

## Nebraska DOI - LTCi Rate Review Request (RRR) Template

**Date Implemented:** March 11, 2022

The following provides guidance for the minimum amount of information Department actuarial reviewers need before being able to complete the initial review of a Long-Term Care insurance premium rate increase filing.

Please note that the assessment of reasonable increases in Nebraska, by Statute, includes consideration of all relevant factors, including no less than the following: a) statistical credibility of incurred claims experience and earned premiums, b) the period for which rates are computed to provide coverage, c) experienced and projected trends, d) concentration of experience within early policy durations, e) expected claim fluctuation, f) experience refunds, adjustments or dividends, g) renewability features, h) all appropriate expense factors, i) interest rates, j) experimental nature of coverage, k) policy reserves, l) mix of business by risk classification, and m) product features such as long elimination periods, high deductibles and high maximum limits.

Providing answers to all of the items within this guidance does not guarantee that the Department will not need additional information to continue a comprehensive review of the filing.

### **Section 1: Lifetime Loss Ratio Calculations**

The Department requires carriers to provide historical and projected Lifetime Loss Ratio (LTLR) experience in an Excel spreadsheet format, as well as pdf format, with cell formulas included for interest discount rates, lapse rates, future premium rate increases. We request that each LTLR calculation should include the following data for each historical year and projected year:

Column 1: Incurred Claims Dollar Amount;  
Column 2: Earned Premium Dollar Amount;  
Column 3: Loss Ratio (Column 2 / Column 1);  
Column 4: Lives enrolled – average members enrolled during the year included in this calculation;  
Column 5: Interest rate factor applied for that year to accumulate or discount premium and claims;  
Column 6: Incurred Claims Dollar Amount discounted or accumulated to current present values;  
Column 7: Earned Premium Dollar Amount discounted or accumulated to current present values;

A totals line should be provided at the bottom of the table summarizing the undiscounted and discounted cumulative historical period, projection period, and lifetime period for claims and premiums. If rates are being set in accordance with NAIC Rate Stabilization then a test should be included demonstrating that the 58% original premium / 85% new premium post-rate stabilization loss ratio criteria is being met. Note that Nebraska did not in fact adopt Rate Stabilization, but some carriers will indicate that they apply the method consistently across all of their states including in Nebraska.

LTLR demonstrations should be provided with a discount rate that represent actual historical and reasonable future investment earnings rates, and separately the same demonstrations with your current discount rate assumption (also see the assumptions section 3 below).

(A) Please indicate how your LTLR demonstrations and requested rate increases are accounting for policies in any form of "Paid-up" status, and include all lifetime loss ratio demonstrations for:

- a. All policies combined.

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- b. For only those policies that are **not** currently paid-up, **not** in a permanent waiver of premium status, or **not** under a limited-payment premium option, where paid up includes anyone who has previously elected nonforfeiture benefits.
- c. For only those policies that are currently paid-up, are in a permanent waiver of premium status, or are under a limited-payment premium option, where paid up includes anyone who has previously elected nonforfeiture benefits.
- d. For any portion of the distribution that has materially different experience or future assumptions than another, especially if the rate increase percentage varies across the filing.

The Department is interested in considering fair and reasonable premiums across all benefit structures and ages and we do not expect a flat percentage increase to be equally justifiable across those premium cells.

(B) LTLR calculations for any rate increase should be provided split by benefit period so that the Department may judge whether a rate increase should vary by the following:

- a) With all policies combined – all inflation options and benefit periods combined;
- b) With inflation and short term benefit periods;
- c) With inflation and lifetime periods (or long term benefit periods);
- d) No inflation and short term benefit periods;
- e) No inflation and lifetime periods (or long term benefit periods).

Please explain any reasoning used to request a less differentiated rate Increase.

The Department may require separate justification, specifically the lifetime loss ratios, for any rate increase, whether it is a level rate increase across policy characteristics (benefit, issue age, etc.) or whether the rate increase varies across policy characteristics.

(C) If you are offering any special benefit reduction variations, only available because of and at the time of this rate increase being implemented, please provide a lifetime loss ratio demonstration for only those policies eligible for such offer, first assuming 100% accept the offer and then assuming 0% accept the offer.

