



WHERE PROTECTION & REGULATION MEET

Prudential Long-term Care Public Hearing
Thursday, February 6, 2020

The Prudential Rate Increase Hearing

South Carolina Department of Insurance

Dave Dillon, FSA, MAAA
Senior Vice President & Principal

FEBRUARY 6, 2019



Overview of Rate Increase Requests

BLOCKS	SUMMARY
GLTC-2	<ul style="list-style-type: none">• 106% rate increase for all policies.• Sold between 1998 and 2013.• Applies to 14 South Carolina policyholders.
GLTC-3	<ul style="list-style-type: none">• 19% rate increase for all policies.• Sold between 2002 and 2013.• Applies to approximately 7,600 South Carolina policyholders.
GLTC-4	<ul style="list-style-type: none">• 10% rate increase for all policies.• Sold between 2009 and 2013.• Applies to approximately 540 South Carolina policyholders.



Overview of Rate Increase Requests

BLOCKS	SUMMARY
ILTC-1	<ul style="list-style-type: none">• Sold between 2000 and 2003.• Applies to 220 South Carolina policyholders.• Rate increase varies 20% to 139.9%.
ILTC-2	<ul style="list-style-type: none">• Sold between 2003 and 2005.• Applies to 124 South Carolina policyholders.• Rate increase varies 20.1% to 140.0%.
ILTC-3 (Pre 2012)	<ul style="list-style-type: none">• Sold between 6/2005 and 6/2012.• Applies to approximately 399 South Carolina policyholders.• Rate increase varies 15.0% to 118.6%.
ILTC-3 (Post 2012)	<ul style="list-style-type: none">• Sold between 3/2012 and 7/2012.• Applies to approximately 18 South Carolina policyholders.• Rate increase varies 0% to 55%.

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

Group LTC (Policies: GLTC-2, GLTC-3 & GLTC-4)

- No previous rate increases have been requested for the GLTC2 and GLTC4 blocks
 - SC policyholders account for a very small percentage of these two blocks nationwide.
- For GLTC-3, a 40% increase was requested in 2015; however, only 20% was approved. The remaining 16.7% was re-submitted and approved in 2017.
 - SC accounts for 10% of this block. SC is the 3rd largest state in the nationwide block.
- The GLTC2 and GLTC3 filings have applied a discount/interest rate that is different than used when initially filed for approval in SC.
- These Group LTC products were initially priced assuming higher loss ratios than were required by regulation.
- The projections indicate that rate increases may not be warranted for all policy types (e.g. limited benefit periods, no inflation protection, etc.).

Specific Filing Observations

Individual LTC (Policies: ILTC-1)

- To date, not counting the proposed rate increase, there have been cumulative rate increases of approximately 102% - 148% depending on the benefits.
 - If the proposed increase is approved, the average rate will be approximately 4.4 times the originally approved rate, with some policies as high as 5.5 times the original rate.
- Not all states are approving the same level of increases as South Carolina.
 - Average SC approved rate increase is 132% vs a 93% nationwide average increase.
 - South Carolina only represents approximately 1% of the Nationwide block.
- The filing has applied a discount/interest rate that is different than used when initially filed for approval in SC.
- Approximately 30% of original policyholders remain in force.
 - Any rate increase which returns the lifetime loss ratio to the originally targeted level would necessitate recouping losses from terminating policies onto remaining policyholders.

Specific Filing Observations

Individual LTC (Policies: ILTC-2)

- To date, not counting the proposed rate increase, there have been cumulative rate increases of approximately 54% - 88% depending on the benefits.
 - If the proposed increase is approved, the average rate will be approximately 3.4 times the originally approved rate, with some policies as high as 4.2 times the original rate.
- Not all states are approving the same level of increases as South Carolina.
 - Average SC approved rate increase is 70% vs a 45% nationwide average increase.
 - South Carolina only represents approximately 1% of the Nationwide block.
- Approximately 30% of original policyholders remain in force.
 - Any rate increase which returns the lifetime loss ratio to the originally targeted level would necessitate recouping losses from terminating policies onto remaining policyholders.

