of the writers that have contributed to this edition of the newsletter and shared their experience with their peers. As well as all of the writers that have contributed in 2015.

Our collective knowledge is greater than our individual experiences. As always, please continue to share your ideas and research in articles for the LTC Section newsletter.

I look forward to seeing what 2016 brings! ■

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Landing Spots: Offsetting premium increases through changes to inflation protection

By Mike Bergerson and John Hebig

Long-term care (LTC) insurance carriers continue to look for ways to balance premiums and costs—especially on older, closed blocks of business that were priced before significant LTC experience was available.

Premium increases are the most basic way to stop the hemorrhaging of losses and attempt to achieve plan solvency, but they are typically restricted by state insurance departments and are usually the least appealing option for customers. Insurers continue to seek creative solutions that support policy viability over the long term while minimizing the pain to insureds.

Inflation protection is one plan feature that can be changed to offset or eliminate higher premiums resulting from rate increases. Insureds typically have the option of reducing inflation protection at any time, even if no premium increase is on the horizon. In some cases, consumers may have overbought inflation protection given the current low-inflation environment, making inflation protection reductions significantly more attractive than premium increases or other benefit reductions.

One approach taken by insurers with increasing popularity is to offer a "landing spot." A landing spot is generally a new inflation protection level that partially or perfectly offsets a potential rate increase. In most cases, the policyholder's current daily benefit is kept at the same level, with the insured keeping the inflation protection accrued to the date on which the landing spot comes into effect. After that point, benefits increase at a new, lower inflation rate. Landing spots have also recently been used with other benefit characteristics, such as benefit period. This article focuses on inflation protection landing spots.

ADVANTAGES OF LANDING SPOTS

Regulators have looked with favor on the landing spot approach because it is simple to describe and easy for policyholders to understand. A priority of insurance departments is to require insurers to communicate clear options to customers.

Other inflation protection approaches that revert the daily benefit and maximum benefit pool to the amounts at issue have not been so favored. With a landing spot, policyholders get to keep inflation protection increases to date, avoiding a situation where insurers can be seen as taking something away that the insured has "earned."

Because of today's economic environment, it is possible that some policyholders have accrued more daily benefit than they need through their inflation protection. Those who are paying extra premium for 5 percent compound inflation growth may not end up needing the additional benefits. Of course, inflation rates over 5 percent are not unheard of, and LTC policies are long-term instruments, so risk and reward must be carefully evaluated by the customer.

Ultimately, landing spots are attractive to both policyholders and insurers. For policyholders, they are a clear, easy-to-understand alternative to increasing premiums and they do not represent an additional financial burden. For insurers, they are a way to provide customers with options while balancing risk and sometimes gaining the ability to release reserves.

DISADVANTAGES OF LANDING SPOTS

A landing spot as a change to inflation protection that perfectly or partially offsets a rate increase also has some disadvantages. First, the insurer must develop the new rates and riders and file them with insurance departments wherever they plan to offer the landing spot. This can be costly and time-consuming. They must make technical and legal decisions such as whether inflation protection changes should vary by attained age, which is due to the varying amounts of growth in daily benefits that can be expected by the time the landing spot is offered. They must also choose the level of refinement at which inflation rates should be calculated. Some choose to stick to the product level, but others may look deeper to more precisely vary landing spots based on benefit characteristics or issue age.

Once the landing spot is filed, policyholders accepting the change must be managed separately based on the rate of inflation in daily benefits. This adds to the company's administrative burden because these policy features were not generally anticipated when the administrative system was originally developed.

Additionally, in many cases insureds will not have purchased inflation protection at all, in which case a landing spot would not be a viable option. These insureds will either have to find other means of offsetting costs, pay the increased premium, or lapse their policies.

Finally, there is the matter of Medicaid partnership plans. The Long Term Care Partnership Program, a cooperative effort between state and federal governments, is intended to encourage people to purchase private LTC insurance and give more people access to it. The key benefit of partnership-qualified (PQ) policies is the protection of a policyholder's assets over the Medicaid coverage threshold.

However, in many cases, achieving PQ status requires a high level of inflation protection, typically 5 percent compound. Some states are relaxing these limits in response to changes in the marketplace. Figure 1 shows the example of Connecticut, which significantly lowered its inflation protection requirements early in 2015.

