APPLICANT'S EXHIBIT 13

Hearings Unit Case No. 16-0002

Office of the Insurance Commissioner

#2002-02
February 2002

Long-Term Care Insurance: An Assessment of States' Capacity to Review and Regulate Rates

by

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The AARP Public Policy Institute, formed in 1985, is part of the Policy and Strategy Group at AARP. One of the missions of the Institute is to foster research and analysis on public policy issues of importance to mid-life and older Americans. This publication represents part of that effort.

The views expressed herein are for information, debate, and discussion, and do not necessarily represent official policies of AARP.

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TABLE OF CONTENTS

TABLE OF TABLES AND EXHIBITS

APPENDIX B

Foreword

Private long-term care insurance can play an important role in helping people plan for a future in which they might become disabled and require help with everyday activities. A primary issue surrounding this type of insurance has been its affordability. Determining for whom such insurance is suitable is indeed a difficult issue.

Policies generally are sold with what is called a level premium – meaning that insurers cannot raise premiums based on individual circumstances, such as the onset of disability. What consumers often fail to realize, however, is that insurers can, and often do, raise premiums for entire "classes" of individuals. For example, insurers might raise premiums for all purchasers of a particular type of policy or all insured individuals age 70 and older. Steep increases in premiums can cause long-term care insurance policies to become unaffordable, resulting in benefit lapse and complete loss of coverage.

Because the risk of needing long-term care increases with age, a policy sold to a younger individual will cost less than the same policy sold to an older individual. For this reason, many advocates of long-term care insurance have encouraged consumers to purchase policies in their 40s or 50s. Indeed, a policy purchased in mid-life will be considerably cheaper than one purchased at age 70 or older, and at mid-life earnings are likely to be at their peak. However, younger consumers may be paying premiums for the next 30 to 40 years, since the need for long-term care increases dramatically in one's mid-70s or 80s. If premiums truly remained level, it would be relatively easy to plan for making these payments over many years. Unfortunately, the experience to date indicates that premium increases are likely and, in some cases, dramatic.

In order to gain a better understanding of how the current system of regulating long-term care insurance allows these steep premium increases to occur, AARP commissioned The Lewin Group to conduct a survey of state regulatory practices in the areas of reviewing and regulating initial rate setting and premium increases. This effort is part of AARP's overall mission of ensuring the accessibility and affordability of long-term care services for mid-life and older Americans. It is our hope that the results of this survey will be used by state regulators to improve their capacity to regulate private long-term care insurance, thereby making such products a more reliable option for consumers.

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Executive Summary

Introduction and Background

When long-term care insurance (LTCI) was marketed in the early 1980s, it was difficult for insurers and regulators to determine appropriate pricing for policies. There was simply no claims experience to inform decision-making. As a result, many policies were priced too low, and premiums subsequently had to be increased. Although the LTCI industry now has more than a decade of claims experience, rate hikes in the premiums paid for these policies remain a concern. This concern has been heightened by recent rate increases of as much as 40 percent by two large LTCI carriers. In addition, there is limited claims experience for newer products with more comprehensive and costly benefits (e.g., assisted living or home modifications).

State regulation of LTCI premiums plays a key role in ensuring the accurate pricing of policies and, thereby, preventing rate increases. If states fail to devote adequate resources to this function, their regulatory capacity will fail to ensure accurate pricing of LTCI policies.

When consumers purchase an LTCI policy, their premiums (for a given set of benefits) are determined by their age at time of purchase; younger purchasers pay smaller premiums than older purchasers. Pricing is structured in this way because younger policyholders will pay premiums for a longer time before incurring any benefits. Insurers cannot raise premiums for specific individuals, but generally may raise premiums for an entire age block of policyholders (e.g., everyone who bought a given policy at age 55), a concept that is not always understood by purchasers.

Large rate increases, or a series of rate increases over time, concern regulators and consumer advocates because, among other things, they: (1) threaten purchasers' abilities to continue paying for coverage; and (2) erode confidence in the products being offered by the industry. Appropriate pricing ensures consumers do not pay too much or too little for a policy. Underpricing may be even more dangerous than overpricing because subsequent rate increases become necessary to compensate for an inadequate initial price. These rate increases may cause consumers to drop policies in which they have invested substantial resources, often at a time when they will need the coverage the most and have the least ability to absorb an increase in premiums.

Two forces contribute to inappropriate pricing of LTCI policies:

(1) Market Competition. Price competition among insurers, while helping to prevent overpricing, may create incentives to underprice long-term care insurance policies. By offering lower prices, insurers may hope to capture a larger share of the market. LTCI is a pre-funded product, in which purchasers pay more than the amount necessary to cover claims in the early years of the policy and less than necessary to cover claims in the later years. If purchasers pay too little initially, premiums may need to be raised to make up not only for this deficit, but also for the interest that could have been earned on those premiums. Thus, competition could exert pressures that would lead to rate increases, and, therefore, is an insufficient check on pricing.