Specific Filing Observations

Individual LTC (Policies: ILTC-3)

- To date, not counting the proposed rate increase, there have been cumulative rate increases of approximately 10% - 45% for policies included in the ILTC-3 (Pre 2012 filing).
 - If the proposed increase is approved the average rate will be approximately 2.4 times the originally approved rate, with some policies as high as 3.2 times the original rate.
- A flat 15% increase has been approved for policies in the ILTC-3 (2012+ filing).
 - The proposed 55% rate increase only applies to policies that have inflation protection.
- South Carolina only represents approximately 1% of the Nationwide block of business.
- The ILTC-3 pre 2012 filing has applied a discount/interest rate that is different than used when initially filed for approval in SC.



QUESTIONS

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Comments from Consumers and Interested Parties

Prudential Long Term Care

***South Carolina Department of Insurance
Rate Increase Public Hearing***

***Keith Burns, Vice President & Actuary
Michael McCann, Vice President Gov't Affairs***

February 6, 2020

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An Overview of Long-Term Care Insurance (LTCI)



Long-Term Care Insurance helps cover the costs of personal and medical care of individuals who become disabled due to age or chronic illness.



Long Term care insurance helps pay for a range of services that are generally not covered by health insurance, Medicare or Medicaid.



To qualify for Medicaid, your income has to be low enough to meet state requirements. Health insurance and Medicare only cover up to a maximum of 100 day benefit period.



Benefit eligibility is based on the insured's loss of ability to perform two of the six activities of daily living or having a severe cognitive impairment.



Prudential's long-term care insurance products are Tax-Qualified, meaning the premiums paid are eligible for an income tax deduction.

Services Covered by LTCI

Institutional Care



Assisted Living Facility



Nursing Home



Hospice Care

Home & Community Based Care



Home Health Care



Adult Day Care



Personal Care

Activities of Daily Living



Dressing



Toileting



Bathing



Continence



Eating

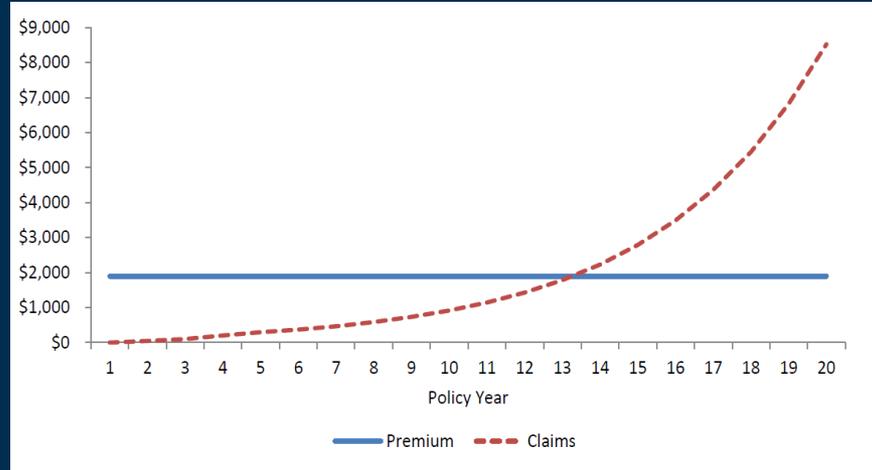


Transferring

Overview of Long-Term Care Insurance, continued

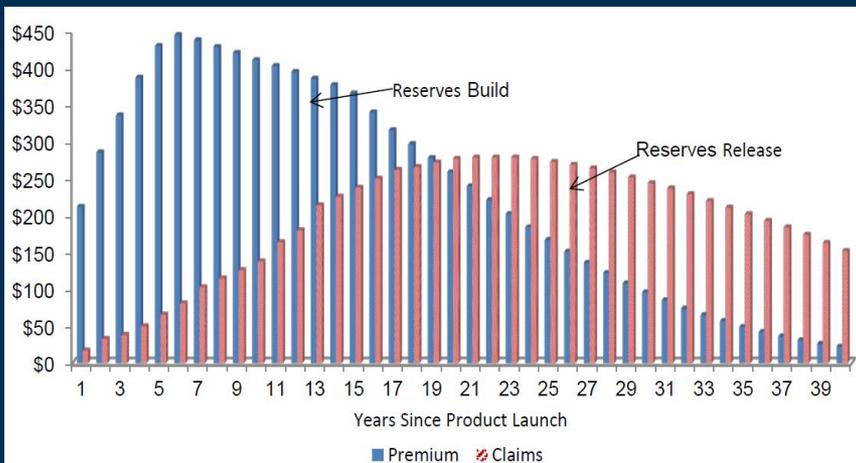
State laws require LTC Insurance (LTCI) policies to be guaranteed renewable and level funded for a policyholder's lifetime. The pattern of premium and claims over the duration of the policy is illustrated on the right. Initial premiums were determined based on common industry assumptions.