### **Section 2: Provide the TX PPV Rate Calculation**

The Department requires that the Prospective Present Value (PPV) method (or “Texas PPV” method) be provided for all LTC rate increase filings. Please include Excel spreadsheet calculations utilizing this method for each form and benefit combination you are requesting separate rate increases for.

The attached spreadsheet titled “Nebraska TX PPV Method Illustration, Jan 1, 2021” illustrates the minimum amount of information needed, and a sample calculation. The TX PPV methodology is outlined by the NAIC Multi-State Advisory Task Force Framework, and the following development should be used:

The Texas approach to the actuarial review of rate changes was developed in response to the NAIC Long-Term Care Pricing (B) Subgroup’s discussions regarding the recoument of past losses in LTCI rate

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increases. The Texas approach relies upon a formula intended to prevent the recoupment of past losses by calculating the actuarially justified rate increase for premium-paying policyholders based solely on projected future (prospective) claims and premiums.

Key aspects of the Texas approach to the actuarial review of rate changes include:

1. Past losses are assumed by the insurer and not by existing policyholders. An approach that considers past claims in the calculation of the rate increase, such as a lifetime loss ratio approach, permits, the recoupment of past losses to some extent.
2. Calculates the rate increase needed to fund the prospective premium deficiency for active, premium-paying policyholders based on an actuarially supported change in assumption(s). This ensures that active policyholders do not pay for the past claims of policyholders who no longer pay premium.
3. Data Requirements for Calculation:
  - a. The following calendar year projections, including totals, for current premium-paying policyholders only, prior to the rate increase, all discounted at the maximum valuation interest rate:
    - i. Present Value of Future Benefits (PVFB) under current assumptions.
    - ii. PVFB under prior assumptions (from prior rate increase filing, or if no prior increase, from original pricing).
    - iii. Present Value of Future Premiums (PVFP) under current assumptions.
    - iv. PVFP under prior assumptions (from prior rate increase filing, or if no prior increase, from original pricing).
      1. Note that for all four projections above, the projection period is typically 40–50 years: although, some companies project for 60 or more years.

To emphasize, these projections should only include active policyholders currently paying premium and should not include any policyholders not paying premium (e.g., policies on wavier, on claim, or paid up) regardless of the reason. Projections under current actuarial assumptions must not include policyholder behavior as a result of the proposed premium rate increase, such as a shock lapse assumption.

Also, the insurer should identify and explain any estimates or adjustments to the data, as applicable.

4. Assumptions
  - a. Rate increases are commonly driven by a change to the persistency, morbidity, mortality assumption, or a combination of the three.
  - b. Verification that assumption change(s) are supported by credible data.
  - c. The interest rate is the same for all four projections. This ensures that interest rate risk is assumed by the insurer, not the policyholder.

The formula used in the Texas PPV approach is provided below, the formula is limited to active, premium-paying policyholders.

$$\text{Rate Increase \%} = \Delta\text{PV}(\text{future incurred claims}) \times [ (0.58 + 0.85C) / (1 + C) ] \times \Delta\text{PV}(\text{future earned premiums}) /$$

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[  $0.85 \times PV_{\text{current}}$  (future earned premiums) ]

Where:

- $\Delta$  indicates the change in PV due to the change in actuarial assumptions between the time of the last rate increase (or original pricing if no prior rate increase) and the current assumptions.
- C is the cumulative % rate increase to date. For example, if the current rate (prior to the proposed rate increase) is 50% higher than the rate at initial pricing, then  $C = 0.5$ .

The current subscript in the denominator indicates that the PV should be computed using current assumptions. The future earned premiums in the formula are based on the current premiums prior to the proposed rate increase. (State insurance regulators may wish to consider the addition of margin to the rate increase. For example, the  $\Delta PV(\text{future incurred claims})$  term in the above formula could be multiplied by  $(1 + \text{margin})$ ).

For pre-rate stabilized policies, we use 0.6 in place of 0.58 and 0.8 in place of 0.85:

Rate Increase % =  $\Delta PV(\text{future incurred claims}) \times [ (0.60 + 0.8C) / (1 + C) ] \times \Delta PV(\text{future earned premiums}) /$

[  $0.8 \times PV_{\text{current}}$  (future earned premiums) ]

Prior to the time that Texas adopted the PPV approach, a past requested rate increase may have been reduced by the state insurance regulator by a method other than the PPV approach. In this situation, for a current filing, the state insurance regulator may make adjustments to the current approvable amount based on what would have been approved had PPV been used in the prior filing.