(2) Lack of Consumer Understanding. Theoretically, the most savvy, informed consumers might be able to question the appropriateness of a policy's price. However, in reality, LTCI pricing can be complex, even for a trained actuary. Moreover, consumers lack even the most basic comparative information about policies and their rate histories, making it impossible to compare insurers' business practices. Thus, consumers generally cannot judge the accuracy of LTCI premiums.

State regulation of LTCI premiums may be the only mechanism for ensuring accurate pricing. State regulation of LTCI strives to ensure reasonable premiums and a minimum of rate increases. However, several studies in the last decade question the adequacy of state regulatory efforts, citing insufficient consumer protection and chronic shortages of staff and resources.[1]

To address these concerns about price stability in the LTCI market The Lewin Group was commissioned to conduct a survey of state insurance departments' current practices relating to the regulation of LTCI, and to assess their ability to effectively regulate the LTCI market.

Methodology

The Lewin Group surveyed the insurance departments of 49 states (California declined to participate) and the District of Columbia. Surveys were faxed to state insurance departments, and respondents had the option of replying by fax or telephone. Lewin tabulated the results and assigned each state a score between one and five on each of the following dimensions of LTCI rate regulation:

- Extent to which the state reviews rates
- Qualifications of the individual reviewing rates
- Adequacy of information requested for the rate review process
- Loss ratio requirements
- Ability to track problem insurers
- Extent to which state monitors the LTCI marketplace
- Consumer access to LTCI information

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[1] U.S. House of Representatives, Select Committee on Aging, Subcommittee on Health and Long-Term Care, *Long-Term Care Insurance: State Regulatory Practices Provide Inconsistent Consumer Protection*, Washington, DC: General Accounting Office (April 1989).

AARP, *State Variation in the Regulation of Long-Term Care Insurance Products*, Prepared by Project Hope, Washington, DC: AARP (January 1992).

U.S. House of Representatives, Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Wishful thinking: A world view of insurance solvency regulation*, Washington, DC: U.S. Government Printing Office (October 1994).

A composite score was also computed for ease of use in comparing Lewin's ratings to other objective measures of outcomes.[2] It should be noted that these data were self-reported, and actual practices may differ from those reported.

Findings

All but a few states report reviewing premiums for LTCI, but the quality of information requested is limited and the statutory authority for initial and subsequent reviews varies across states. Forty-five states (90 percent) regularly review both initial premiums for new policies and filings for premium increases (though this review may be limited to certifying the adequacy of the loss ratio). Alaska and Louisiana do not review rates at all. Three others review initial filings, but have no legal authority to review subsequent changes in rates.

Due to the complex financial nature of the LTCI product, determining the validity of an insurer's justifications for a pricing scheme requires actuarial expertise. However, actuaries comprise only a little more than half (56 percent) of the individuals reviewing rates. Five states (10 percent) refer questions to an actuary "as needed" during the rate review process. Seventeen states (34 percent) do not use actuaries at all or did not review rates, raising concerns about the ability of regulators in these states to understand the intricacies of LTCI pricing.

Further, most states fail to gather all the information necessary for a comprehensive review of the factors that affect LTCI premiums. To assess the accuracy of a premium, a regulator must know the details of the policy in question (such as the definition of the benefit trigger used) and the specific assumptions used in pricing the policy (such as assumptions about the lapse rate or interest rate). Only six states (12 percent) collected all the information necessary to justify rate increases. States seem to do a more thorough job of evaluating initial premium filings than filings for premium increases. Seventeen states (34 percent) request all the actuarial information deemed necessary in this report for initial filings.

States primarily use the "loss ratio" to evaluate LTCI premiums (the percentage of claims paid divided by premiums collected from policyholders.) However the loss ratio is an imperfect measure of the extent to which a policy benefits consumers, and is often not enforced. All but one of the states reviewing rates use some sort of loss ratio criteria to evaluate LTCI premiums; the most common requirement is that a policy meet a loss ratio of 60 percent or better. Enforcement of loss ratio requirements, however, is limited – only 17 states evaluate loss ratios at times other than when rate increases are filed. Thus, if a policy is initially overpriced, there may not be an opportunity for the state to step in and correct it. In addition, only 13 states have a criterion for determining whether a new policy is priced too low, meaning that many policies reach the market that will almost certainly experience rate increases in the future. Because of the complexity of LTCI pricing, loss ratios can be manipulated by altering many of the underlying assumptions, such as the lapse rate, mortality tables, and (especially) interest rates. Thus, it is possible for an insurer to create a higher loss ratio to justify a rate increase simply by altering assumptions (e.g., assuming a lower interest rate on reserves) and without changing any substantive elements of a policy or its experience. Most states do not stipulate that

[2] Details of the rating methodology are presented in Appendix C.

specific assumptions be used; for example, only five percent of responding states dictated the interest rate that insurers could use in computing loss ratios.

