Rate Increases in Three Easy Steps: A Summary of the 2016 Milliman LTC Rate Increase Survey

By Missy Gordon and Shawn Stender

In the realm of long-term care (LTC) insurance, no topic has garnered more attention in recent years than rate increases. State departments of insurance (departments) want to ensure that companies are financially sound to pay future claims, creating an environment that allows companies to manage risk (otherwise, the market goes from small to none), while also balancing "fairness" to policyholders. Companies navigate intricate and diverse regulations across states as well as the administrative complexities of implementing increases and assisting policyholders. They do this while balancing what the company needs financially and the burden on policyholders. Policyholders weigh alternatives to rate increases, potential for future increases, and affordability against their investments to date and the continuing perceived value of the insurance. With so many stakeholders participating in this complex balancing act, it feels as though the industry is perpetually searching for "the answer" to this complex situation, for which there may not be a one-size-fits-all solution.

For over a decade, we have seen a wide array of issues and solutions as we've assisted numerous companies with countless rate increase filings. Our clients often ask what our experience has been with other companies and/or approaches to certain issues. We took a leap with the hope that others may be interested too, and performed a comprehensive survey in September 2016 related to LTC rate increase filings to summarize the "state" of the current environment.

This article provides not only a summary of the results of the survey, but also additional commentary from our experience with rate increase filings. As the responses to the survey are company-specific, the information provided in this report may not be true for all companies or situations. Commentary offered throughout this article includes the authors' opinions, which do not necessarily represent those of Milliman. It reflects recent experience with rate increase filings and the current regulatory environment, which is fluid and subject to change. Full details, limitations, and qualifications of the results from the survey appear in the report found on Milliman's website (http://www.milliman.com/insight/2017/Long-term-care-rate-increase-survey/).

IT'S AS EASY AS 1, 2, 3 … RIGHT?

Twenty-six companies participated in this inaugural survey, representing $8 billion in annualized premium (73 percent of the industry by premium volume). All participants, except two, filed for at least one rate increase on their LTC business. The process of filing a rate increase can be daunting and, within the process, companies (and regulators) may have countless questions, including but certainly not limited to:

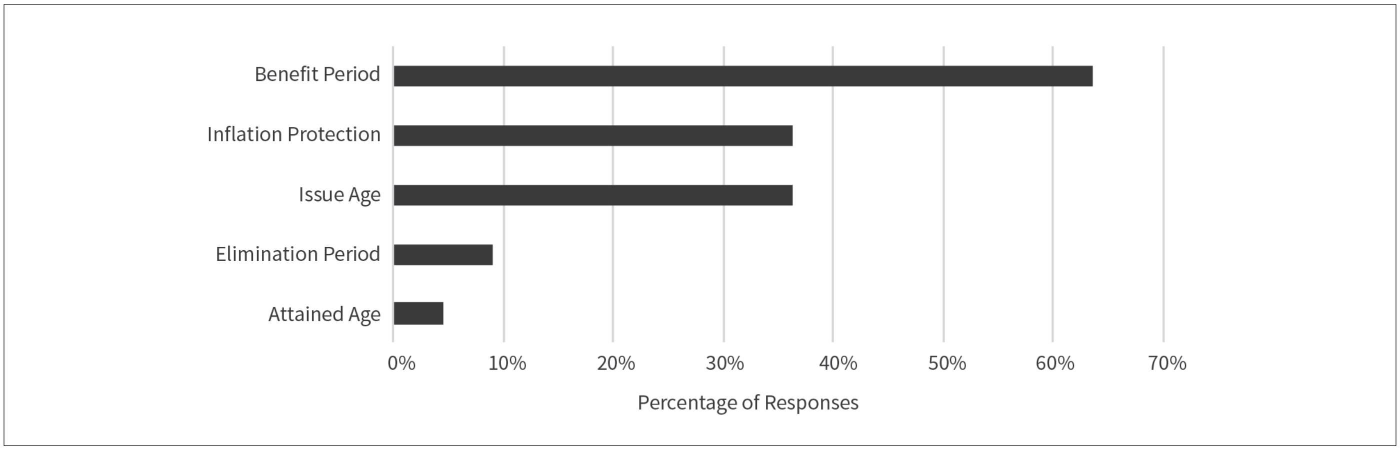
- How much is justified, needed, and can be requested? How does this change for business that is subject to rate stability regulation? Should the rate increase vary and, if so, how? Should it be phased in?
- How will regulators react? Are meetings with regulators helpful? What expectations should insurers have relative to time to approval and amount?
- How will policyholders react? What alternatives to the rate increase can be offered to policyholders?

The results of the survey can be helpful in addressing these questions and many more. We summarized the answers into three broad steps of the rate increase process: setting the rate increase, filing it with the state departments, and communicating it to policyholders. In pursuing a rate increase there are a plethora of considerations, so this three-step process is certainly not comprehensive!