Figure 1: Connecticut Partnership Requirements, Effective April 13, 2015

Old Requirements	New Requirements
5 percent compound inflation protection	3.5 percent compound inflation protection
No inflation protection required if over age 65	No inflation protection required if over age 65 (no change)
Inflation protection required regardless of cumulative historical increases	No inflation protection required if cumulative rate increase exceeds 50 percent

Source: Regulation of the Department of Insurance Concerning Conditions for Approval to Participate in the Connecticut Partnership for Long Term Care, Sec. 38a-475-4. See http://www.sots.ct.gov/sots/lib/sots/regulations/recentlyadopted/ecopy_reg_6180.pdf.

Nevertheless, insurers should evaluate current PQ rules for relevant blocks of business before pursuing a landing spot. The impact of landing spots on the PQ status should be disclosed, where applicable, in policyholder communications regarding the rate increase.

THE CHALLENGE OF ADVERSE SELECTION

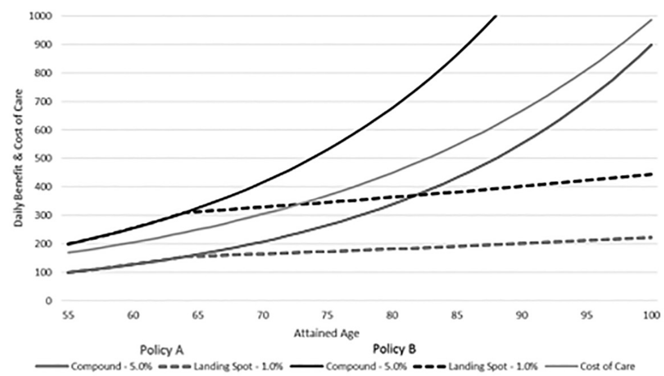
Under reimbursement policies, which are the most common in the LTC industry, insurers typically reduce costs with landing spots if the cost of care is higher than the daily benefit. If a policy currently has a higher daily benefit than the cost of care, a landing spot may not lower expected claims to the extent anticipated when an insured elects a landing spot.

The example in Figure 2 demonstrates how this works. The light gray line represents the cost of care. The dark gray line represents Policy A, with a $100 original daily benefit, and the black line represents Policy B, with a $200 original daily benefit. Policy A's daily benefit starts at a dollar amount that is lower than the cost of care, while Policy B's daily benefit starts higher than the cost of care. A compound growth rate of 4 percent is assumed for the cost of care while the daily benefits for both Policy A and Policy B inflate at 5 percent compound.

Both policies elected a landing spot option and reduced their inflation protection to 1 percent compound at age 65. The dotted lines represent the post-landing-spot daily benefits. The difference between the solid and dotted black and dark gray lines represents the potential savings from the landing spot. However, for Policy B, the insurer only recognizes savings from the light gray cost of care line down to the dotted line. The potential savings above the cost of care to the solid black line for Policy B represent savings, which are due to salvage, that would have been obtained even without the landing spot.

As illustrated in Figure 2, taking a landing spot can impact policyholders differently based on how their current daily benefits compare with the current cost of care. This introduces the opportunity for adverse selection, where policyholders that overbought inflation coverage are able to avoid a rate increase without sacrificing much coverage. It is important to consider this opportunity for adverse selection by accounting for policyholders most likely to accept a landing spot in lieu of a rate increase when calculating the estimated claim savings of the landing spot.

Figure 2: Potentials for Adverse Selection



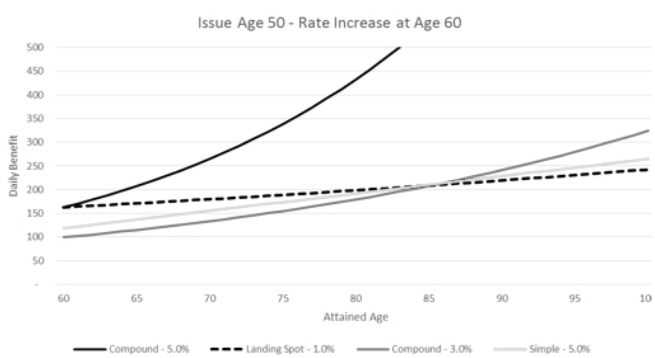
ALTERNATIVES TO LANDING SPOTS

Calculating and filing one or more landing spots is not a trivial undertaking, even for carriers that are actively engaged in the LTC market. LTC actuaries must develop the rates in compliance with state regulations, and forms or riders must be filed with state departments of insurance. Additionally, administrative systems must be updated to reflect the changes. For smaller insurers or those that are not actively engaged in the industry, these activities may be prohibitive in terms of time and cost required to file a landing spot.

