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January 6, 2017

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 Long-Term Care Reform Subcommittee of the American Academy of Actuaries[1], I appreciate the opportunity to offer the following comments for your upcoming hearing on long-term care insurance and several rate increase requests before the Maryland Insurance Administration.

We would 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 (LTC) policy approach. Actuaries are uniquely qualified as a result of our professional standards. Qualified long-term care actuaries play a crucial role in the 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 also provide a basis for the exploration of new and innovative program designs.

To enhance the understanding of LTCI premium rate increases, the Academy's LTC Reform Subcommittee developed an issue brief that examines important underlying factors affecting such increases. Without LTCI, many more people would exhaust their savings on care costs and then potentially rely on public programs such as Medicaid for their additional care needs. LTCI requires a long projection period with assumptions extending over 50 years into the future. Another key factor has been and continues to be high levels of uncertainty and changes in

[1] 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.

circumstances that affect the levels of premium rates ultimately needed to 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.

In the early 2000s, many states, including Maryland, enacted rate stability laws, 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 such that 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, predicting future policyholder and service provider behavior can be difficult. A means for taking corrective action to accommodate the changing future is important. The more conservative assumptions in today's pricing of private LTCI and improved speed at taking corrective action should improve future projections, resulting in fewer and smaller rate increases.

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I appreciate the opportunity to provide these comments and also wanted to highlight our full issue brief on Understanding Premium Rate Increases on Private Long-Term Care Insurance Policyholders as well as a more recent issue brief on the Essential Criteria for Long-Term Care Financing Reform Proposals. 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.

Sincerely,

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