### **Section 3: Provide Detailed Pricing Assumptions**

For each pricing assumption provide the detailed assumptions for the following:

- (i) Original pricing assumptions used at time of issue;
- (ii) Pricing assumptions used at time of the most recent rate increase (if applicable);
- (iii) Current pricing assumptions used for this rate filing;

Assumptions should include the following at a minimum:

- (i) Morbidity – Incidence Rates;

1. For the “LTC Assumptions Request Sheet”, please provide male and female Morbidity Claim Incidence Rate Assumptions for the original year, the prior rate increase year, and the current year. Assumptions are based on issue age ranging from 49 to 100+. Assumptions need to be separated by Lifetime and Non-Lifetime Assumptions and the filing process must be repeated for separate policy forms.

- (ii) Morbidity –Termination Rate Assumptions and Average Length of Stay Assumptions;

1. For the “LTC Assumptions Request Sheet”, please provide male and female Morbidity % Termination Rate Assumptions Average Length of Stay Assumptions for the original year, the prior rate increase year, and the current year. Assumptions are based on the listed claim periods. Please also provide the

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average length of stay for male and female policyholders by the original year, the prior rate increase year, and the current year. Assumptions need to be separated by Lifetime and Non-Lifetime Assumptions and the filing process must be repeated for separate policy forms.

### (iii) Utilization rates.

1. Regarding morbidity expectations, please provide Actual (A) to Expected (E):
  - a) A/E(original);
  - b) A/E(last rate increase);
  - c) A/E(current);
  - d) E(current)/E(last rate increase).

If available, please provide the above separately for Incidence, Claim Termination, Utilization, and Total Claim Cost.

### (iv) Voluntary lapse (termination) rates;

1. For the "LTC Assumptions Request Sheet", please provide male and female Voluntary Lapse Assumptions for the original year, the prior rate increase year, and the current year. Assumptions are based on duration years ranging from 1 to 100. Assumptions need to be separated by Lifetime and Non-Lifetime Assumptions and the filing process must be repeated for separate policy forms.

### (v) Mortality rates;

1. Regarding persistency, please provide for Voluntary Termination and Mortality:
  - a) A/E(original);
  - b) A/E(last rate increase);
  - c) A/E(current);
  - d) E(current)/E(last rate increase).
2. For the "LTC Assumptions Request Sheet", please provide male and female Mortality Assumptions for the original year, the prior rate increase year, and the current year. Assumptions are based on issue age ranging from 49 to 110+. Assumptions need to be separated by Lifetime and Non-Lifetime Assumptions and the filing process must be repeated for separate policy forms.

### (vi) Shock Lapses;

### (vii) Interest earnings;

1. Interest earnings assumptions are expected to be based on reasonably achievable interest rates from inception through the end of any projections. The Department appreciates the use of the valuation rate for certain demonstrations of Lifetime Loss Ratios but expects reasonable interest earnings assumptions to be disclosed and finds them useful in assessing whether premiums are appropriate as compared to benefits. At a minimum, the Department expects that if a level accumulation/discount

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rate is used to demonstrate the lifetime loss ratio, the level rate should reflect the original pricing investment earnings assumption from the time the first policy under consideration was issued to the time the last policy under consideration was issued.

2. For the "LTC Assumptions Request Sheet", please provide Investment Assumptions for the original year, the prior rate increase year, and the current year. Assumptions are based on issue year ranging from 1 to +70 and the filing process must be repeated for separate policies.