There are simpler ways for insurers to accomplish the same goal as a landing spot without the challenge of calculating and filing an inflation rate that perfectly or partially offsets a premium increase. Most carriers already have both simple and compound riders and rates on file, and contracts typically allow insureds to reduce inflation protection from a higher level to a lower level at any time. In combination with a reduction in daily benefit, it is possible in many instances to use a change from compound to simple inflation protection to offset or eliminate a premium increase. Similarly, a policyholder may switch to a lower compound inflation rate, such as 3 percent compound inflation, if one is already on file for the policy.

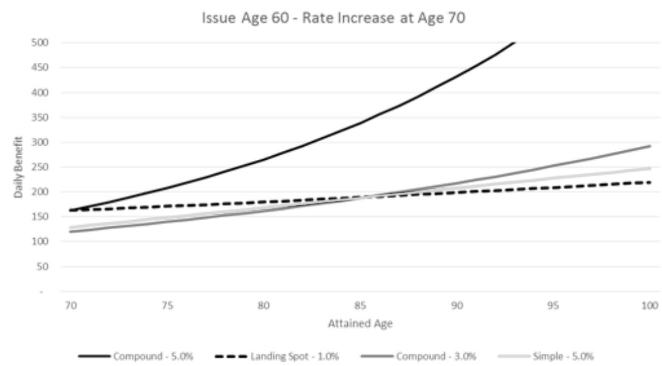
Figures 3 to 5 show three hypothetical scenarios to demonstrate this approach. In each case, the solid black line represents the original plan, with the daily benefit level accrued to date and 5 percent compound inflation protection. The dotted black line represents the landing spot option, which is assumed to be 1.0 percent compound inflation in this example. The dark gray line shows a landing spot alternative in which the daily benefit level accrued to date is decreased and inflation protection is changed from 5 percent compound to 3 percent compound. The light gray line is a landing spot alternative in which the daily benefit amount is decreased and the inflation protection rate is changed from 5 percent compound to 5 percent simple. Each figure shows a different policy issue age and assumes that the rate increase and landing spot offer comes 10 years from policy issue. Tables corresponding to each graph show the key statistics for each graph.

Figure 3: Issue Age 50, Rate Increase at Age 60



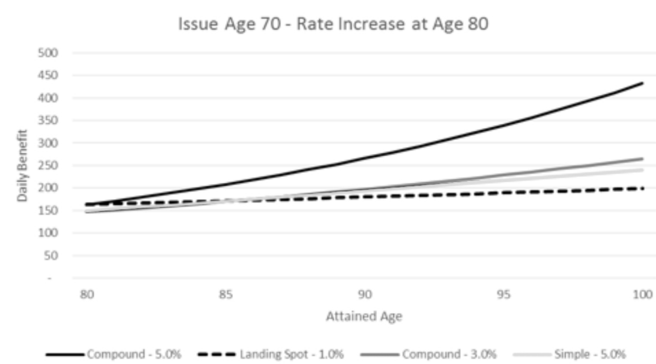
Attained Age	Daily Benefit			
	Compound - 5.0 percent	Landing Spot - 1.0 percent	Compound - 3.0 percent	Simple - 5.0 percent
60	163	163	99	119
65	208	171	115	137
70	265	180	134	155
75	339	189	155	174
80	432	199	179	192
85	552	209	208	210
90	704	220	241	228
95	899	231	280	247

Figure 4: Issue Age 60, Rate Increase at Age 70



Attained Age	Daily Benefit			
	Compound - 5.0 percent	Landing Spot - 1.0 percent	Compound - 3.0 percent	Simple - 5.0 percent
70	163	163	121	129
75	208	171	140	148
80	265	180	162	168
85	339	189	188	188
90	432	199	218	208
95	552	209	252	227

Figure 5: Issue Age 70, Rate Increase at Age 80



Attained Age	Daily Benefit			
	Compound - 5.0 percent	Landing Spot - 1.0 percent	Compound - 3.0 percent	Simple - 5.0 percent
80	163	163	147	148
85	208	171	170	171
90	265	180	197	194
95	339	189	228	216

In each example, the landing spot is replicated fairly closely, especially at the key claim ages of 80 and beyond, with the other options. These examples show that it is possible to achieve the benefits of a landing spot without the burden of having to develop and file one. This could be very appealing to carriers that do not have the expertise needed to file the rates and forms associated with a landing spot. Although the landing spot is replicated fairly well with the inflation protection reduction and reduction to daily benefit, this benefit reduction strategy is not as easy for a customer to understand and may not offset the rate increase perfectly.

