

Frank Dino (FL) chaired the call. Other committee members participating included Mike Batte (NM), John Hartnedy (AR), John Rink (NB), Gerald Lucht (IL) and Tomasz Serbinowski (UT). Sheldon Summers (CA), a member of the Life & Health Actuarial Task Force, also participated.

The purpose of the discussion was to determine whether the group should make any recommended changes relating to each of several issues summarized by Mr. Dino in an attachment dated January 30, 2004 to the minutes of the January 20 A&HWG conference call. If the group agreed that action was appropriate, the committee sought to achieve consensus as to whether the change should be in the Long Term Care Insurance Model Act (hereafter, Model Act), the Long Term Care Insurance Model Regulation (hereafter, Model Reg) or in the Guidance Manual. This was the second of a two-part discussion that began April 15, 2004.

Following is a summary of the working group's discussion:

1. Interest used to justify rate increases.

Currently, the Model Reg deems that the appropriate discount rate in calculating a rate increase must equal the valuation interest rate. Mr. Dino suggested that the model be changed to require that the discount rate be *no less than* the valuation rate. By this change, it permits a company to use a higher rate and, therefore, determine a lower needed rate increase

Bill Carroll, representing the ACLI, and Bill Weller, representing AAHP-HIAA, suggested that such a change would unfairly restrict insurance company options where interest rates had dropped even below the valuation rate. They requested that if any change were made, that the restriction to rates below the valuation rate be lifted also.

The committee agreed that a change to the Model Reg was appropriate with the specifics to be determined at a later date.

2. Discontinued forms

Mr. Dino recommended that when a new form filing is submitted, any forms discontinued within the prior five years be added to the to the actuarial certification.

The committee achieved consensus on a recommendation by Mr. Batte that the committee take no action on this item and leave the issue to be dealt with by each individual state.



3. Net-to-gross test

The issue is whether Section 10 of the Model Reg be modified to require that a gross premium valuation test be met for each rating cell rather than in the aggregate only. The justification is that rate adequacy is enhanced where the distribution of business is other than anticipated.

Mr. Hartnedy expressed the opinion that such a change would constitute regulatory micro-management. Mr. Dino defended the action based on the complexity and multitude of issues to be considered for long term care insurance and that removing the distribution of business from among the issues would add significant stability to the rating structures.

The committee concurred with Mr. Batte's suggestion that the issue be dealt with in the guidance manual rather than via change to the Model Reg.

4. Rate increase certification

The issue: in the event a company requests a rate increase, should margins be required in the underlying assumptions which thereby increase the size of the rate change otherwise necessary.

Mr. Batte articulated the two sides of the issue to be considered: 1) on the one hand, required margins would increase the probability that the new rate levels would be adequate and stable; 2) on the other hand, margins may force rate increases higher than necessary if revised best estimate assumptions are met.

The committee agreed to take no action on this issue and to leave disposition to the individual states.

5. Pooling

Pursuant to a recommendation by Mr. Summers, the committee discussed whether the pooling of all similar forms, where a rate increase has been requested, be function of a 15% threshold on the amount of the increase.

The committee agreed to at least attempt to handle this issue first through the Guidance Manual.



6. Non-forfeiture values

Mr. Summers recommended that the value of non-forfeiture options be a function of the defined minimum in the model regulation and – with the minimum as a base – proportional to premiums paid.

There was substantial confusion about exactly what was being proposed.

Mr. Weller proposed that, if the committee desired that non-forfeiture values be proportional to premiums paid, the currently defined minimum non-forfeiture value be repealed.

The committee agreed to this recommendation.

John Heins, FSA

10 May 2004