LTCI Premium & Claims



Source: Nordman, 2016. **The State of Long-Term Care Insurance: The Market, Challenges and Future Innovations.** NAIC

Cash Flows Over Time



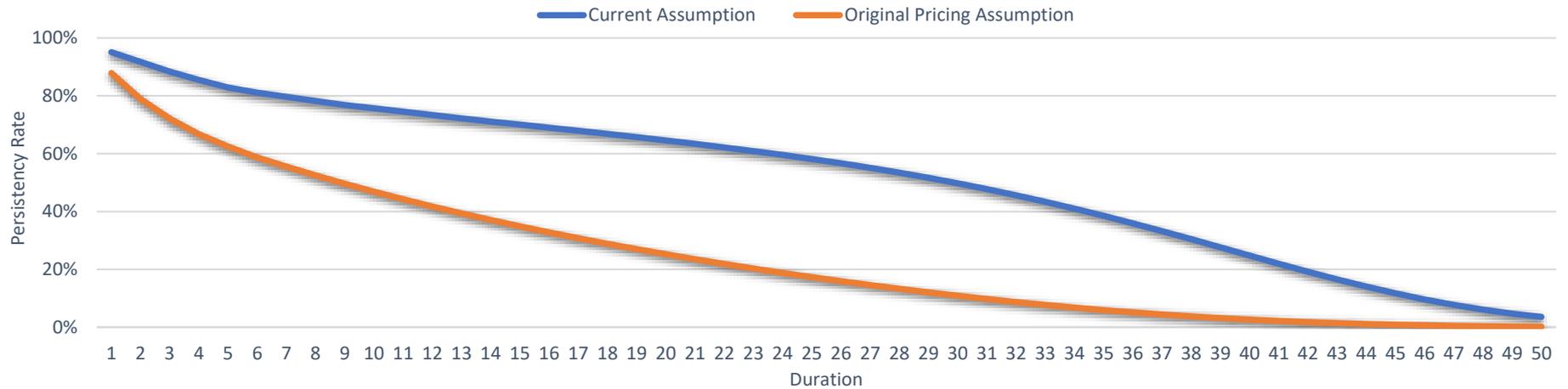
Source: Nordman, 2016. **The State of Long-Term Care Insurance: The Market, Challenges and Future Innovations.** NAIC

Due to the mismatch of premium and claims, insurers must hold an active life reserve. This reserve will earn investment income and is used to fund the benefit payments and expenses in excess of the premium and investment income in later years (e.g., years 20 and later in the graph to the left).