LOOKING FORWARD

As insurers continue to seek ways to manage spiraling costs on older LTC blocks, some have turned to landing spots as an option for customers to offset or eliminate premium increases. Recognizing the need for changes to these policies, regulators have relaxed some requirements to make inflation protection changes more viable. At the same time, filing landing spots is complex, and it can be easier for companies to use a combination of inflation protection reductions, using previously filed inflation protection riders, and daily benefit reductions in order to replicate the results of a landing spot. Today's plans tend to be priced more accurately, so hopefully the need to change in-force plans will abate over time. Until that point, insurers must carefully balance convenience for policyholders, the cost of changes, and compliance with regulatory requests. For some—not all—a landing spot can be the most attractive option. ■

[F]iling landing spots is complex, and it can be easier for companies to use a combination of inflation protection reductions, using previously filed inflation protection riders, and daily benefit reductions in order to replicate the results of a landing spot.

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Up Front with the SOA Staff Fellow

By Joe Wurzburger

It has been roughly one year since my role began as staff fellow at the SOA, and what a whirlwind that year has been. Financing long-term care remains a significant challenge to society, and the SOA's Long Term Care Section has asserted itself as a key player in addressing this challenge.

There are several questions concerning our industry that the LTC Section addressed head-on during 2015:

1. Are LTC insurance products, currently being sold, priced appropriately?
2. How can LTC actuaries and state regulators work together more collaboratively?
3. What can the U.S. LTC industry learn from elsewhere in the world (and vice versa)?
4. What are some concrete, innovative ideas that can positively impact the future of the LTC industry?

Let's take a look at these one-by-one.

1. Are LTC insurance products, currently being sold, priced appropriately?

Earlier generations of LTC policies had to be priced with little to no prior data on which to base assumptions. As a result, a significant portion of these early-generation policies have experienced at least one round of rate increases. While LTC actuaries have more experience data to more appropriately create assumptions and thus accurately price products, the rate increases on earlier products have become very visible in the media and are often misunderstood. Many people believe that buying a LTC insurance policy today is risky because they think it is highly likely that their policies will also experience rate increases.

A subcommittee of the LTC Section took it upon themselves to dispel this myth. They collected key assumptions used by a majority of marketplace insurers. Then they applied multiple techniques including statistical analysis, predictive modeling, and actuarial judgment. With this process, the group has been able to show that current generation LTC products are unlikely to need rate increases.

The results are fascinating and have wide-ranging implications. For consumers, they hopefully instill some confidence in buying the product. For companies who exited the market (or never entered in the first place), hopefully this study provides some inspiration to get back in the market.

These findings have been presented several times already, including at the 2015 ILTCI Conference and at the SOA's Health and Annual Meetings. The next step is the creation of a formal report among other steps to give this study a wider dissemination.

2. How can LTC actuaries and state regulators work together more collaboratively?

The LTC Section took advantage of several opportunities to have a dialogue with regulators. Open communication between the two parties is important due to the complicated nature of the product.

In August, the Minnesota Department of Commerce held a hearing on LTC and invited the SOA LTC Section to participate. Vince Bodnar and I presented at the event and came away very impressed by the event itself, appreciative of the opportunity to participate, and encouraged by the open dialogue that this fostered between various stakeholders: regulators from many states—not just Minnesota—along with consumers, actuaries, brokers/agents, etc.

Additionally, the LTC Section hosted two free webcasts for regulators. The first of these occurred in late July and presented a somewhat basic "LTC 101" type of message. Then in response to feedback from the regulators themselves, a follow-up webcast occurred in October and focused on combo products. Feedback from the two webcasts was favorable, and we hope this open dialogue between the section and regulators continues.

3. What can the U.S. LTC industry learn from elsewhere in the world (and vice versa)?

A very exciting project that has been ongoing throughout 2015 has been the collaboration between American and French LTC actuaries. I always enjoy the chance to work with other actuarial organizations, and this project has provided a great opportunity to work with France's Institut des Actuaires.

Through a series of regular calls, LTC actuaries from the United States and France have taken turns teaching each other about their respective country's LTC markets, providing invaluable opportunities to learn from each other. As the project has evolved, three subgroups have also formed to focus on specific aspects of actuarial work in each country: pricing, reserving, and risk monitoring.

This group has shared some of the lessons they've learned in various forums, including at the 2015 SOA Annual Meeting & Exhibit in October and again in Paris in November. Plans for 2016 are taking shape and should continue to provide insight into similarities and differences between the world's two largest LTC markets.