### (viii) Other Policy Data.

#### 1. LTC Assumptions Request Sheet– Policy Data

- a. Current Issue Age Distribution- For male and female policyholders with the listed issue age banding, please provide the policy count as well as the percentage of total policies.
- b. Current Attained Age Distribution- For male and female policyholders with the listed attained age banding, please provide the policy count as well as the percentage of total policies.
- c. Issue Year Distribution- With the listed issue year ranges, please provide the policy count as well as the percentage of total policies.
- d. Current Elimination Period Distribution- With the listed elimination periods please provide the policy count as well as the percentage of total policies.
- e. Current Inflation Protection Distribution- For both compound and simple inflation protection please provide the policy count as well as the percentage of total policies for each listed inflation protection. Please also provide the average % inflation for compound and simple inflation protection.
- f. Expenses and Commissions – Using original retention assumptions, please provide % of claims and % of premium for the following factors: Average Expenses Over Lifetime, Year 1 Commissions, Renewal Commissions, Average Commissions Over Lifetime, and the Average Profit Margin Over Lifetime.
- g. Period Distribution- For each listed benefit period, please provide the policy count as well as the percentage of total policies.
- h. History of Prior Rate Increases- Please provide all prior rate increases and the year when they were implemented.
- i. Daily Benefit Distribution- For the original year, the prior rate increase year, and the current year please provide the policy count as well as the percentage of total policies for the listed daily benefit bands. Please also provide the average and maximum daily benefit for the original year, the prior rate increase year, and the current year.

### (ix) General Comments on Assumptions Related to Experience.

The Department expects to have enough information such that a Department actuary, or consulting actuary hired by the Department, can understand why current assumptions used to justify the rate increase requested are appropriate given the experience the company has used to determine those assumptions (whether the

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experience is internal to the company and form(s) or supplemented by other forms or industry data). In addition, the Department expects the change in assumptions since original pricing have a reasonable relationship to the cumulative rate increase associated with each assumption. The Department is open to the applicability of combined experience under similar forms and/or the use of industry data for justifying the current assumptions used in projecting premium and claims activity, however, reasonability of the use of experience from outside the forms subject to the filing must be presented. Simple statements about current assumptions being consistent with experience will not be deemed adequate justification for current assumptions.

### **(x) Benefit Variations**

Please ensure that the Department has enough information to understand what benefit variations were available at issue for the policy form(s) subject to the rate filing and whether the Nebraska distribution differs materially from Nationwide, especially if the rate increase filing is substantially built from a nationwide rate increase effort. Please ensure that the Department can understand whether distribution of current policies among benefit variations is different for Nebraska than for Nationwide. Please indicate any optional riders available for purchase at the time of sale

### **Section 4: Provide Most Recent AG51 and All AG51 Supplemental Exhibits**

The Actuarial Guideline 51 (AG51), published in the APPM, gives non-domestic states the right to request a non-domestic company's AG51 report. If applicable, please provide your most recently completed AG51 Report, including all recent AG51 Supplemental Exhibits and information required by VAWG (The Valuation Analysis Working Group at the NAIC).

Please indicate any current assumptions that vary from your most recent AG51 report or vary from your assumptions used to set reserves. Provide any detailed exhibits from your AG51 that further clarify your pricing assumptions.

### **Section 5: Provide History of Rate Increases Requested and Approved for Nebraska and All States**

(A) Please provide a history of rate increases you have filed for these forms and include a description of assumption changes that were made in your projections that justified each increase. Please indicate:

- the original issue date for each form, in Nebraska and Nationwide;
- the final issue date for each form before the block was closed, in Nebraska and Nationwide.

(B) In addition, for each rate increase, note whether you requested the full rate increase you intended to implement over time within each rate increase request. Please provide cumulative total rate increase as well with and without current requested. Please include whether you intend, based on your current experience and assumptions, to request additional future increases.

If you did not ask for the full amount you were likely to ultimately seek in the past or are likely to ultimately seek in the future, please describe the company's motivation for waiting.

Please Note: Nebraska implemented an 'end-game' disposition around 2017 and expects companies to ask for what they need to enhance rate stability, and to support our PPV calculations, going forward.

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(C) Please include a distribution by state, including the premium volume and policy counts associated with each state that demonstrates the cumulative and current rate increases and timing of increases that have been sought, approved and implemented nationwide for the form(s) included in this filing.

### **Section 6: Provide Policyholder Letters and Related Exhibits in a Separate Form Filing**

(A) Following NE DOI procedure (adopted earlier 2020) regarding Policyholder notification, please submit Policyholder Letters and any other policyholder notifications related to this rate increase as a separate corresponding FORM filing. Each rate and form filing are to be clearly indicated with the associated policy form numbers. The policyholder form filing should provide SERFF tracking numbers for both the associated rate filing and the originally filed policy form.