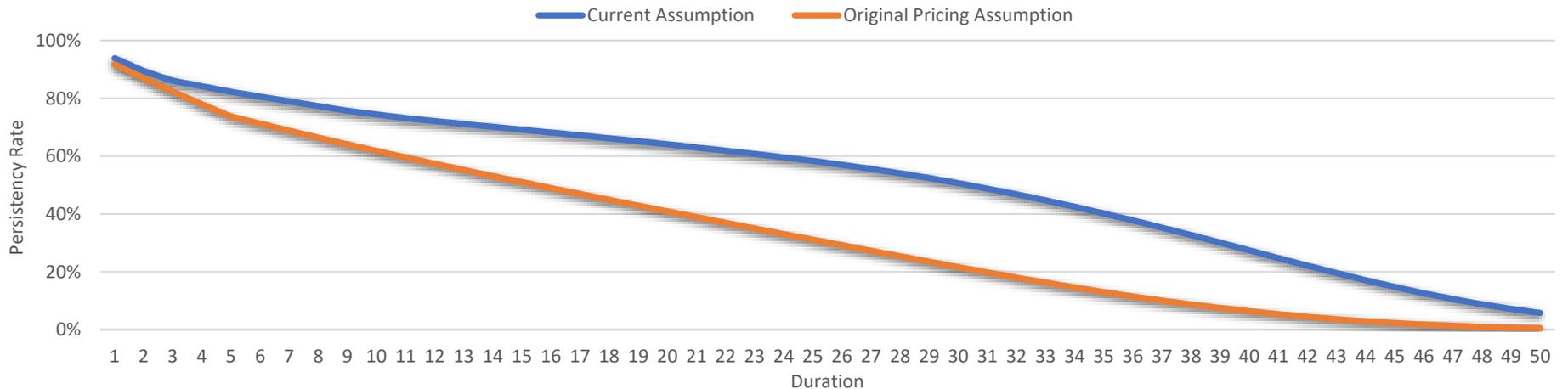
Why Rate Action is Necessary

- Due to lower voluntary lapse rates and mortality it is projected that a significant number of policyholders will remain in force much longer than originally expected.