4. What are some concrete, innovative ideas that can positively impact the future of the LTC industry?

As it turns out, I spent my actual one-year anniversary with the SOA at the LTC Think Tank, at which this question took center stage. Innovation really was the key word as a diverse group of leading LTC professionals (not just actuaries) converged near Chicago to participate in a 1.5-day exercise in collaboration, innovation, and brainstorming.

Participants were encouraged to strive for quantity of ideas on day one—there was to be no judgment. On day two, these ideas were narrowed down to a more manageable number and built out in a way that would make them actionable. From there, further work is being done to consolidate and organize these into four to six concrete ideas that can positively impact the LTC industry.

From here, next steps are being determined but are likely to include a report and multiple presentations (meetings, webcast, etc.). The amount of creative energy in the room for those two days was beyond my (already high) expectations, and every effort is being made to continue the momentum from the event so that the results are real and noticeable in the profession.

These are just a few highlights from a year about which the LTC Section should be very proud. If each subsequent year can meet (or dare I say exceed?) this lofty precedent, it will confirm for me what I think I already know: I'm very fortunate to have this role. These are exciting times for the LTC industry, and those of us lucky enough to be right in the thick of it are in for a thrilling ride.

Here's to another exciting year in 2016. ■

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LTC Combo Products: The challenges ahead

By Barbara Grassie and Christine Michals-Bucher

Indisputably, long-term care (LTC) insurance is a valuable product to consumers. People are living longer and often need coverage to fund their care needs and age with dignity. From the policy holders' standpoint, LTC can also be an expensive option because it could require premium payments for decades before collecting any claim benefits. And having already invested so heavily into the policy, people often feel a sense of entitlement and expect a guaranteed payback at some point in time.

Today, however, most adults do not have any LTC insurance coverage. Thus, the LTC market provides real opportunity for companies looking to grow their premiums in the senior health insurance space. However, the challenges facing insurers trying to sustain profitable standalone LTC products have been well documented: mispricing due to erroneous assumption of lapse and morbidity rates, rising health care costs, and persistently low interest rates to name a few. As seen with earlier generations of LTC, the claim service delivery methods will continue to evolve and change. Insurers need to be able to predict what care services will need to be provided, and price for them today. To solve the uncertainties of traditional LTC insurance, life insurance products that offer LTC protection may be the natural transition.

CAN COMBO PRODUCTS BE THE ANSWER FOR BOTH THE CONSUMERS AND INSURERS?

From the optics of the value for their long tail premiums, combination ("combo") products look and feel right. From consumers' standpoint, combo products successfully mimic their changing life scenarios. The life coverage during the working years provides insurance for income replacement in the event of an unexpected death while the LTC rider covers care assistance in the event of loss of independence while aging. Consumers are guaranteed to get value out of their products thus eliminating the entitlement aspect of the traditional stand-alone LTC.

However, these combo products do not come without challenges. By nature, there are significant differences in life and LTC insurance that create challenges in managing combo products from both an actuarial and administrative perspective:

- Current and guarantee rates versus rate increases
- Mortality and morbidity charges
- One time versus ongoing claims
- Beneficiaries versus Claimants
- Cash Values

Let's examine some of the challenges of combo products in more detail.

Challenge 1: What is the core product?

Oftentimes, it is not completely clear what the core product within a combo policy is. As a result, how regulators and the market treat such products needs to be further defined. To date, combo products lean toward the core product being more of a life insurance policy. Current combo products have cash values, net amount of risk calculations and other life insurance characteristics and tax rules. Life insurance operates using current and guaranteed mortality/insurance rates. That is not an LTC concept which follows the "rate increase" method based on class and issue state of the policy. Will they now be looked at from a guaranteed and current view rather than rate increase filings? This is not that easy to do as we are still learning about the real costs of LTC. Ultimately some hybrid approach will need to emerge and develop.

Challenge 2: Mortality/Morbidity.

Due to the uncertainty of what the core product is, there are challenges around how mortality and morbidity charges should be handled. One option is to charge mortality rates and a cost for a rider. Another option would be to use a blended rate. Assumptions would need to be set to get to an adequate blended rate. Pricing can get quite complicated.

Underwriting combo products also presents a challenge because life and LTC underwriting have competing aspects. Assumptions and criteria will need to be set to determine which factors are most critical to balance these competing underwriting requirements. If rated, is it for both charges or can it be rated for only one category?

