



SOUTH CAROLINA
DEPARTMENT *of* INSURANCE

Long-term Care Public Hearing
Continental Casualty Company

Continental Casualty Rate Increase Hearing

South Carolina Department of Insurance

Dave Dillon, FSA, MAAA
Senior Vice President & Principal

NOVEMBER 7, 2019



Overview of Rate Increase Requests

BLOCKS	SUMMARY
R16 Preferred Solutions	<ul style="list-style-type: none">• 126.30% rate increase for policies with an inflation rider.• Sold between 1998 and 2003.• Applies to approximately 550 South Carolina policyholders.
R17 Premier/Classic Preferred Advantage Tax Qualified	<ul style="list-style-type: none">• Comprised of 3 smaller blocks.• The rate increase is either 5%, 15%, or 20% depending on the policy.• The average increase is approximately 18%.• Sold between 1993 and 2003.• Applies to approximately 300 South Carolina policyholders.

Actuarial Standards of Practice # 8

- Provides guidance to actuaries with respect to preparing or reviewing required regulatory filings related to rates or financial projections.
- Two of the key sections are 3.11 Regulatory Benchmark and 3.12 Reasonableness of Assumptions.
- 3.11.1 Regulatory Benchmark
 - 3.11.1 Rate Adequacy—Rates may be considered adequate if they provide for payment of claims, administrative expenses, taxes, and regulatory fees and have reasonable contingency or profit margins.
 - 3.11.2 Rates Not Excessive—Rates may be considered excessive if they exceed the rate needed to provide for payment of claims, administrative expenses, taxes, regulatory fees, and reasonable contingency and profit margins.

Actuarial Standards of Practice # 8

- 3.11 Regulatory Benchmark, continued
 - 3.11.3 Rates Not Unfairly Discriminatory—Rates may be considered unfairly discriminatory if the rates result in premium differences among insureds within similar risk categories that: (1) are not permissible under applicable law; or (2) in the absence of an applicable law, do not reasonably correspond to differences in expected costs.
 - 3.11.4 Projected Loss Ratio—A projected loss ratio may be considered unreasonable if it does not meet or exceed a threshold under applicable law.
- 3.12 Reasonableness of Assumptions
 - The actuary should review the assumptions employed in the filing for reasonableness. The assumptions should be reasonable in the aggregate and for each assumption individually.....

Rate Review Process

South Carolina Code of Laws, Chapter 72, Title 38

- In terms of the standard of the review, the law states that the Director may disapprove or modify premium rates under 6 criteria. 4 of these are related to the regulatory benchmark criteria in ASOP #8:
 - The benefits provided are unreasonable in relation to the premiums charged,
 - Appear to be inadequate,
 - Unfairly discriminatory, and
 - Excessive in relation to benefits.
- 2 of the criteria are related to the reasonableness of assumptions criteria in ASOP #8:
 - Assumptions that are unreasonable in the aggregate, and
 - Assumptions that are unreasonable individually.

Rate Review Process

South Carolina Code of Laws, Chapter 72, Title 38

- Director shall consider 6 additional factors regarding whether to disapprove or modify a premium rate filing:
 - Past and prospective loss experience in and outside the State;
 - Underwriting practice and judgment;
 - A reasonable margin for reserve needs;
 - Past and prospective expenses, both countrywide and those specifically applicable to the State;
 - Prior approved rate changes; and
 - Any other relevant factors necessary including the factors set forth in the regulation.

Specific Filing Observations

R16 Preferred Solutions

- The first rate increase was in 2013 which was 10 years after it was closed.
- The most recent approved rate increase was 20% in May of 2017.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of 107.4%.
- If the rate increase is approved as proposed, the rates would be approximately 4.75 times the original rates.
- The Company waited to begin the rate increase process when the block was 100% credible.
- The Company applied a current discount/interest rate to calendar years more than 10-20 years past.
- Only a 10% increase would be needed for South Carolina rates to meet the nationwide average.
- Approving the requested increase would put the South Carolina premiums at approximately double the nationwide average.