ILTC1 Persistency



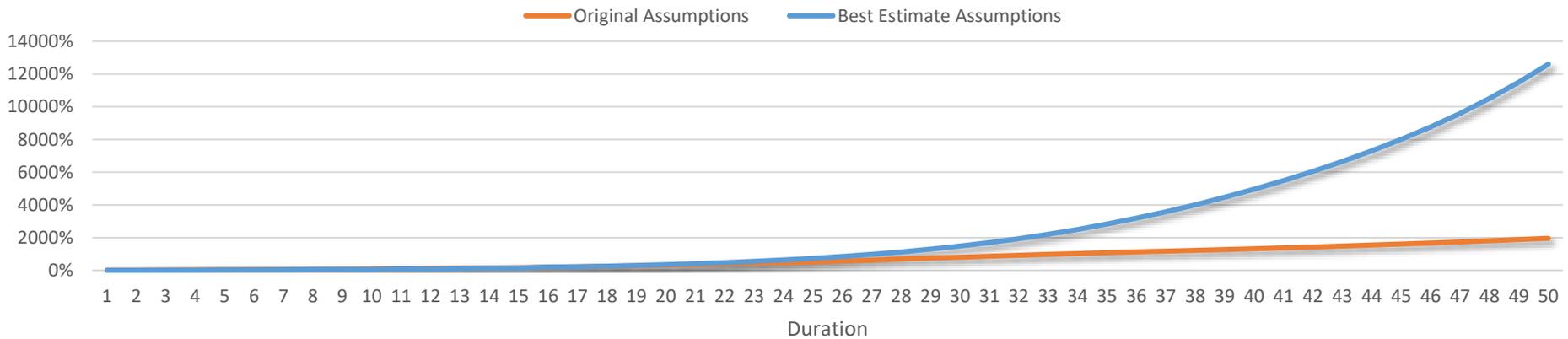
GLTC3 Persistency



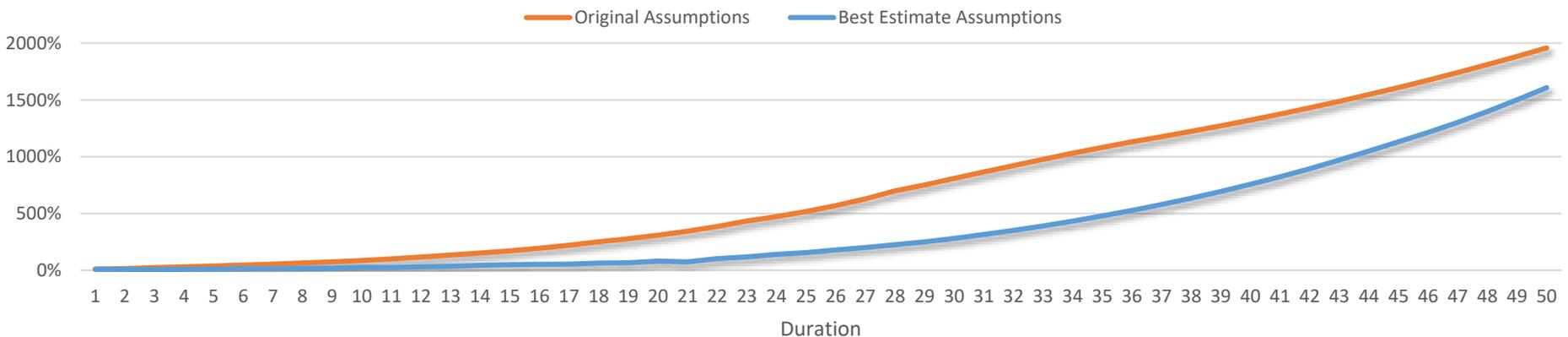
Why Rate Action is Necessary

- Policy duration loss ratios are claims incurred divided by premium earned for each year the product remains active. The loss ratios are significantly larger in later policy durations when policyholders are older and more likely to go on claim.

ILTC1 - Loss Ratio by Duration



GLTC3 - Loss Ratio by Duration



Why Rate Action is Necessary

- Given policyholders remain in force longer than expected and loss ratios are high in the later durations, the overall impact is the lifetime loss ratios are much larger than what was assumed in the original pricing.

Projected Lifetime Loss Ratios	ILTC1	GLTC3
Original Pricing	68%	92%
Without any rate increase action	298%	136%
With previous SC rate adjustments	216%	114%
With previous and current requested SC rate adjustments	161%	105%

Rate Increase Requests – Individual Product Forms

- The following table represents South Carolina cumulative requests along with previous approvals which are used to determine the current need in South Carolina on an average basis by product.

South Carolina History of Requests & Approvals To Date							
	Average Cumulative Requested Increases, including the Current Request	Average Previously Approved in SC	Previous Request That was Not Approved	Add'l Rate Increase Needed	Average Current Request	Inforce Count	Inforce Annualized Premium
ILTC1	332%	118%	20%	65%	98%	220	\$803,746
ILTC2	213%	64%	20%	59%	91%	124	\$333,873
ILTC3	140%	40%	15%	49%	72%	399	\$1,176,451
ILTC3R	62%	15%	0%	40%	40%	18	\$42,474

- The rate increase amounts vary by the presence or absence of inflation benefits and by the length of the benefit period. This is intended to better match our emerging experience and loss ratio expectations with the rate increase requests.

Requested Rate Increase by Benefit					
Inflation Type	Benefit Period	ILTC-1 – Prudential Long Term Care SM	ILTC-2 – LTC By Design SM	LTC-3 SM	ILTC-3 Refresh SM
No Inflation	Lifetime or 10 year	74%	74%	73%	0%*
No Inflation	Less than 10 year	20%	20%	15%	0%*
Auto Inflation	Lifetime or 10 year	140%	140%	119%	55%
Auto Inflation	Less than 10 year	74%	74%	73%	55%
Average Increase		98%	91%	72%	40%

*No active policies in South Carolina

Rate Increase Requests – Group Product Forms

- The following table represents South Carolina cumulative requests along with previous approvals which are used to determine the current need in South Carolina on group products.

South Carolina History of Requests & Approvals To Date							
	Average Cumulative Requested Increases, including the Current Request	Average Previously Approved in SC	Previous Request That was Not Approved	Add'l Rate Increase Needed	Average Current Request	Inforce Count	Inforce Annualized Premium
GLTC2	106.0%	N/A	N/A	N/A	106.0%	14	\$29,760
GLTC3	66.6%	40.0%	19.0%	0.0%	19.0%	7602	\$12,966,898
GLTC4	10.0%	N/A	N/A	N/A	10.0%	542	\$664,985