Also, insurers will need to determine how waiver of premium will apply—what triggers each coverage going on and off waiver of premium.

Challenge 3: Administration of Combo Products

Combo products need to be able to support both indemnity and reimbursement claim payouts. This is a problem for many insurance companies because they do not have a system to administer two product lines together. In today's world, an insurer that writes both life and LTC coverages likely administer them on two separate systems, not being able to comingle the administrative base plans and riders onto one system.

There are some life and annuity products in the market that are considered "combo" products with an LTC rider, but really operate more as "Accelerated Benefit" products. Based on certain triggers and a physician's assessment or statement, a lump sum payment is made. In most cases, this is being handled administratively via manual workarounds.

Challenge 4: Claim Administration

Because this is a combo product, there are two different types of claims, both of which can occur. In most combo products there is some type of relationship between the life insurance benefit and the benefit amounts available for LTC. Usually the trigger for an LTC claim impacts the available amount of the life insurance benefit. This relationship is not built into many administration systems or claims paying systems. And again, in order to support a combo product, manual processes and manual calculations become the workarounds. This approach is inefficient and non-scalable and most importantly bears a significant amount of "human error" risk. The industry will need to consider investments in technology to support the next generation of combo products.

Combo products seem to have a place in the market for both consumers and insurers. However, the insurance industry needs to work through the challenges it faces in combining these two distinct products into one policy. This article just scratches the surface of combo product considerations. Investments in actuarial and administrative tools are required to position the insurance industry for a long term success in this product category. The good news is that we are at the forefront to get it done right. ■

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The IIPRC and Product Filing Submissions: Three examples

Karen Z. Schutter and Robert Eaton

The Interstate Insurance Product Regulation Commission (IIPRC) is transforming the manner in which companies prepare a product filing submission, submit for regulatory review and approval, and then implement products through their systems and distribution channels. We explore in this article the uniform standards for three asset-based insurance products and discuss trends and potential changes coming soon.

BACKGROUND

In March 2004, the "Compact" was created when Colorado and Utah enacted the model legislation for insurance products covering life, annuities, long-term care, and disability income.[1] Today, 43 states and Puerto Rico have enacted the Compact, representing a combined 75 percent of the nationwide premium volume for these asset-based insurance products. The IIPRC has approved over 4,000 insurance products for over 200 insurance companies since commencement of its operations in 2007.[2]

The Compact is an agreement between states that accept products approved by the IIPRC pursuant to detailed uniform standards, which have the force and effect of law and are binding in those states. In order for uniform standards to be effective, they must be adopted by a minimum of two-thirds of the IIPRC members, and each 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, if applicable, actuarial review for compliance with the relevant uniform standard.

Over 90 uniform standards are available for companies to use to file products with a wide variety of product lines, benefit features, and combinations, including individual life, annuities, long-term care, and disability income, along with group term life for employer groups. The development process for uniform standards allows for input from regulators, industry professionals, and consumers at multiple stages of development.

Accelerated death benefits

The Individual Standards for Accelerated Death Benefits (ACCDB) were originally adopted in 2007 and provide for the advanced payment of death proceeds under a life insurance policy for the occurrence of a qualifying event.[3] In 2014, the IIPRC adopted the accelerated death benefit uniform standard for group term life and updated the individual ACCDB uniform standard under its five-year review process. While these uniform standards follow many of the provisions in the National Association of Insurance Commissioners (NAIC) Accelerated Death Benefits Model Regulation, other provisions recognize chronic illness triggers, along with federal requirements for tax qualification under Section 101(g) of the Internal Revenue Code (IRC).

Under the ACCDB standards, a terminal illness must always be included as a qualifying event as a benefit. Other qualifying events may also be included, such as chronic illness; a medical condition requiring extraordinary medical intervention; continuous and permanent institutional confinement; and specified medical conditions drastically limiting life span. The filing usually consists of separate riders for terminal illness, critical illness, and/or chronic illness. Regarding chronic illness, the ACCDB standards now have two available definitions. The definition in the original version continues if there exists a permanent inability to perform a minimum of two activities of daily living (ADLs) without substantial assistance or permanent severe cognitive impairment. There is also an alternative definition following IRC Sections 7702B and 101(g). The ACCDB standards require the option for payment of the benefits in a lump sum and may also provide for periodic payments, recognizing additional requirements for tax-qualified ACCDB payments.

