

STATE OF NEBRASKA

DEPARTMENT OF INSURANCE

Bruce R. Ramge
Director



Pete Ricketts
Governor

January 28, 2015
CB-133 (Revised)

BULLETIN

SUBJECT: ALTERNATIVE FILING REQUIREMENTS FOR LONG-TERM CARE PREMIUM RATE INCREASES

Effective immediately, the following guidelines will be used in the review of pre-rate-stability and post-rate-stability premium rate adjustment 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 Title 210 NAC Ch.46 (2000). Policies with effective dates prior to September 20, 2000 are referred to as “pre-rate-stability” policies, and policies with effective dates on or after September 20, 2000 are referred to as “post-rate-stability” policies.

Actuarial Assumptions for Establishing Rate Increase Requests

When rate adjustments are filed with the Nebraska Department of Insurance (Department) for both pre-rate-stability and post-rate-stability policy forms, it is the intent of the Department 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 Department, the insurer will provide the resulting rate revision request at the same time so that the Department may include this in its review.

In assessing these assumptions as proposed by the insurer, the Department may use the services of an independent actuary and, if appropriate under state law, may charge the insurer for the costs of these services. The Department may also accept a review done by or for another state or states for the same or substantially the same policy form where any differences in benefits and premiums are not material. Such review must have been completed within eighteen months of the date of the rate adjustment filing, and such review must substantially comply with the Department’s rate review standards.

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

Requirement to Administer Contingent Benefit Upon Lapse

For pre-rate-stability policies, the Department will require the implementation of the contingent benefit upon lapse¹ as outlined below, as a condition of approval of a rate increase for a block of 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 will be required² to include contingent benefit upon lapse at the time of each scheduled increase.

For policies or certificates that have reached their twentieth duration, the Department may require the insurer to provide the contingent benefit upon lapse³ without reference to the table of trigger percentages. For policies that 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 when required by the Department in conjunction with the implementation of a rate increase.

Policyholder Notification of Premium Increase

The insurer shall file with the Department 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:

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);
2. Available benefit reduction/rate increase mitigation actions;
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; and
4. Offer of contingent benefit upon lapse, if applicable.

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

²Any 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.

³A company may provide alternative nonforfeiture benefits in lieu of the benefit required by the contingent benefit upon lapse, if approved by the Department.

Application of New Loss Ratio Standards

The Department will require the insurer to limit the increase based on the use of a dual loss-ratio approach for pre-rate-stability policy forms. The recommended loss ratio would be:

- the greater of 60% or the lifetime loss ratio used in the original pricing, applied to the current rate schedule on the effective date of these new requirements; plus
- 80% applied to any premium increase that is filed after that date on an individual policy form; or
- 75% applied to any premium increase that is filed on a group policy form.

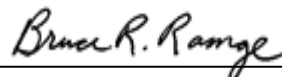
For post-rate-stability policy forms, the current loss-ratio standards are unchanged.

Consideration of New Approaches

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

No alternative method/approach may be used until it has been accepted by the Department.

Questions about this bulletin may be directed to Martin Swanson, Administrator for Health Policy, at 402-471-4648, martin.swanson@nebraska.gov; or John Rink, Life and Health Division, 402-471-2850, john.rink@nebraska.gov.



Bruce R. Ramge
Director