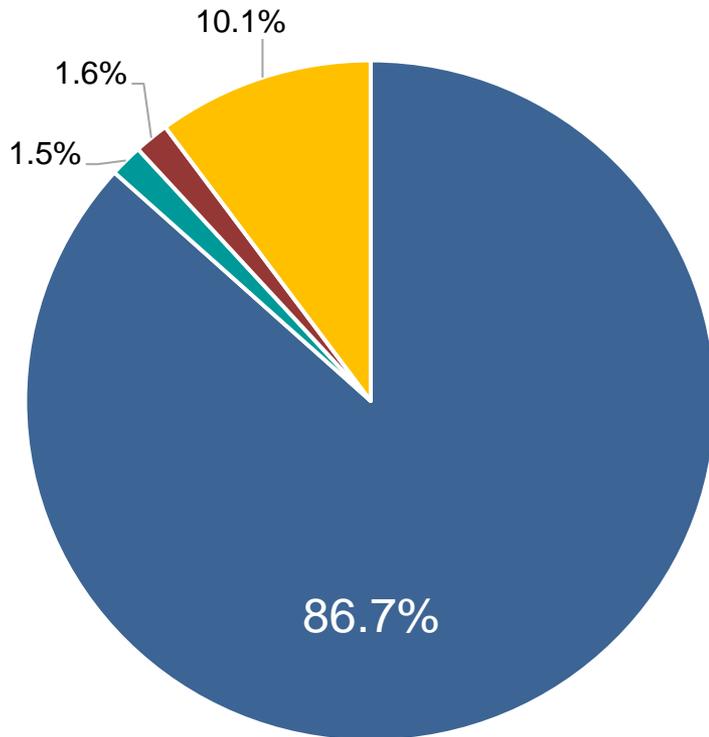
- Rate increases for Group products do not vary by inflation or benefit period, since most Group customers have GPO (non-automatic) inflation and ≥ 5 year benefit periods.
 - Note that in South Carolina, **85%** of Group customers have GPO (non-automatic) inflation and ≥ 5 year benefit periods.

Options for Dealing With Rising Premiums

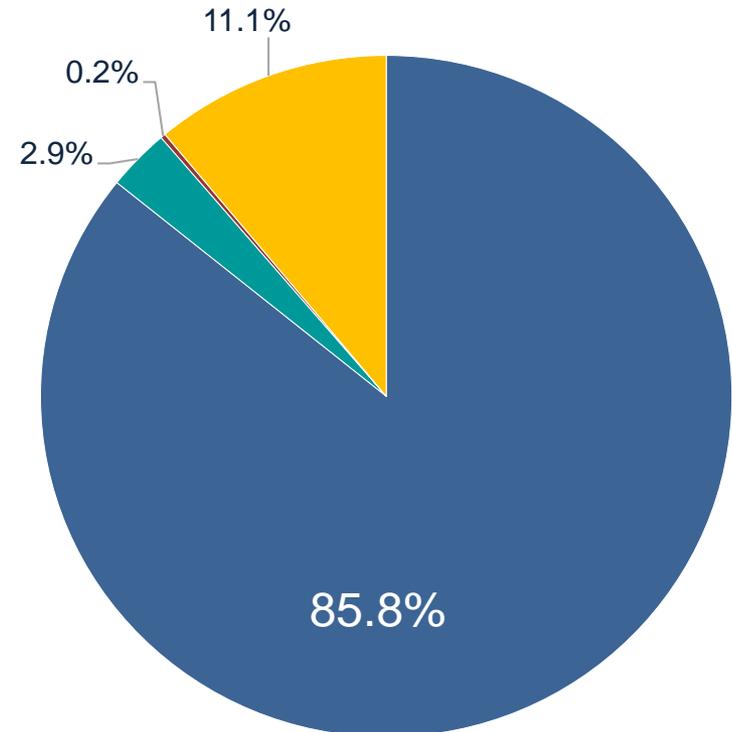
- Prudential is now offering Individual LTC customers an inflation landing spot.
 - Customers continue to pay existing premium amounts
 - Retain current inflated benefit amount
 - Receive lower inflationary accruals in the future
 - Lower inflation is actuarially equivalent to the premium rate increase
- Prudential has other benefit reduction options.
 - Reduce Lifetime Maximum Benefit
 - Reduce Daily Maximum Benefit
 - Increase Benefit Waiting Period
 - Reduce % of Home Health Care Benefit
 - Remove Optional Riders
- All customers can exercise a paid-up non-forfeiture benefit.
- Not all options are available to group customers.
- Prudential is considering other benefit reduction options with all products.