Products filed under the ACCDB standards cannot be described as long-term care insurance or as providing long-term care benefits. One of the actuarial requirements is a certification that the value and premium of the accelerated death benefit is incidental to the life coverage. While the standards prohibit a premium or cost of insurance charges for a terminal illness qualifying event, it requires for all other qualifying events a certification demonstrating that the value of the accelerated death benefits provided on an aggregate basis does not exceed 10 percent. The formula required in the demonstration must show the relationship between the net single premium for the base policy benefits assuming the non-death accelerated death benefit trigger and the net single premium for the base policy benefits assuming there is no accelerated death benefit.

Stand-alone long-term care insurance

Insurers that want to provide long-term care insurance or long-term care benefits derived from a life or annuities policy generally file under the IIPRC individual long-term care (iLTC) uniform standards. In 2010, the IIPRC adopted a set of 10 uniform standards for the individual long-term care insurance product line.[4] The uniform standards were the subject of multiple rounds of public comments and discussion with input from Compacting States, consumer representatives, state legislators, and company representatives. The outcome of this process was a set of consumer-oriented product and rate filing requirements promoting rate stabilization across the participating Compacting states. Thirty-nine of 44 Compacting states are participating in the iLTC standards and accepting Compact-approved products in their markets. In 2010, Hawaii and Indiana exercised their sovereign right to opt out of the iLTC uniform standards, because of circumstances unique to their respective states. In their enacting Compact legislation, New Jersey, Nevada, Arizona, and Montana included an opt-out of the standards for long-term care, though Nevada removed its opt-out two years after joining the Compact.

A requirement in the Compact unique to long-term care insurance specifies that the uniform standards provide the same or greater consumer protections than protections set forth in the NAIC Long-Term Care Insurance Model Act and Model Regulation.[5] The uniform standards require the following consumer protections, among others: benefits trigger on inability to perform not more than two ADLs; exclusions based on mental and nervous disorders are prohibited; preexisting condition exclusions are limited to six months; minimum offer requirements (inflation, issue age rates, home health care) must be included; there must be a minimum home health care coverage of 50 percent of nursing home coverage; and minimum readability requirements (Flesch score of 50) must be met. With respect to rates, the uniform standards require the company to file an actuarial memorandum, rate schedules, pricing assumptions, and annual rate certifications. The IIPRC maintains a spreadsheet of sample assumptions on its website to help filers achieve the level of detail required. The IIPRC carefully reviews this information and will require a demonstration that margins do not deviate materially across issue ages.

During the development of the uniform standards, member commissioners had significant discussion about the level of rate increases being sought on closed blocks of business and added more safeguards into the uniform standards to ensure companies are regularly assessing the adequacy of their rates on in-force and new business. Once the IIPRC approves a long-term care product, an annual actuarial certification is required to be filed by Dec. 31 of each year after approval. Based upon a company's review of the experience and assumptions, the actuary must certify that the approved rates continue 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 within the approved margins. Companies with approved iLTC filings are further required to provide an updated actuarial memorandum every three years as well as an action plan for establishing adequate margins when they are unable to make the required actuarial certification.

The uniform standards require a provision in the form that the insurer will provide an advanced notice of 60 days to policyholders prior to potential rate increases. Insurers seeking rate increases on approved rate schedules (other than rate schedule increases for new business) cannot introduce a new rating characteristic that was not included as a rating characteristic in the initial rate filing. Because of the concern of significant rate increase requests, the uniform standards provide that requests to increase Compact-approved rate schedules in excess of 15 percent will be approved by the Compacting states, with the IIPRC providing an advisory review under the uniform standards. The IIPRC continues to review rate increase requests of 15 percent or below.

The IIPRC has provided detailed guidance for insurers for submission of individual long-term care product filings in its Filing Information Notice 2013-2.[6]

Combination products

Insurers can also use the iLTC uniform standards to file accelerated death benefit riders for long-term care services and enhanced or extensions of iLTC benefit riders. With respect to the life insurance policy, the filer will comply with the applicable uniform standards for the life product and will use the iLTC uniform standards to develop the rider, outline of coverage, and supporting documentation. For benefit riders where the payment of benefits is contingent upon receipt of long-term care services, and such payment does not exceed $1 of long-term care benefit for each $1 of reduction in death benefits, the rate filing uniform standards do not apply. For extension of benefit riders or riders that do not fit the dollar-for-dollar exemption, rate schedules and supporting actuarial information must be submitted.