STEP 1: SETTING THE RATE INCREASE

Adverse deviations in experience and projections from what was expected in the original pricing can trigger a rate increase. It was no surprise that higher persistency was the most common reason for rate increases, followed by adverse morbidity, and then lower interest rates.

Figure 1
Varied Rate Increase Request



Note: Responses total more than 100% as more than one parameter may apply to a filing.

When determining a rate increase strategy, the most common factors considered include the actual-to-expected lifetime loss ratio and the actual-to-expected future loss ratio. More than half of the companies calculate the rate increase by targeting a lifetime loss ratio where only future premiums are increased. Additionally, management strategy or philosophy was a factor for about half of the companies (i.e., it wasn't just the numbers).

The impact of adverse deviations may differ by rating cell depending on the reason for the rate increase. Because the impact of a rate increase can vary by issue age and/or benefit feature, companies face additional considerations, such as credibility of the variations, administrative complexities, and definition of class, to name a few. Some companies choose to vary the rate increase request to recognize differences in experience, while others request a uniform increase. That said, even if a company requests a uniform rate increase, some departments prefer the rate increase to vary by benefit or issue age.

It is worth noting that while most companies (91 percent) have the capability to vary rate increases by several parameters, only a little more than half actually varied the increase, because doing so can still be very cumbersome and costly. Figure 1 provides the parameters by which the requested increase varies within a filing for the 14 companies with a varied increase.

Another alternative to requesting a "standard" uniform rate increase is for companies to phase in a rate increase over multiple years; however, only 14 percent of companies used this approach for their generic requests. That said, while it may not be common to request a phase-in up front, it oftentimes becomes a negotiation point for companies and/or departments. When an increase is phased in, a larger cumulative increase is needed to be actuarially equivalent to a single increase.

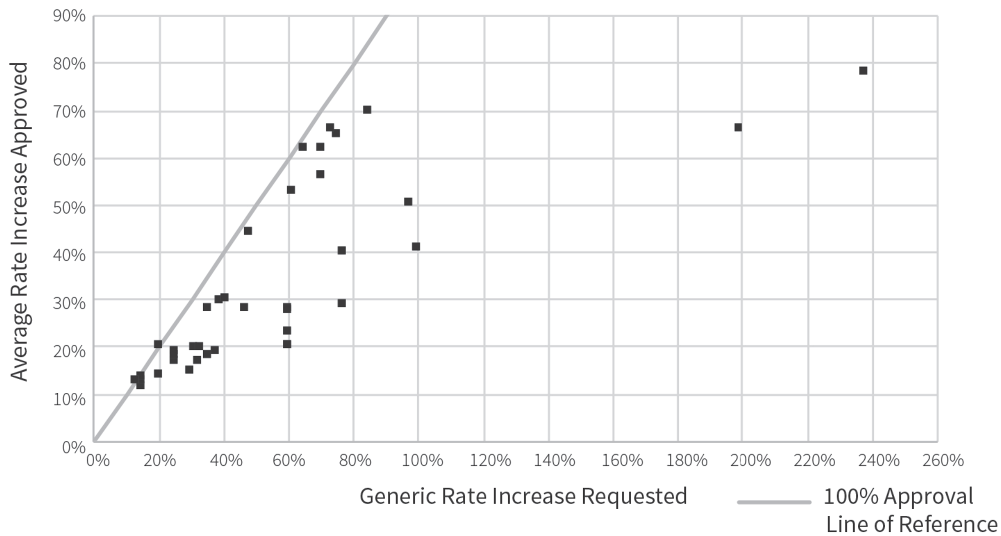
Another complexity faced by companies in setting a rate increase request is how to deal with complex requirements such as rate stability regulation (i.e., dealing with policies issued under and making a certification to rate stability). Companies considered this in setting the increase request, and most companies requested the same increase for policies subject to loss ratio regulation and rate stability regulation. That said, for the minority that varied the rate increase request for policies subject to rate stability, companies generally requested a higher increase on the rate stability business.

STEP 2: FILING WITH STATE DEPARTMENTS

Yes, the process of filing a rate increase may be grueling, but about 75 percent of the filings reported by companies received a full or partial rate increase approval. To show how widely the requested and approved increases can vary, Figure 2 provides for each filing the "generic" nationwide rate increase request made by companies versus the average rate increase approved. The generic request is what was submitted to all jurisdictions, except where jurisdiction-specific modifications to the request are needed.

To obtain these rate increases, companies needed to comply with various requirements, whether regulatory or not, from departments. Some of the common requests from departments included reducing the increase amount, phasing in the increase, revising the policyholder notification letter, and offering a rate guarantee for a number of years. For more cumbersome jurisdictions (top 10 can be found in the report), organizing in-person meetings with departments may be productive in the sense of obtaining an approval, a higher rate increase, and/or faster time to approval.