What do Prudential Customers Choose To Do?

Individual Products
ILTC1, ILTC2, ILTC3, ILTC3 Refresh
Prior to Landing Spot Offer



Group Product
GLTC3



■ Accepted Full Rate Increase ■ Exercised NFO/CNFO ■ Terminated Policy ■ Reduced Benefits

Nationwide Experience

Prudential's Long-Term Care Initiatives

- Like most other long-term care (LTC) insurers, Prudential has periodically filed for rate increases for our closed block of group and individual long-term care insurance. These rate increases are necessary due to significant losses resulting from deteriorating experience. Prudential has also spent considerable time and resources to improve our administrative processes and procedures, as well as our claim management protocols, to improve the customer experience and financial results.
- Prudential has identified a range of initiatives to significantly improve our claim management processes, increase our operating efficiency, and lower our claim costs, while maintaining a strong adherence to our obligations to timely pay all appropriate contractual benefits.
- The following are some of the initiatives under consideration:
 - Pre-Claims
 - Encourage currently healthy insureds not yet on claim to be proactive about their health, participate in wellness programs such as the LIFT fall prevention wellness program, regularly visit their healthcare professionals, and take preventative measures such as health screenings.
 - Claim Management
 - Implement FastPay/electronic visit verification technology and procedures to improve the collection and use of validated claim support data, streamline the process, and improve claim payment timing.
 - Data Analytics
 - Leverage advanced data analytics to reduce fraud, waste and abuse where it is most justified and appropriate.

Pre Claims

In 2017, the LTC insurance industry paid \$9.2 billion¹ in claims. Approximately 26%² (\$2.3 billion) is estimated to have resulted from injury or stroke/heart disease, which can sometimes be prevented. Prudential is pursuing a trial implementation program to lower the risks of these types of claims.

LIFT Falls Prevention Wellness Program

- ✓ In-home visits to at risk customers who are not on claim.
- ✓ Conduct an assessment of customers' home.
- ✓ Recommend home modifications, with a focus on fall prevention, such as securing rugs, adding night lights and adding grab bars in the bathroom.



Life Line Screenings

- ✓ Conduct preventive health screening services designed to identify risk factors that can lead to heart disease, stroke, and other serious illnesses.
- ✓ Recommend behavior changes related to nutrition and exercise.

¹ <http://www.aaltci.org/news/long-term-care-insurance-association-news/long-term-care-insurance-industry-paid-9-2-billion-in-claims-in-2017>

² Society of Actuaries, Long Term Care Committee, 1984-2007 Intercompany Experience Study

Claims Management & Data Analytics

Electronic Visit Verification (EVV) – LTC FastPay

- ✓ All home health care providers check in and check out for each shift worked.
- ✓ Services provided are entered into mobile app or telephonic time card.
- ✓ Invoice submitted ONLY for actual hours worked, which reduces/eliminates overbilling for care not provided.
- ✓ System-based verification of caregiver identity and location of care.
- ✓ Online claim approval and submission.

Data Analytics

- ✓ Develop data analytics and reporting strategies using claims data, policy administration metrics, and other data.
Potential uses include:
 - Provide insight to better direct pre-claim wellness protocols to at-risk customers.
 - Develop algorithms to detect fraud, waste & abuse (FWA) within the claimant population and assist in benefit determinations.
- ✓ Enhance existing FWA detection efforts by bringing in staff to target LTC matters (e.g., identify suspicious patterns of behavior).

Expected Outcomes

- ✓ Enhanced fraud detection and prevention practices
- ✓ Improved oversight practices, particularly for claim eligibility and claim payment processes
- ✓ Lower claim & operational costs
- ✓ Enhanced customer service & experience



Closing Remarks

Director Ray Farmer



WHERE PROTECTION & REGULATION MEET

Contact us at:

1-800-768-3467

Or

803-737-6160

We are located at:

1201 Main Street

Suite 1000

Columbia, SC 29201

Visit us at:

doi.sc.gov

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