(B) Indicate whether the requested rate increase will be implemented in Phases. The NE DOI currently limits increases to any member to be no more than 50% in any year.

For each Phase of the increase, each insured should receive a notification informing them of the amount and timing of each phase of the increase at least 60-90 days prior to the effective date of the next increase in the series. Each of these notifications for each Phase should be included in the corresponding Form filing.

(C) Contingent Nonforfeiture benefit upon lapse should be made available to each insured at each phase of the increase using the cumulative increase % after the last increase as the trigger for determining Contingent Nonforfeiture.

(D) Please provide the policyholder notice of rate increase associate with past implemented rate increases for the form(s) included in this filing.

### **Section 7: Alternative First Principles MN and TX PPV Rating Methods May Be Applied**

The Department maintains a first principles rating spreadsheet that mimics the NAIC Multi-State Advisory rating methodology which will be utilized by the Nebraska rate filing reviewers by utilizing the pricing assumptions provided by the carrier in Section 3 of this template. If the assumptions provided in section 3 are not adequate for the Department reviewers to perform these calculations then we may make additional requests to support the assumptions in order to complete these MN method and TX PPV rate calculations.

\* The Department may override the use of the TX PPV method in section 2 if the carrier implemented prior rate increases that were not “end-game” increases, and the carrier is unable to adequately adjust the TX PPV calculation for the lower rate increases previously implemented. The Minnesota method (MN method) first principles rating approach may be utilized by the Department if the company in this case, or if the company is unable to provide the TX PPV method calculation requested in Section 2.

\* The Department will provide the fully completed First Principles rating spreadsheet to the carrier in the rate filing to review, with both the MN and TX PPV method calculations.

\* For carrier’s providing the TX PPV calculation in Section 2, the Department reviewers will provide the First Principles spreadsheet with the related TX PPV calculation for comparison purposes. The Department intends to rely on the carrier’s TX PPV calculation from Section 2 as the official rating method, though may use the comparison First Principles results run by the Department to verify assumption inputs and identify any issues with the carrier’s calculation.

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Appendix A that follows contains the current MN method First Principles calculation that the Department has adopted, which is consistent with a recent NAIC MSA Framework calculation.

### Appendix A – NAIC MSA Minnesota Rating Methodology Currently Adopted by the NE. DOI NAIC Publication by the Long-Term Care Insurance (EX) Task Force: “Long-Term Care Insurance Multi-State Rate Review Framework”, 12-12-2021.

Details on the key aspects of the Minnesota approach to the actuarial review of rate changes include:

1. Review of current assumptions for appropriateness, reasonableness, justification, and support.
  - a. A combination of credible insurer experience, relevant industry experience, and professional judgement is applied.
2. If-knew premium and makeup premium aspects – aggregate application.
  - a. Makeup percentage:
    - i.  $\{[PV(\text{claims}) / \text{original LLR}] - PV(\text{past premium})\} / PV(\text{future premium}) - 1$ .
    - ii. Premiums in the formula reflect the actual rate level.
  - b. If-knew percentage:
    - i.  $[PV(\text{claims}) / PV(\text{premiums})] / \text{original LLR} - 1$ .
    - ii. Premiums in the formula are at the original rate level.
    - iii. The concept is to estimate a premium that would have been charged at issuance of the policy if information we know now on factors such as mortality, lapse, interest rates, and morbidity was available then.
  - c. Definitions and explanations:
    - i. PV means present value.
    - ii. LLR means lifetime loss ratio.
    - iii. Interest rates underlying PVs and LLRs are based on:
      1. For original PVs and LLRs, the interest rate is the investment return assumed in original pricing. Note that this rate is typically different than the statutory LLR discount rate.
      2. For current PVs, the interest rates are the average corporate bond yields over time for each year minus 0.25% (to account for expected defaults). For projections beyond the current year, phasing over five years of the current rate to a target rate (currently 4%) is assumed.
    - iv. PV calculations are based on actual, current experience and expectations for persistency, morbidity, and interest rate.
    - v. Insurer-provide premium and claim cash flows may be adjusted based on assumption review.
    - vi. Makeup percentage is similar to that attained by the loss ratio approach.
3. If-knew premium and makeup premium aspects – sample policy-level verification.
  - a. Over a range of issue years, issue ages, benefit periods, and inflation protection:
    - i. Calculate an estimate of the original premium.
      1. Based on original pricing assumptions for persistency, morbidity, investment returns, and expenses.
      2. Apply first principles.
        - a. For each policy year, calculate PV of claims and expenses, applying mortality,