States have limited ability to monitor problems or trends in the local marketplace. States may conduct more thorough reviews if they perceive an insurer to be problematic or if they view rate increases as being a large problem within the market in general. However, our survey results suggest that most states have only limited ability to track trends in LTCI premiums. Most states (84 percent) request the rate history of a policy when an insurer wants to increase premiums. However, in terms of their ability to analyze past filings, only about a third of the states can easily retrieve rate histories and other LTCI information electronically. The other two-thirds of the states either cannot analyze their records or would have to do so by laboriously compiling paper and microfiche records.

Insurance departments also report having limited information about the LTCI marketplace in their own states. One in four respondents could not provide the number of insurers offering LTCI policies in their state, and the majority of insurance departments (78 percent) do not collect information on the number of in-force policies in their states.

Consumers have little ability to assess the accuracy of LTCI pricing themselves. In our assessment, it would be very difficult for the typical consumer to determine whether a premium might increase in the future. In all but one of the states that review rates, rate information is public. However, it is highly unlikely that many consumers would be able to take advantage of this information in its current form. In more than half the states responding (25 states or 57 percent), consumers would have to visit the insurance department in the capital and go through the records themselves to find information on rate histories. Only 11 states offer consumers a relatively simple means (e.g. telephone, fax, or electronic) of obtaining rate filing information. Even then, the consumer often needs to know the right forms and filings for which to ask. Because insurers are currently not required to provide consumers with rate histories, there does not appear to be a reliable and accessible resource consumers can use to compare insurers' rate histories.[3]

Only a small number of states exercise their regulatory authority to disapprove premium increases. Another recent study found that only about half of the states surveyed had ever disapproved, or required a modification of, a LTCI premium increase.[4] Only seven states had objected to 10 percent or more of all rate increase filings. We hypothesized that states with the strictest regulatory standards and the most thorough review of rates would have the highest propensity to disapprove or modify insurers' proposed rate increases. Analysis of the rate increase data showed that a composite measure of regulatory capacity was positively and significantly related to the proportion of rate increases disapproved or modified. States actively regulating LTCI find some premium increases are unjustified. This implies that unjustified rate increases may be occurring in all states, but that many states lack the necessary authority, resources, or will to stop these increases.

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[3] This is one of the reasons given by the Larson LTC Group for their effort to document LTCI rate increases.

[4] The Larson LTC Group (1999), *Rate Increases by Long Term Care Insurance Companies.* Complete data exist for only 30 states. It is perhaps noteworthy that none of the 20 states with incomplete data reported disapproving or modifying a rate increase.

Discussion and Policy Recommendations

Our findings suggest that current practices for regulating LTCI cannot ensure appropriately priced premiums. Thus, market competition provides the only external pressure with a strong effect on LTCI premiums. This competition creates pressure to lower the initial price of policies, thereby increasing the danger of underpricing, and hence, subsequent rate increases.

The individuals interviewed at the state insurance departments generally supported measures to develop standards and guidelines for reviewing LTCI premiums. State representatives particularly favored specific procedures for monitoring LTCI rates and increases.

Although state adoption of NAIC recommendations is voluntary, improvements in NAIC model regulations can help set the tone for optimum state oversight. The NAIC revisions to the Model Regulation adopted in August of 2000 require:

- Greater disclosure to consumers about the possibility that their premiums may increase;
- Elimination of initial loss ratios, but stricter loss ratio standards for rate increases; Actuarial certification from insurers regarding adequacy of all rates (i.e., under moderately adverse experience, no further rate increases are expected);
- Reimbursement of unnecessary rate increases to policyholders;
- Enhanced regulatory monitoring and sanctions if rate increases are requested; and
- Specific information about the rate increase history of a carrier for the last 10 years.

The new regulations also allow the insurance commissioner to:

- Mandate that the insurer provide consumers the opportunity to transfer their coverage to another LTCI policy if the commissioner deems that a rate spiral exists after a rate increase; and
- Curtail the ability of insurers who have a "persistent practice of filing inadequate initial premium rates" to file and market policies for up to five years.

Once implemented by states, these regulations should help to improve the regulation of LTCI premiums. However, the regulations do not go far enough to ensure that the individuals responsible for reviewing filings can adequately enforce the regulations. Therefore, we make the following additional recommendations:

- Require review by an actuary with training specific to LTCI for all filings.
- Develop standards for assumptions used to price LTCI that would alert regulators when a new policy has premiums too low to support the eventual claims.
- Review periodically the pricing on all policies being sold regardless of whether a rate increase has been requested. This would allow regulators to identify under- or overpriced

policies and make necessary adjustments sooner, decreasing the probability of a rate spiral.

- Develop comparative rate guides to help consumers assess available policies.

- Make information regarding an insurer's history of rate increases or the likelihood that a rate increase will occur more available to the public. Policy recommendations designed to increase the information available to regulators and consumers include requiring state insurance departments to:

  - Require agents to provide comparative rate histories with every policy offered for sale.