Figure 2
Average Rate Increase Request Approved by Amount of Generic Request



Reasons for a reduced or disapproved rate increase vary greatly by state, but the most common are due to a political cap or non-actuarial reason. While companies reported that the majority of decisions made on increases were some form of approval, it is worth noting that this likely was in the form of a reduced increase; only a small percentage of filings were outright disapproved. Of the filings disapproved, companies cited that 63 percent of disapprovals were the result of disagreement with the departments on justification of the rate increase. While only a fraction of companies chose to request a phased-in rate increase up front, 81 percent of companies reported that departments required a phase-in for approval.

Figure 3 provides the most common reasons cited by the jurisdictions for reducing or denying a rate increase.

Changes in the review process for departments are fluid, which makes it difficult to predict the outcome of a rate increase request. As seen below, departments depend on a myriad of analyses and reasoning for reducing or denying an increase. One of these limiting factors is whether the request is "recouping past losses"—companies reported that 37 percent of disapprovals related to this criterion. Of the companies indicating that their actual historical loss ratio exceeded what was expected in pricing, 65 percent determined the rate increase in such a way that it excludes the past losses. There were multiple approaches companies used to exclude the past losses, which are summarized in the report. The

Figure 3
Jurisdiction Reasons for Rate Increase Reduction or Disapproval

Reason	Percentage of Responses
Requested increase is unreasonable (i.e., political cap/non-actuarial)	84%
Disagreement on justification of the rate increase	63%
Historical loss ratio too low	56%
Subsidizing other jurisdictions	40%
Request "recoups past losses"	37%
Jurisdiction-specific lifetime loss ratio too low	21%
Not enough time passed since last increase	16%
Lifetime loss ratio too low	5%
Low income/poor state	5%
Average age of insured is too old	5%

Figure 4
Reduced Benefit Options (RBO)

Option	Percentage of Responses
Lowering the benefit period	98%
Increasing the elimination period	88%
Lowering the daily/monthly benefit	88%
Dropping inflation protection	72%
Reducing inflation protection to another existing inflation protection option	53%
Landing spots	26%
Dropping optional riders	7%
Reducing home care coverage percentage	7%

approach, which was met with uniform reception by the National Association of Insurance Commissioners (NAIC) and the Health Actuarial Task Force, and was adopted into the 2014 Model Regulation, is to cap historical losses at what was expected in the original pricing. Other methods were viewed as too risky for the LTC product; that is, the rate increase is too restricted and does not allow companies to manage the financial risk.

STEP 3: COMMUNICATING WITH POLICYHOLDERS

When a rate increase is approved, companies often offer options to offset or avoid the rate increase either voluntarily or as required by regulation.

Figure 4 provides the alternative options for insureds to reduce benefits in lieu of rate increases that were offered by participants in the survey. Landing spots are relatively new and allow a policyholder to reduce benefits to a level that is not already offered, in order to partially or fully offset the rate increase. While only a quarter of companies have offered landing spots, they are most typically offered as a reduced inflation protection rate, but can also be a reduced benefit period that is actuarially equivalent. Although departments are often receptive to filing landing spots, we have found that inclusion of these spots does not always result in higher approvals. In fact, if landing spots are only available to a limited number of policyholders, the department may look upon them unfavorably.

Another option for insureds, if available, is a contingent benefit upon lapse (CBUL). Half of the companies offered a CBUL only where required by regulation or requested by a department as a condition for rate increase approval. The remainder of the companies voluntarily offered a CBUL to all insureds regardless of issue age or issue date. Over 25 percent of the companies responded that 5 percent to 9 percent of the insureds elected the CBUL rather than receiving the rate increase. For another approximate 30 percent, the election rate was 4 percent or less and one company responded with an election rate of 30 percent to 39 percent. The remaining respondents did not provide this information. As some carriers consider whether to offer a CBUL to all insureds voluntarily, they may ask: "What is the financial impact?" We explored this question as part of our article focused on CBUL in the December 2016 issue of *Long-Term Care News*.[1]

WHAT'S NEXT?

Whether you are a carrier, a regulator, or even a consumer—we don't foresee discussion around LTC rate increases slowing any time in the near future. Given the plethora of questions and considerations around rate increases, we hope the results of the survey are helpful in understanding the current environment and the challenges that may lie around the corner.

With the success of the inaugural survey, we expect to conduct the survey every few years to monitor industry trends going forward. In doing so, we look forward to carrying on the discussion as the fluid environment of LTC rate increases continues to evolve. ■

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ENDNOTES

1 Gordon, M. & Williamson, C. (December 2016). Nonforfeiture benefits and long-term care rate increases: What is the financial impact on insurers that offer nonforfeiture? Society of Actuaries LTC Newsletter.