Specific Filing Observations

R17 Premier/Classic, Preferred Advantage, Tax Qualified

- The most recent approved rate increase was 20% in February of 2018.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of approximately 133% - 159%.
- If the rate increase is approved as proposed, the rates would be approximately 3 times the original rates.
- The Company waited to begin the rate increase process when the block was 100% credible.
- The Company applied a current discount/interest rate to calendar years more than 10-20 years past.



QUESTIONS

?????

Consumers & Interested Parties

**Long-term Care Public Hearing
Continental Casualty Company**



CNA Long Term Care

South Carolina Rate Increase Hearing

John Munro, FSA, MAAA
AVP & Actuary – LTC Inforce Management

Corey Peterson
Government Relations Director

November 7, 2019



Legal Disclaimer

One or more of the CNA companies provide the products and/or services described. The information related to policy terms and benefits is intended to present a general overview for illustrative purposes only, and does not alter or amend any contract. Only the relevant insurance policy can provide the actual terms, coverages, amounts, conditions and exclusions for an insured. All products and services may not be available in all states and may be subject to change without notice. "CNA" is a registered trademark of CNA Financial Corporation. Certain CNA Financial Corporation subsidiaries use the "CNA" service mark in connection with insurance underwriting and claims activities. Copyright © 2019 CNA. All rights reserved.

Agenda

- Introduction to Long Term Care Insurance
- The Long Term Care Insurance Product
- Adverse Industry Experience
- The Need for Rate Increases – Why and How?
- “Preferred Solution” Rate Increase Request
- “Older Products” Rate Increase Request
- What Else are we Doing to Help Stabilize the Block?
- Summary

Introduction to Long Term Care Insurance

What is Long Term Care (“LTC”)?

- A variety of services provided to those unable to take care of themselves
- Services can range from simple help with meal preparation to 24 hour monitored care
- Assistance and care for people with chronic disabilities that help them be as independent as possible

How are Insureds Eligible to Receive Benefits?

- Policy terms differ, but generally an individual becomes eligible for benefits if:
 - They need assistance with at least 2 of 6 Activities of Daily Living (“ADLs”), which might include Bathing, Dressing, Toileting, Transferring, Eating, or Continence; or
 - They require supervision due to a Severe Cognitive Impairment (Alzheimer's, Dementia, etc.)

What Does Long Term Care Insurance Cover?

- Pays for the cost of long term care services
- Does not pay for hospital or doctor bills
- Does not replace lost income

How can Benefits be Used?

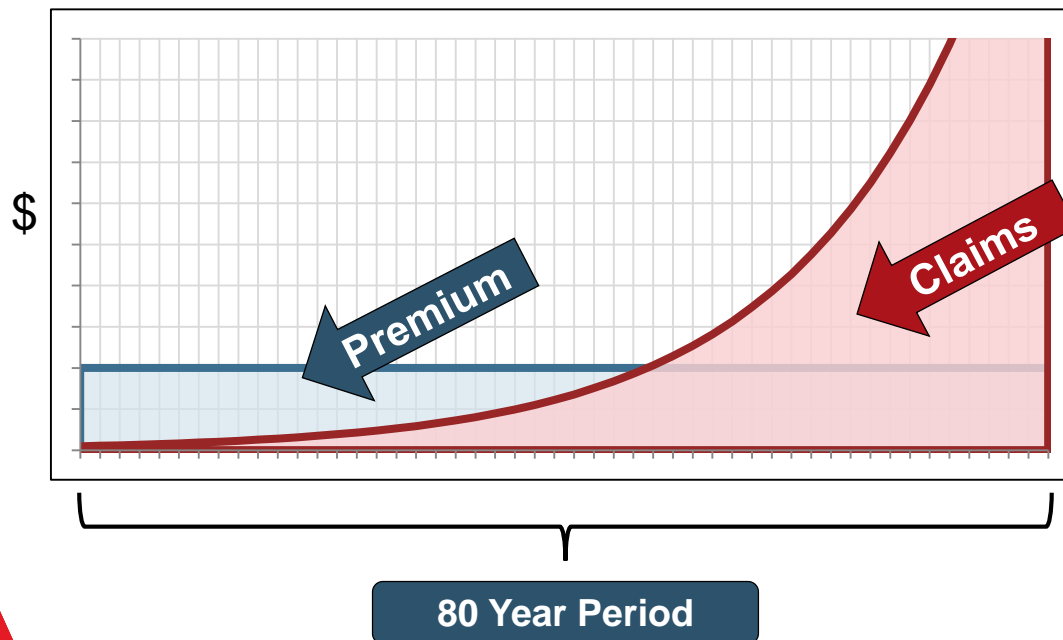
- Benefits may extend to:
 - Home Health Care
 - Assisted Living Facilities
 - Nursing Homes