  - Devote more resources to the tracking of rate increase histories in an effort to identify "problem" insurers.

  - Store information collected by the states electronically, as well as regularly publish and update this information. This would allow consumers to access the information at a low cost and direct their business to the most responsible and competitive of insurers.

  - Collect data on conditions in the local marketplace (i.e., policy sales, policy replacements, and recissions), make these data available to consumers, and incorporate them into the mandate of every state insurance department.

Introduction

When long-term care insurance (LTCI) was marketed in the early 1980s, it was difficult for insurers and regulators to determine appropriate pricing for policies. There was simply no claims experience to inform decision-making. As a result, many policies were priced too low, and premiums subsequently had to be increased. Although the LTCI industry now has had more than a decade of claims experience, rate hikes in the premiums paid for these policies remain a concern. This concern has been heightened by recent rate increases of as much as 40 percent by two large LTCI carriers, Conseco and Penn Treaty,[5] and by a recent study by the Larson Long-Term Care Group which found that rate increases may be relatively common despite the maturation of the market.[6] In addition, there is limited claims experience for newer products with more comprehensive and costly benefits (e.g., assisted living or home modifications).

State regulation of LTCI premiums plays a key role in ensuring the accurate pricing of policies and, thereby, helping to prevent rate increases. If states fail to devote adequate resources to this function, their regulatory capacity will fail to ensure appropriate pricing of LTCI policies. To obtain a better understanding of states' capacity to fulfill this role, The Lewin Group was commissioned to examine states' policies and procedures for reviewing rate increases for private long-term care insurance.

Rate increases are particularly problematic for the LTCI market. When consumers purchase an LTCI policy, their premiums (for a given set of benefits) are determined by their age at time of purchase; younger purchasers pay smaller premiums than older purchasers. Pricing is structured in this way because younger policyholders will pay premiums for a longer time before incurring any benefits. In actuarial terms, LTCI policies are considered *pre-funded.* As a result, insurers cannot raise premiums for specific individuals; however, they generally may raise premiums for an entire age block of policyholders (e.g. everyone who bought a given policy at age 55), a concept that is not always understood by purchasers.

Rate increases concern regulators and consumer advocates because they: (1) threaten purchasers' ability to continue paying for coverage; and (2) erode confidence in the industry. Appropriate pricing ensures that consumers do not pay too much or too little for a policy. Underpricing may be even more dangerous than overpricing because subsequent rate increases then become necessary to compensate for an inadequate initial price. These rate increases may cause consumers to drop policies in which they have invested substantial resources, often at an age when they need the policy the most and can least afford an increase.

Moreover, the prevalence of rate increases also threatens the viability of responsible LTCI providers. The actions of a small number of firms that raise rates can diminish consumer faith in the industry as a whole. Currently, a responsible insurer who uses a realistic pricing strategy risks losing sales and profits to naive or unscrupulous competitors who initially underprice their

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[5] David, Ann. "Insurers Implied Stable Premiums But Ended Up Raising Them Often." *The Wall Street Journal,* 22 June 2000.

[6] Larson Long Term Care Group, The (1999). "Rate Increases by Long Term Care Insurance Companies." Bothell, Wash.: Larson Long Term Care Group, LLC.

policies. The responsible insurer is effectively being penalized for displaying prudence and foresight. Empirical evidence suggests that concern over rate increases may have dissuaded many potential customers from purchasing LTCI. A 1995 survey of older people found that 87 percent of respondents that had considered – but decided against – purchasing LTCI would re-evaluate their decision if they could be certain that the premiums they paid would not increase over time.[7]

State regulation of LTCI premiums may be the only mechanism ensuring accurate pricing. Long-term care insurance is regulated at the state level. The National Association of Insurance Commissioners (NAIC) develops guidance for state regulators in the form of model regulations. However, state adoption of these model regulations is optional and, as a result, there is tremendous variation in state regulation of LTCI.

Two forces contribute to inappropriate pricing of LTCI policies: market competition and lack of consumer understanding. However, because of the nature of LTCI pricing, government regulation may be the only viable check on the market.

Price competition among insurers, while preventing overpricing, may create incentives to underprice long-term care insurance policies. By offering lower prices, insurers may hope to capture a larger share of the market. LTCI is a pre-funded product, meaning that purchasers pay a premium that is supposed to remain level throughout the life of the policy. This results in policyholders paying more than the amount necessary to cover claims when they are younger and less likely to file a claim and less than necessary to cover claims in the later years. If purchasers pay too little initially, premiums may need to be raised to make up not only for this deficit, but also for the interest that could have been earned on those premiums.

Competition among insurers to capture a larger portion of the market exerts pressure to lower initial premiums. Average LTCI premiums for new policies steadily decreased from 1990 to 1996, according to the Health Insurance Association of America (HIAA), though premiums appear to have leveled off since 1997.[8] This downward pressure on prices could result in underpriced policies that would require rate increases in the future.