TRENDS AND CHANGES ON THE HORIZON

The IIPRC has approved approximately 4,000 products since inception of its product operations in 2007. Life products comprise 55 percent of the filing volume, annuities 29 percent, long-term care 14 percent, and the remainder a small but growing percentage for disability income.[7] The IIPRC sees a high volume of riders under the Additional Standards for Accelerated Death Benefits. With respect to individual long-term care insurance products, the IIPRC has approved more than 20 full products since December 2010 and more than double that amount with respect to the combination riders for long-term care benefits. The IIPRC utilizes the online NAIC System for Electronic Rate and Form Filing (SERFF) Filing Access, which insurers may use to locate Compact-approved product filings.

Pursuant to its rules, the IIPRC is required to conduct a periodic five-year review of its Uniform Standards, Rules and Operating Procedures in a manner similar to what is regularly required by state regulatory agencies.[8] Under the IIPRC's five-year review process, the Commission determines the need for continuation, repeal, or amendment of a rule based primarily on whether circumstances or underlying assumptions have changed since the last time the rule was adopted, amended, or reviewed.

The iLTC uniform standards, adopted in 2010, are currently in the five-year review process, with written comments being accepted until Dec. 1, 2015.[9] The IIPRC will then summarize these written comments as well as include its own suggested changes and clarifications, based on application of the uniform standards in its product filing operations. Once the IIPRC's report and recommendation are transmitted to the Product Standards Committee (PSC), there will be an opportunity for additional public comments including on proposed changes the PSC may recommend to the Management Committee and IIPRC during the process.

As indicated earlier, the iLTC uniform standards require consumer protections at least as great as those in the NAIC Model Regulation. In the fall of 2014, the NAIC updated the LTC Insurance Model Regulation, and these changes will be considered during the five-year review process to determine if they should be included in the uniform standards. The following updates to the Model Regulation, with respect to actuarial and rate requirements, will likely be considered in the five-year review:

- **Margin to claims:** The 2014 Model Regulation requires the actuary to include at least a 10 percent margin for adverse claims in initial pricing. The actuary may potentially file a lower margin, provided that claims volatility—a key component of rate stability—can be addressed through means outside the explicit claims margin in premiums. Under the new Model Regulation, the actuary is also required to state the source of the margin, for instance as a margin applied to the lapse, incidence, or continuance assumption.

- **Reserve sample calculation:** The 2014 Model Regulation requires the actuary to provide details or a sample calculation of the reserve amounts to be held.

- **Requested rate increases:** Under the 2014 Model Regulation, rate increases requested by the company may be less than those actuarially justified if the actuarially justified increase is specified and if the commissioner deems that the lower rate increase is in the best interest of the policyholder.

The IIPRC provides a wide array of information on its website, at http://www.insurancecompact.org, including: all adopted uniform standards with applicable checklists and drafting history in the Record section; uniform standards that are being considered or are open for comment in the Docket section; and useful filing information for insurers in the Insurance Company Resources section. The IIPRC team, including the form reviewers and actuaries, are also a valuable resource and work with filers both before and during a product submission to answer questions and provide guidance with respect to the uniform standards and filing process.

ENDNOTES

1. NAIC (July 2003). Interstate Insurance Product Regulation Compact. Model Law, 692. Retrieved Oct. 20, 2015, from http://www.insurancecompact.org/documents/compact_statute.pdf.
2. IIPRC (July 31, 2015). IIRPC Product Filing Statistics. Retrieved Oct. 20, 2015, from *http://www.insurancecompact.org/documents/member_resources_prod_stats.pdf.*
3. The current and original versions of this uniform standard, along with Standards History can be found at *http://www.insurancecompact.org/compact_rlmkng_record.htm.*
4. These uniform standards, along with Standards History can be found at http://www.insurancecompact.org/compact_rlmkng_record.htm.
5. See Model Compact, Article IV, Section 2, at *http://www.insurancecompact.org/documents/compact_statute.pdf.*
6. IIPRC (February 5, 2013). Filing Information Notice 2013:2: Individual Long-Term Care Filings. Retrieved October 20, 2015, from h*ttp://www.insurancecompact.org/documents/FIN_2010-3.pdf.*
7. IIPRC Product Filing Statistics, ibid.
8. IIPRC (2013). Record of Uniform Standards and Operating Procedures adopted by the Commission. Retrieved October 20, 2015, from *http://www.insurancecompact.org/compact_rlmkng_record.htm.*
9. See Phase 6 for Uniform Standards under Five-Year Review of Uniform Standards, Rules and Operating Procedures on the Docket, at *http://www.insurancecompact.org/compact_rlmkng_docket.htm.*

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