The Long Term Care Insurance Product

Long Term Care insurance is a 'long duration product', where excess premium collected in early years is saved in a 'reserve' to pay for claims in the later years

Product Structure

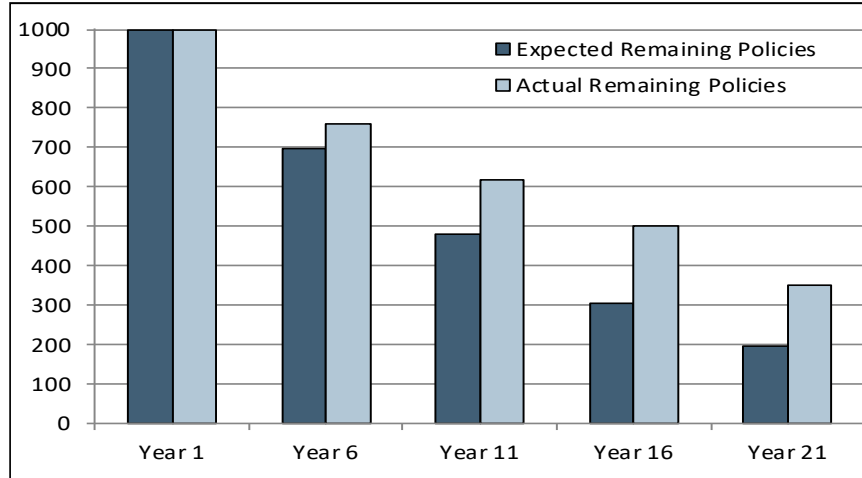
- Benefits in the form of a 'daily benefit' (\$150 per day, for example) to spend on services
- Lifetime Maximum – can be limited (5 years, for example) or unlimited
- May have optional riders such as inflation protection (i.e. daily benefit increases every year to help with inflation)



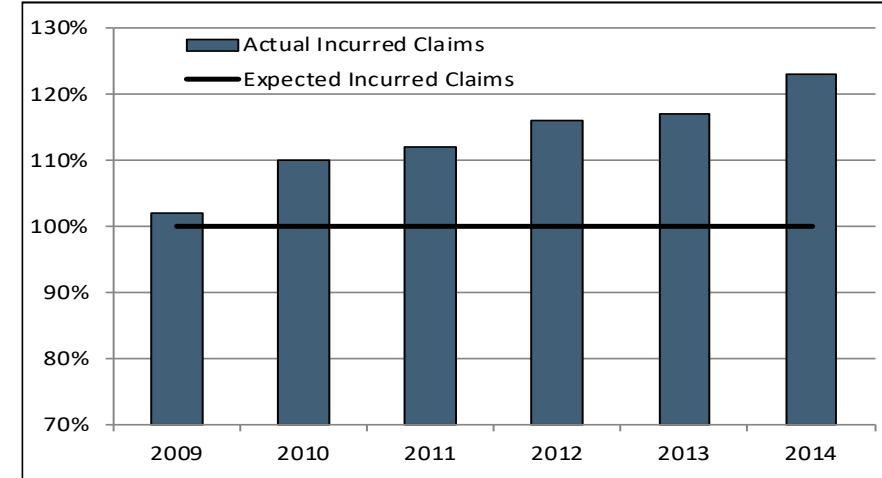
- Claims increase over time as policyholders age
- Early years, premium > claims → put aside surplus premium and 'save' for future claims in a reserve that grows with interest
- Later years, premium < claims → saved reserve helps pay for claims