The degree to which premiums for similar LTCI policies differ suggests that potentially adverse competition is occurring. A recent report that addresses LTCI pricing notes that premiums for similar policies can vary greatly from company to company, sometimes by as much as a factor of four.[9] The authors of the report state that it is unclear why this discrepancy exists, although they do observe that the most inexpensive policies tend to be sold by the most recent entrants to the LTCI market. These insurers often lack experience with LTCI pricing, and the authors predict that many of the policies that seem like bargains today will be subject to large premium increases in the future.[10]

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[7] HIAA (1995). "Who Buys Long-Term Care Insurance?" Prepared by LifePlans, Inc. Washington, DC: HIAA.
[8] HIAA (1999), "Long Term Care Insurance in 1997-1998"; HIAA (1998), "Long Term Care Insurance in 1996".
[9] Weiss Rating, Inc. (1999), "Long-Term Care Insurance Policies Vary Greatly in Cost and Benefit Design."
[10] The authors held up as an illustrative example the particularly inexpensive policies of Penn Treaty. Just over a year after the Weiss report was released, Penn Treaty announced premium increases of up to 40 percent.

Theoretically, savvy, informed consumers could choose not to buy a policy from an insurer with a history of rate increases or could make an independent judgment as to whether a policy was appropriately priced. However, as this study confirmed, consumers have limited access to information about rate histories. In addition, unless a consumer had extensive actuarial training, it would be very difficult to judge whether a particular policy was accurately priced.

The combination of adverse market pressures and incomplete consumer information create the potential for a market failure. Therefore, it is appropriate for states to regulate the market to strive to ensure that policies are appropriately priced. In most states, the insurance department requires companies selling long-term care insurance to file their rate requests and justification materials for review. State review of premiums filed by LTC insurers serves both to protect consumers from over- or under-pricing and to help make sure that companies remain solvent.

Questions remain over whether current state practices and capacity are adequate to ensure that LTCI policies are appropriately priced. Several reports in the last decade have questioned the adequacy of state regulatory efforts. The House Subcommittee on Health and Long-Term Care expressed concern over state regulators' laxity with regard to LTCI over a decade ago, stating that existing consumer protection regulation was of dubious adequacy and recommending consideration of federal regulatory legislation.[11] More recently, reports by AARP and the U.S. House of Representatives have questioned the ability of state insurance departments to adequately oversee LTCI rates due to chronic shortages of staffing and resources.[12]

In current practice, states primarily use loss ratios to determine the appropriateness of long-term care insurance premiums and whether a rate increase is justified. In its simplest form, a loss ratio calculates the percentage of claims paid (the numerator) over premiums collected from policyholders (the denominator).

Loss ratios, which appear to have been adopted for use from health insurance regulation,[13] are an imperfect tool for assessing whether a LTCI policy is appropriately priced, because of the prefunded nature of the product. Most states calculate the present value of premiums paid[14] and interest earned on those premiums when determining loss ratios over time.[15] The loss ratio will tend to be very low when a block of new policies is first sold because very few people will be receiving benefits, while everyone will be paying premiums. As the block of business ages, the

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[11] U.S. House of Representatives, Select Committee on Aging, Subcommittee on Health and Long-Term Care, *Long-Term Care Insurance: State Regulatory Practices Provide Inconsistent Consumer Protection*, Washington, DC: General Accounting Office (April 1989).

[12] AARP, *State Variation in the Regulation of Long-Term Care Insurance Products*, Prepared by Project Hope, Washington, DC: AARP (January 1992); U.S. House of Representatives, Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Wishful thinking: A world view of insurance solvency regulation*, Washington, DC: U.S. Government Printing Office (October 1994).

[13] Gordon R. Trapnell. "Loss ratios in long-term care insurance: Industry practices and regulation." Actuarial Research Corporation (June 1990).

[14] The value in today's dollars of the premiums paid over the life of the policy based on some estimate of the discount rate.

[15] Most states allow insurers to use a lower interest rate assumption for loss ratios than for pricing. This means that the assumptions used for calculating loss ratios can be more favorable toward obtaining higher loss ratios. Personal communication with John Wilken, July, 1995.

number of people filing for benefits should increase, causing the loss ratio to climb. Thus, for a number of years after a group of new policies is sold, loss ratios should be lower than the 60 percent required by the National Association of Insurance Commissioners (NAIC) model and, in later years, loss ratios should be greater than 60 percent. Theoretically, after all the policies in the block are closed, the total amount of benefits paid should equal 60 percent or more of the total premiums collected plus interest earned.

Several actuaries interviewed by The Lewin Group as part of another study noted that variation in the loss ratio over time adds a considerable amount of uncertainty to the process of setting rates and creates the ability to manipulate loss ratios by altering key actuarial pricing assumptions, such as interest rates.[16] These variations can be especially problematic because some states allow insurers to use interest rate assumptions for pricing a policy that are different from those used for meeting loss ratio requirements. Thus, an insurer seeking to justify a rate increase could alter the interest rate assumption used to calculate the loss ratio to make the loss ratio appear artificially high.

