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OREGON INSURANCE DIVISION BULLETIN INS 2014-3

TO: All Licensed Insurers Writing Long-Term Care Insurance

DATE: December 19, 2014

SUBJECT: Filing Requirements for Long-Term Care Premium Rate Increases

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Effective January 19, 2015, the following guidelines will be used in the review of pre-rate-stability and post-rate-stability premium rate increase filings for long-term care insurance policies. The intent of this bulletin is to address rate increases for long-term care insurance policies currently in force, in particular pre-rate-stability policies.

For purposes of this bulletin, "rate stability" is defined as provisions contained in the 2000 NAIC Long-Term Care Insurance Model Regulation (Model 641) as adopted by the State of Oregon on March 1, 2006. Policies with effective dates prior to March 1, 2006 are referred to as "pre-rate-stability" policies and policies with effective dates on or after March 1, 2006 are referred to as "post-rate-stability" policies.

Actuarial Assumptions for Establishing Rate Increase Requests:

When rate increases are filed with the Oregon Insurance Division (division) for both pre-rate-stability and post-rate-stability policy forms, it is the intent of the division to work with the insurer, to the extent appropriate, to review the reasonableness of the set of assumptions by which to determine the rate increase(s) necessary to reach adequate ultimate premiums and that can be used to monitor developing experience. When disclosing assumptions to the division, the insurer must provide the resulting rate increase request at the same time so that the division may consider this in its review.

In assessing the assumptions proposed by the insurer, the division may use the services of an independent actuary.

The assumptions will be consistent with the following:

1. All present and accumulated values used to determine rate increases shall use the maximum valuation interest rate for contract reserves. The actuary shall disclose as part of the actuarial memorandum the use of any averages.

2. All accumulated values used to determine rate increases shall use the actual experience of the product in as close a manner to that used in the original development of rates as possible. This is not intended to preclude the inclusion of multiple policy forms into one rate increase determination if such pooling increases the credibility of the combined accumulated experience.

3. All present values calculated to determine rate increases shall use reasonable estimates of future premium payments and claims payments. Such estimates are to be part of the assumptions as anticipated above and, for post-rate-stability policies this would include a margin for moderately adverse experience, while for pre-rate-stability policies, this would be based on best estimate assumptions for the future lifetime of the policies, including potential margins.

Approval of Rate Increases:

In approving rate increase requests for both pre-rate-stability policies and post-rate-stability policies consistent with the assumptions described in the section above, the division, with the concurrence of the insurer where such concurrence is appropriate, will determine ways in which the following may be included to benefit policyholders:

1. The division may approve the requested amount to be implemented in a single rate increase if the insurer agrees to not implement future rate increases on each subject policy for three years from the date of implementation of the rate increase for each policy form; or

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

Requirement to Administer Contingent Benefit Upon Lapse:

For pre-rate stability policies, the division will require the implementation of the contingent benefit upon lapse[1] as outlined below, as a condition of approval of a rate increase for a block of

[1] A company may provide alternative nonforfeiture benefits in lieu of the benefit required by the contingent benefit upon lapse, if approved by the Commissioner.

business for which the contingent benefit upon lapse is not otherwise required. The contingent benefit upon lapse is already required for post-rate stability policies.

For both pre-rate stability and post-rate-stability policies, if the rate increase is approved in a series of scheduled rate increases and the sum of all scheduled rate increases would ultimately trigger the offering of the contingent benefit upon lapse, the insurer is required[2] to include the contingent benefit upon lapse at the time of each scheduled increase.

For policies or certificates which have reached their twentieth duration, the division may require the insurer to provide the contingent benefit upon lapse[3] without reference to the table of trigger percentages. For policies which have not reached their twentieth duration, any percentage value in excess of 100% will be reduced to 100%.
The insurer shall notify policyholders and certificate holders of the contingent benefit upon lapse in conjunction with the implementation of a rate increase.

<u>Policyholder Notification of Premium Increase:</u>

The insurer shall file with the division the premium increase notification letter to policyholders at the time of the premium rate increase for informational purposes. The insurer shall clearly disclose to policyholders the following elements, as applicable:

1. the amount of the premium rate increase requested and implementation schedule (e.g., single premium increase applied or phased in a series of premium increases). The amount of the premium increase shall be expressed both in dollars based on the policy's mode of payment and as a percentage;

2. available benefit reduction/rate increase mitigation actions and the impact such action will have on the policy, such as loss of asset protection in a long term care partnership plan;

3. clear disclosure addressing the guaranteed renewable nature of the policy/coverage and that the insured should understand that premium rates may increase again in the future;

4. offer of contingent benefit upon lapse or other nonforfeiture benefits, if applicable;

5. information about how to contact the insurer including customer service telephone number and e-mail, if available;

6. a statement that the increase is on a class basis rather than for a particular individual, and is related to expected future claims rather than economic conditions;

7. a statement that premiums are not guaranteed, if applicable, and disclose company expectations regarding further rate increases;

[2] Any such additional requirements, with respect to contingent benefit upon lapse, shall not change the determination of whether or not a majority of policies or certificates are eligible for contingent benefit upon lapse.
[3] A company may provide alternative nonforfeiture benefits in lieu of the benefit required by the contingent benefit upon lapse, if approved by the Commissioner.

8. a statement that keeping current benefits requires paying the increased premium amount;

9. for premium payments that are automatically withdrawn from a bank account, a reminder to notify the bank or other financial institution, if needed, for payment of the new premium amount; and

10. a statement that explains how the rate change impacts those in a claim status.

Consideration of New Approaches:

At the request of the insurer, the division may also consider other options which may be made available to insureds which may mitigate the impact of the rate increase on the insured population and alternative actuarial methodologies relating to the rate increase. To support such a request, the insurer must provide an explanation and demonstration on how such methodology is actuarially justified and/or how such new mitigation options may reasonably benefit insureds.

No alternative method/approach may be used until it has been approved by the division.

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Insurance Commissioner