Adverse Industry Experience

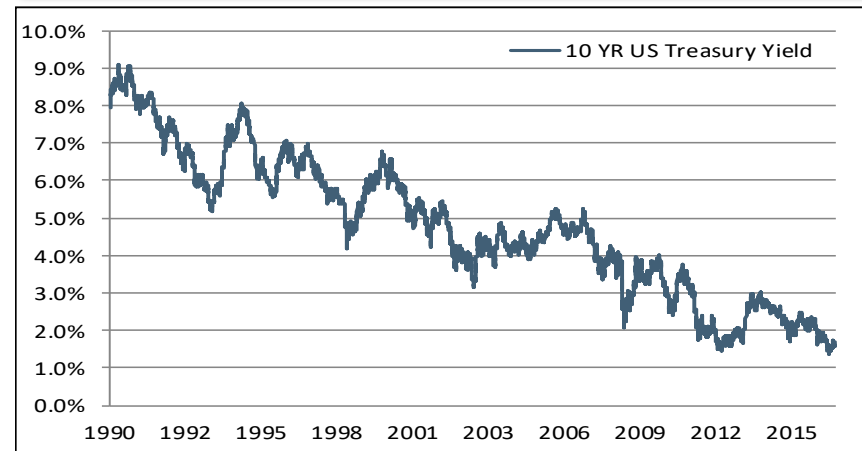
More Insureds Persisting (Mortality & Lapse)