To conduct a complete check on the accuracy of a loss ratio, regulators must be able to make judgments about the various other assumptions used to price LTCI. This raises the concern that if regulators do not have a detailed understanding of LTCI pricing, they cannot determine if premiums are priced appropriately. The purpose of this survey was to appraise the ability of state regulators to assess whether LTCI premiums submitted as part of an initial filing or for a rate change are appropriate.

Methodology

The Lewin Group surveyed the insurance departments of 49 states (California declined to participate) and the District of Columbia.

Development of the Survey Instrument. AARP staff developed the first draft of the survey instrument with input from the NAIC. We modified the instrument to incorporate comments from John Wilken at Actuarial Research Corporation, a leading expert in LTCI regulation, and to facilitate administration of the questionnaire and quantification of responses.

After revising the draft survey instrument, we conducted pilot telephone interviews with three states. We made two major changes on the basis of these pilot interviews:

- We developed a version of the questionnaire that could be faxed to states in response to requests from two of the pilot states. One of the states requested to fill out the questionnaire and fax it back rather than answer items via the telephone. We therefore modified our plans for administering the survey to allow states to either answer items via the telephone or fax back the survey with responses.

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[16] HCFA (1996). Key issues for long-term care insurance: Ensuring quality products, increasing access to coverage, and enabling consumer choice. Report prepared by The Lewin Group and The Brookings Institution for HCFA. Contract No. 500-89-0047.

- States had difficulty answering a few of the items on the telephone because they required research. We developed a one-page questionnaire that was faxed to all states after telephone interviews or was sent as part of the written version of the survey.

We have included a copy of the survey instrument in ***Appendix A***.

Administration of the Survey. The NAIC supplied us with a list of contact individuals for all state insurance departments. While in most cases, a single individual was able to complete the questionnaire, several states had multiple individuals complete different sections of the survey. In these cases, typically one individual addressed general items about the LTCI market and document retention, while another individual addressed items related to rate reviews. Approximately one-third of the states wanted a faxed copy of the survey that they could fill out and return to us. We gathered data during July, August, and September 1999. The telephone interviews, conducted mainly by two researchers, took approximately 20 minutes each to complete. Data were entered directly into a spreadsheet during the interview. Immediately following the interview, responses were standardized and reviewed for typos. The first few telephone calls of each researcher were conducted with another researcher present to ensure that the delivery of questions was nearly identical. Faxed responses to the questions were entered verbatim unless they were unclear or incomplete. In these cases, we followed up with telephone calls to gather or check information as needed.

We received responses from 50 of the 51 state insurance departments (50 states plus the District of Columbia). California did not respond to multiple telephone calls or faxes. Although we were able to gather data for most items included in the main survey, 39 states were unable or unwilling to provide all or most of the information requested in the supplemental fax. This information included:

- The number of LTCI policy forms that have been approved for sale;
- The number of LTCI policy forms approved for sale in each year;
- The number of LTCI policies sold; and
- The number of carriers who write individual and group LTCI in the state.

When answers were ambiguous, we contacted the states in question via telephone or e-mail to resolve the issue.

Lewin tabulated the results (see the state-specific tables in ***Appendix B***) and assigned each state a score between one and five on the following dimensions of LTCI regulation:

- Qualifications of the individual reviewing rates;
- Authority of the state to review rates;
- Adequacy of the information for the rate review process;
- Ability to track problem insurers;

- Loss ratio requirements;
- Consumer access to LTCI information; and
- Extent to which the state monitors the LTCI marketplace.

Generally, a score of five indicates that the state uses what we have classified as a "best practice" in a particular aspect of regulation. A score of one indicates that the state either does not perform the particular task at all or that the state simply does not review LTCI rates. Scores between two and four represent varying degrees of diligence or authority with regard to a particular dimension of the regulatory process. We created a composite score, computed as the mean of the seven dimension scores, in order to rank the states in terms of regulatory capacity and to allow us to compare our ratings to other objective measures of outcomes. Details of the rating methodology are presented in ***Appendix C***.

Findings

The states were ranked according to their scores, with ties broken by whether or not the state possessed criteria for determining whether an initial rate was too low. ***Table 1*** presents the composite scores on the summary measures for each of the states. According to these composite measures, states with the strongest regulatory capacity are Florida, New York, Illinois, Washington, and North Dakota. The states with the least regulatory capacity are Alaska, Louisiana, Hawaii, Wyoming, and Missouri. Regulatory capacity appears to be greater for states in which a large proportion of the population is age 65 or older.[17] Theoretically, these states may invest more resources in regulating LTCI because they view it as affecting more potential policyholders.

The dimension of regulatory capacity upon which states scored best was the extent to which states review LTCI rates. State ratings tended to be lowest in terms of their ability to track problem insurers and to monitor the local marketplace. The individual ratings are discussed in more detail below.

