



AMERICAN ACADEMY *of* ACTUARIES

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April 28, 2016

Alfred W. Redmer Jr.  
Insurance Commissioner  
Maryland Insurance Administration  
200 Saint Paul Place, Suite 2700  
Baltimore, MD 21202-2272

Re: Maryland Insurance Administration Public Hearing on Long-Term Care Insurance

Dear Commissioner Redmer:

On behalf of the American Academy of Actuaries'<sup>1</sup> Long-Term Care Reform Subcommittee I appreciate the opportunity to offer the following comments relevant to your upcoming hearing on the state of long-term care insurance and appropriate regulatory guidelines in Maryland. Maryland, as well as the rest of the country, faces a great public need in addressing long-term care (LTC) financing and that need is growing even more critical because the population is aging.<sup>2</sup> Finding ways to pay for those services and supports can be challenging, and so we commend you for convening a public hearing on this matter.

We would first like to emphasize the importance of actuarial input from the beginning of any process involving the consideration, design, and evaluation of a potential long-term care policy approach. Actuaries are uniquely qualified according to their professional standards and play a crucial role in the financing and design of LTC financing systems—from private long-term care insurance (LTCI) to public programs that provide LTC benefits. Actuaries have specialized expertise in managing the risk of adverse selection in insurance coverage, the ability to recognize and incorporate uncertainty into cost projections and premiums, and experience in evaluating the long-term solvency and sustainability of public and private insurance programs. Actuarial expertise can provide a basis for exploration of new and innovative program designs.

The Academy's Long-Term Care Reform Subcommittee is developing an issue brief to enhance the public's understanding of LTCI premium rate increases that will highlight several important underlying factors affecting such increases. LTCI requires a long projection period with

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<sup>1</sup> The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

<sup>2</sup> Maryland Department of Aging: <http://aging.maryland.gov/Pages/Statistics.aspx>

assumptions extending over 50 years into the future. In addition, there has been and continues to be high levels of uncertainty and changes in circumstances that affect the levels of premium rates needed to ultimately be sufficient. In determining whether LTCI policies require a premium rate increase, two authorized methods are applied—one for policies subject to minimum loss ratio (MLR) certifications and one for rate stability certifications.

Until about 10-15 years ago, LTCI pricing was subject to a 60 percent MLR by most states, meaning that the ratio of the present value of lifetime claims to premiums could not fall below 60 percent. In the early 2000s, many states enacted rate stability laws, including Maryland, which stated that LTCI should be priced without using the MLR approach. Instead actuaries would need to certify that the premium rates had enough of a margin to withstand moderately adverse experience (MAE).

Under the MLR approach, if an issuer demonstrates that revised historical and future projected experience produces a lifetime loss ratio greater than 60 percent (or the originally priced-for loss ratio), a premium rate increase could be filed that would allow the projected experience on the policies to return to that lifetime loss ratio.

Under the rate stabilization approach, a premium rate increase could be requested if actual past experience combined with projected future experience exceeds the original or previously defined MAE margin. If revised projections using updated experience exceed the MAE margin, then a premium rate increase could be filed such that the lifetime loss ratio on the original premiums is assumed to be the greater of 58 percent and the original assumed loss ratio; and the lifetime loss ratio on the increased premiums is at least 85 percent (with claims projected into the future including MAE). For this premium rate increase filing, the amount of premium rate increase needs to be large enough for the insurer's designated actuary to certify that the premiums are sufficient with no further premium rate increases in the future unless the actual experience exceeds a revised MAE margin.

Under either approach, the need for a premium rate increase should be driven by projected lifetime loss ratios, rather than actual past experience alone. Despite the relatively straightforward mathematical calculations to determine premium increases, determining projection assumptions (e.g., whether actual historical experience is sufficiently credible to justify changes in future projected assumptions) can be difficult.

With LTCI it can take a long time from the purchase of a policy until the first time a claim is submitted, and this time period can be several decades for many individual policies. As such, there is often little claims experience to justify premium rate increases on a relatively young group of policy forms based on the experience of those forms alone. (Section 3.2.1) of Actuarial Standard of Practice No. 18, *Long-Term Care Insurance*, requires actuaries to use alternative data sources such as experience from the insurance company's older, similar policy forms or public data, for identifying reasonable assumptions. Waiting until there is adequate claim information on each policy form could result in much larger, less affordable rate increases.

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I appreciate the opportunity to provide these comments and also wanted to highlight other recent issue briefs from the Academy's LTC Reform Subcommittee pertaining to [Portability](#), [Product Design Flexibility](#), and [Pricing Flexibility](#). If you have any questions or would like to discuss further, please contact David Linn, the Academy's health policy analyst, at 202-785-6931 or [linn@actuary.org](mailto:linn@actuary.org).

Sincerely,

P.J. Eric Stallard, MAAA, ASA, FCA  
Chairperson, Long-Term Care Reform Subcommittee  
American Academy of Actuaries