High Incurred Claims



Low Interest Rates

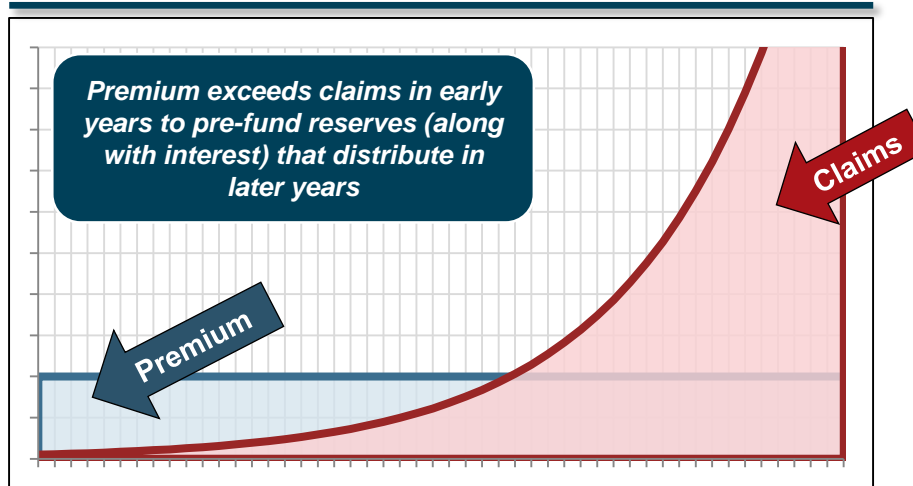


Adverse Experience

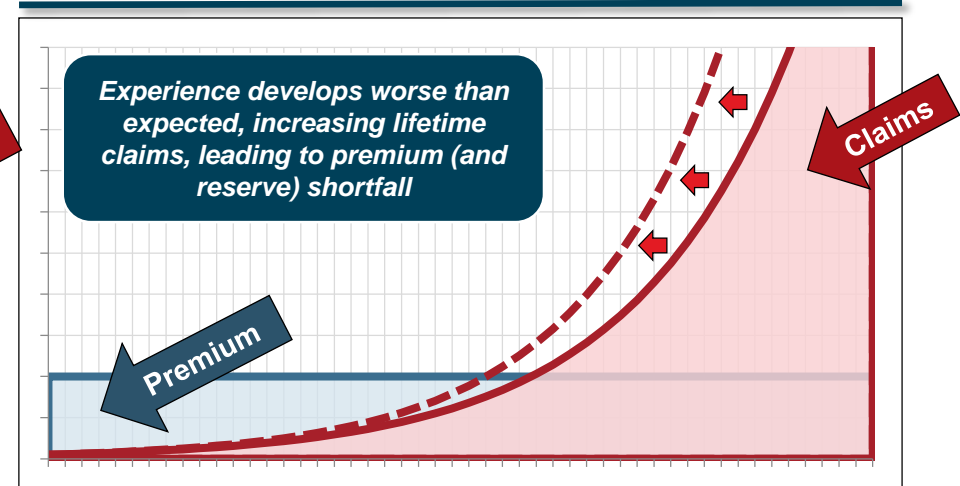
- This combination of adverse experience led to:
 - Increased Risk Profiles of LTC Insurance Blocks
 - Lower Returns on Invested Assets Used to Grow Reserves
 - Negative Financial Results, which have contributed to some insurer insolvencies

The Need for Rate Increases – Why and How?

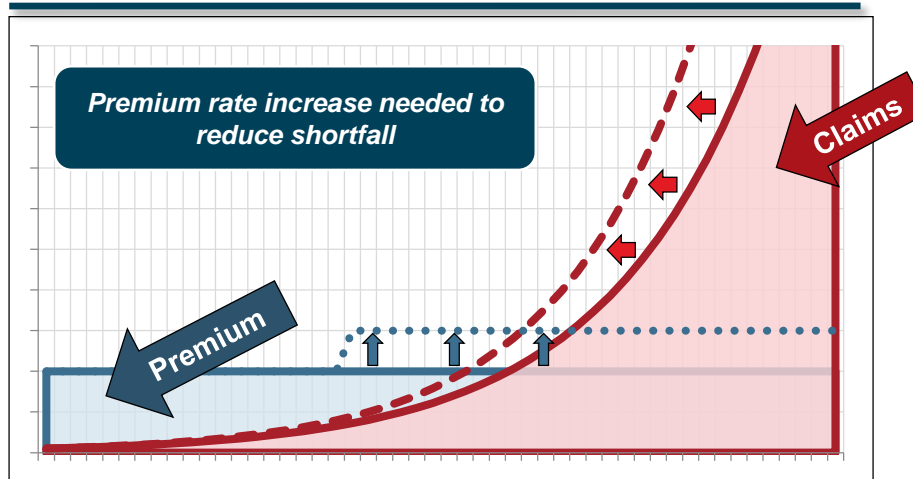
Original Pricing Example



Adverse Experience Development



Premium Rate Increase Needed



Commentary

- LTC product performance evaluated over the lifetime of the product
- Because of the long-term nature of LTC insurance, insurers have the right to increase premiums
- Determining need for a rate increase is a mathematical calculation that combines historical experience and future premium and claim projections (excludes expenses)
- LTC premium rate increases must be filed and approved by the state

“Preferred Solution” Rate Increase Request

CNA’s “Preferred Solution” product portfolio is our largest ILTC product generation with nearly 70,000 covered lives, \$4.1B in reserves, \$156M in annual premium and 3,800 open claims

As of September 30, 2019	Policy Counts	Open Claims	Annual Premium	Total Reserves
Nationwide	69,793	3,829	\$156.0M	\$4,131M
South Carolina	670	50	\$1.5M	\$36M