[17] In a simple bivariate regression of average regulatory rating on the percentage of the population age 65 and older in 1999 by state, the average regulatory rating was positively and significantly related to the percentage of elders in the population ($t = 2.639$, $p = 0.0112$).

Table 1: Ratings of State Regulatory Capacity

State	Ranking	Qualifications of individual reviewing rates	Authority of state to review rates	Adequacy of info for rate review	Ability to track problem insurers	Loss ratio requirements	Consumer access	Monitoring of marketplace	Have criteria for whether rate is too low?	Comment	Average Rating
Florida	1	4	5	4	5	4	5	4	Yes		4.43
New York	1	5	5	5	3	3	5	5	Yes		4.43
Illinois	3	5	5	4	5	4	5	2	No		4.29
Washington	4	4	5	5	4	3	5	3	No	D	4.14
North Dakota	5	5	5	5	3	4	N/R	2	Yes		4.00
Virginia	6	5	5	3	5	3	5	2	No		4.00
Colorado	7	5	4	5	3	4	3	3	Yes		3.86
Vermont	8	3	5	4	5	2	3	5	No		3.86
Wisconsin	8	4	4	3	4	3	5	4	No		3.86
Iowa	10	4	5	2	4	3	5	3	No		3.71
Rhode Island	11	5	5	3	3	3	3	N/R	No		3.67
Alabama	12	5	5	3	1	3	4	4	No		3.57
Oregon	13	5	5	5	1	3	2	3	Yes	G	3.43
South Dakota	13	4	5	2	4	3	3	3	Yes		3.43
Maine	15	5	5	2	3	3	3	3	No		3.43
Massachusetts	15	5	5	3	3	3	2	3	No		3.43
New Hampshire	15	4	5	3	2	4	3	3	No		3.43
New Mexico	15	3	5	3	4	3	2	4	No		3.43
Tennessee	15	5	5	3	3	3	3	2	No		3.43
North Carolina	20	4	5	4	2	3	N/R	2	Yes		3.33
South Carolina	21	3	5	3	3	3	N/R	3	No		3.33
Mississippi	21	5	5	2	2	N/R	3	3	No		3.33
Georgia	23	3	5	2	4	3	3	3	Yes		3.29
Minnesota	23	5	5	2	1	3	4	3	Yes		3.29
Connecticut	25	5	5	3	1	3	3	3	No		3.29
District of Columbia	25	4	5	4	1	3	4	2	No	E	3.29
New Jersey	25	3	5	2	5	3	2	3	No		3.29
Ohio	25	2	5	4	3	3	3	3	No		3.29
Nebraska	29	5	4	2	3	3	2	N/R	No		3.17
Nevada	29	3	5	4	2	4	1	N/R	No		3.17
Indiana	31	5	5	4	1	3	2	2	Yes		3.14

Table1: Ratings Of State Regulatory Capacity, continued

State	Ranking	Qualifications of individual reviewing rates	Authority of state to review rates	Adequacy of info for rate review	Ability to track problem insurers	Loss ratio requirements	Consumer access	Monitoring of marketplace	Have criteria for whether rate is too low?	Comment	Average Rating
Oklahoma	31	5	5	5	1	3	2	1	Yes		3.14
Kentucky	32	4	5	3	3	3	3	1	No		3.14
Texas	32	4	3	2	3	3	4	3	No		3.14
Utah	32	5	4	2	3	3	4	1	No		3.14
Arkansas	36	4	5	2	1	3	4	2	No		3.00
Idaho	36	4	4	4	3	2	3	1	No		3.00
Maryland	36	4	5	3	1	4	1	3	No		3.00
Pennsylvania	39	2	4	2	4	3	3	2	Yes		2.86
Arizona	40	3	5	2	1	3	3	3	No		2.86
Delaware	40	4	4	3	1	3	3	2	No		2.86
Kansas	42	3	4	2	1	1	5	3	Yes		2.71
Michigan	43	2	5	2	1	3	4	2	No		2.71
West Virginia	43	2	5	3	1	4	3	1	No		2.71
Montana	45	4	2	3	2	3	2	2	No	C, E	2.57
Missouri	46	3	2	2	1	3	2	4	N/R	B, E	2.43
Wyoming	47	2	2	3	1	4	2	2	No	B	2.29
Hawaii	48	3	3	2	1	3	N/R	1	No	F	2.17
Louisiana	49	1	1	1	1	1	2	1	No	A	1.14
Alaska	50	1	1	1	1	1	1	1	No	A	1.00
California	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R		N/R
Mean		3.84	4.42	3.00	2.48	3.02	3.13	2.57			3.22

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Comments: A = State does not review rates.
B = Insurers are not required to file rate increases, but state will review if filed.
C = State has no authority to review rate increases, but does review all rates annually to assure loss ratio compliance.
D = Washington technically uses a file and use system for rate increases, but its review authority is so broad that insurers generally prefer to get prior approval.
E = Insurance department has expressed intent to adopt latest NAIC rate stabilization policies in the near future.
F = Adopting 1998 NAIC standards on July 1, 2000.
G = Oregon only retains forms and filings for 30 days.