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- demonstrated in the insurer's aggregate projections, past or projected premiums or claims may be adjusted in the original, makeup, or if-knew premium calculations.
- ii. If there is wide variance in practice among companies in morbidity assumptions at ages where data is of low credibility, adjustments may be made to help ensure similar situations resulting in similar rate increase approval amounts.
    1. A balanced approach is pursued, recognizing that providing full or zero credit for partially credible experience may result in harmful consequences (excessive rates or later rate shocks).
    2. Any reductions to rate increases caused by lack of credible experience can potentially be reversed in subsequent rate increase requests as credibility increases.
  - iii. Similar adjustments may apply when incomplete or inconsistent information is provided by the insurer after initial attempts to resolve significant differences or gaps).
4. Reconciliation of aggregate and sample policy applications.
- c. In many cases, the aggregate and sample policy applications will result in similar current LLRs.
  - d. In other cases, some steps are taken to understand the difference, including additional requests for information.
  - e. Because the sample policy application considers information only related to premium-paying policyholders, it is possible that differences between the aggregate and sample policy application are caused by inclusion of past premiums and all claims related to non-premium payers in the aggregate information. When reconciliation occurs after rounds of communication, decisions will be made based on the information provided.
5. Blending – same for aggregate and sample policy applications.
- a. The weighting towards the makeup premium is the percentage of original policyholders remaining.
  - b. The weighting towards the if-knew premium is the percentage of original policyholders no longer having active policies, or 1 minus the percentage in ii.
  - c. The blending of the if-knew premium and makeup premium helps ensure remaining policyholders are not held responsible for paying for adverse experience associated with past policyholders.
  - d. The blending also helps limit cumulative rate increases at later durations; as the percentage of remaining policyholders approaches zero, the blended approval amount approaches the if-knew premium.
6. Cost-sharing formula that increases the insurer burden as cumulative rate increases rise.
- e. The cumulative-since-issue, weighted if-knew / makeup premium-based increase is reduced by:
    - i. No haircut for the first 15%.
    - ii. 10% for the portion of cumulative rate increase between 15% and 50%.
    - iii. 25% for the portion of cumulative rate increase between 50% and 100%.
    - iv. 35% for the portion of cumulative rate increase between 100% and 150%.
    - v. 50% for the portion of cumulative rate increase in excess of 150%.

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7. Reduction for past rate increase:
  - f. Take 1 plus the cost-sharing-adjusted blend amount and divide by 1 plus the previous, cumulative rate increases, then subtract 1. This is the approvable rate increase.
  
8. Summary.
  - g. Review current assumptions.
  - h. Calculate aggregate if-knew premium and makeup premium amounts. Calculate the blended amount.
  - i. Calculate the sample policy estimated original premium, if-knew premium, and makeup premium. Calculate the blended amount.
  - j. Reconcile aggregate and sample policy blended amounts. Set this blended amount aside.
  - k. Apply the cost-sharing formula to the blended amount.
  - l. Deduct past rate increases.
  - m. Example – if:
    - i. The original premium is \$1,000
    - ii. Makeup premium is \$3,000.
    - iii. If-knew premium is \$1,500.
    - iv. 60% of policyholders remain.
    - v. Past rate increases are 50%:
      - vi. Blended amount is:
        1.  $\$3,000 / \$1,000 * 0.60 +$
        2.  $\$1,500 / \$1,000 * 0.40$
        3.  $- 1 =$
        4.  $180\% + 60\% - 1 = 240\% - 1 = 140\%$
      - vii. Cost sharing is:
        1.  $100\% * 0.15 +$
        2.  $90\% * 0.35 +$
        3.  $75\% * 0.5 +$
        4.  $65\% * 0.4 =$
        5. 110%
      - viii. Deduction for past rate increases results in:
        1.  $(1 + 1.1) / (1 + 5) - 1 =$
        2. 40%