Rate Increase Overview

- The Preferred Solution product was sold between 1998 and 2003
- This Nationwide rate increase program only applies to policies with inflation riders, which is the rider that increases the insured’s benefits by 5% annually
- This is a follow-up rate increase
 - The Initial indication was that an increase of 146.5% was required to collect enough premium to pay claims over the life of the product (i.e. 100% lifetime loss ratio = total claims ÷ total premium)
 - 20% was approved in 2017
 - **This filing requests the remaining amount of 126.3%**
- Policyholder options in lieu of paying the rate increase
 1. Forego future benefit increases, retain currently inflated benefits, lower premium from current levels and completely avoid increase
 2. Stop paying premium and retain a ‘paid-up’ policy with benefits equal to 150% of lifetime premium paid
 3. Reduce lifetime maximum, lower the maximum daily benefit, extend elimination period or remove optional riders

“Older Products” Rate Increase Request

CNA’s “Older Products” consists of three product portfolios: “Premier/Classic”, “Preferred Advantage”, and “TQ”; These ILTC products consist of 56,000 covered lives, \$3.8B in reserves, \$110M in annual premium and 6,900 open claims

As of September 30, 2019	Policy Counts	Open Claims	Annual Premium	Total Reserves
Nationwide	56,169	6,927	\$110.5M	\$3,766M
South Carolina	307	32	\$0.7M	\$16M

Rate Increase Overview

- These products were sold between 1993 and 2003
- This Nationwide rate increase request varies by product in order to be sensitive to age distribution of the policies within each product portfolio (i.e. the older the product, the lower the rate increase requested)
- This is a follow-up rate increase filing
 - Initial request was 25% for Premier/Classic, 35% for Preferred Advantage, and 40% for TQ
 - 20% was approved on all products
 - **This filing requests the remaining amounts of 5% for Premier/Classic, 15% for Preferred Advantage, and 20% for TQ**
- Policyholder options in lieu of paying the rate increase
 1. Stop paying premium and retain a ‘paid-up’ policy with benefits equal to 150% of lifetime premium paid
 2. Reduce lifetime maximum, lower the maximum daily benefit, extend elimination period or remove optional riders, such as automatic inflation

What Else are we Doing to Help Stabilize the Block?

Wellness and Claim initiatives are designed to provide value to our insureds and have the potential to reduce claim risk over time, which could reduce the likelihood or size of future rate increases

Wellness Initiatives

Increasing efforts to make our insureds aware of services to help prevent injuries and keep them healthier

Fall Prevention	In home assessment, with personalized action plan and wellness kit, including a health coach and follow-ups to influence adoption
Emergency Response Device	In home sensors and wearable devices to detect potential falls and / or diminished capacity and provide timely medical intervention
Medication Management	App based medication management platform with built-in AI support to improve insureds medication adherence, limiting or delaying need for long term care
Cognitive Assessment & Training	App based cognitive assessment and brain training tool, aimed to address risks of cognitive decline and social isolation that can influence need for long term care

Claim Initiatives

Fraud, Waste & Abuse	Instituted more robust oversight to increase identification of suspicious claims for investigation; helps ensure claims are being paid to insureds that need care
Electronic Visit Verification	Utilizing technology to improve controls around independent caregivers to reduce overbilling
Provider Management	Driving lower utilization by making policyholders aware of virtual agencies (with lower overhead)

Summary

- The long term care insurance industry has faced a number of challenges due to increasingly adverse claims experience
- Due to the pre-funding nature of long term care insurance, additional premium dollars are required to ensure there is enough money to pay future claims
- As rate increases are difficult for insureds, we are providing options in lieu of paying the rate increase
- We continue to explore programs that could help insureds stay healthy and minimize fraud and waste, which could help insureds conserve benefits, lower the overall risk of long term care insurance to CNA, and possibly decrease the likelihood or size of future rate increases

Closing remarks by Director Farmer

**Long-term Care Public Hearing
Continental Casualty Company**

Stay Connected
Phone: 803-737-6160
Email: info@doi.sc.gov

You can also find us on



@SCDOI



South Carolina Department of Insurance



@South_Carolina_DOI

Long-term Care Public Hearing
Continental Casualty Company