Five States Have No Authority to Regulate LTCI Premiums. The survey found that most, but not all, states are conducting some level of review of LTCI premiums:

- Forty-five states (90 percent) regularly review both initial premiums for new policies and filings for premium increases (though this review may be limited to certifying the adequacy of the loss ratio).
  - Only two states do not have authority to review rates at all.
  - Three others review initial filings, but have no legal authority to review subsequent changes in rates.

There are two general methods for review and approval of insurance premiums: *prior approval* and *file and use*. Prior approval is the more stringent practice, requiring that the state insurance department review and approve premiums before they can be used. Under a file and use system, the state requires only that insurers notify the insurance department of new or altered premiums. The insurer is then free to use those premiums unless the insurance department explicitly objects within a certain amount of time. See ***Table 2*** for a summary of survey findings. More detailed, state-specific responses are available in ***Appendix B, Table B1: State Requirements for LTCI Rate and Policy Forms: Prior Approval vs. File and Use.***

- Two-thirds of states (34) require that insurers receive prior approval from the insurance department for new premiums or premium increases before they are used.
- Of the (15) states designated as "file and use," the majority performed some sort of review of all rate filings. However, the details of the filing and review process differ from state to state.
  - Louisiana does not review LTCI rates, but asks insurers to file their rates and rate changes with the state insurance commissioner for record-keeping purposes.
  - Missouri, Montana, and Wyoming review premiums on new policies, but lack specific authority to review rate increases. Insurers in these states are not legally obligated to file their rate increases with the insurance department.
  - Two other states have only limited authority to alter or disapprove a rate increase filing. Texas and Hawaii may only object to a rate increase on the grounds that the new rates would violate a minimum loss ratio (60 percent) rule.
  - Nine of the fifteen file and use states, however, enjoy full authority to alter or disapprove rate increase filings, at least within the review window. Washington State, in particular, has a very broad mandate to review and disapprove rates as necessary.

Table 2: Number of States by Methods of Review and Approval

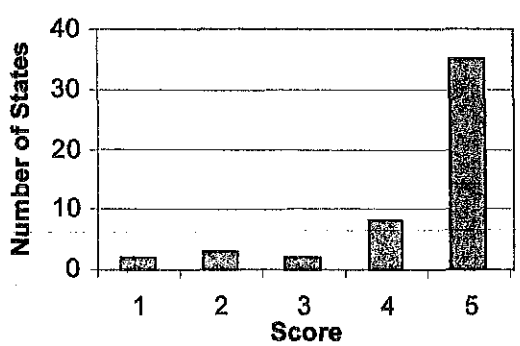
	Number	Percent
Prior Approval	34	68%
File and Use*	15	30%
Full rate oversight authority	9	18%
Limited rate oversight authority	2	4%
No rate oversight authority	4	8%
Do Not Review Rates	1	2%
Total	50	100%
No Response	1	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

* Louisiana requires filing of rates for information purposes only. This state is classified as not reviewing rates in other tables.

We constructed a measure to summarize the ability of states to review LTCI premiums and intervene if regulators judged the rates to be too high or too low. This measure was designed to reflect the fact that prior approval states have more authority to disapprove or correct rates than do file and use states. Within file and use states, states that allow their insurance departments more discretion in disapproving or modifying LTCI premiums were rated more highly than states in which law or policy limits the scope of review or the reasons for which a regulator can disapprove premiums. Thirty-five states received a score of five, indicating that their regulations for reviewing rates are the most extensive (see Exhibit 1 for the frequency of scores). It should be noted that these ratings represent a relative measure of the regulatory authority and not necessarily the department's practices or quality of review. Even states with the highest scores may, in fact, conduct only a limited review.

Exhibit 1: Number of States by Score on Composite Measure of Extent of Rate Review Authority



Key to Scoring

1=State does not review premiums at all.

2=State reviews premiums on new policies, but lacks authority to review increases

3=File and use system, but only limited review of premiums (e.g. only review large increases or only check loss rations).

4=File and use system, state reviews all premiums.

5=Prior approval required for all initial premiums and increases.

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Individuals Reviewing Rates in Many States May Lack Adequate Knowledge and Skills to Ensure Thorough Reviews. Due to the complex financial nature of the LTCI product, actuarial expertise is very important in assessing the appropriateness of the assumptions used to justify an initial premium or rate increase. Survey findings suggest that a substantial number of states have limited or no actuarial review of rates (see Table 3):

- Only a little more than half (56 percent) of the individuals reviewing rates are actuaries.
- Five states (10 percent) indicated referring questions to an actuary "as needed" during the rate review process.
- Seventeen states (34 percent) do not use actuaries at all or did not review rates, raising concerns about the ability of regulators in these states to understand the intricacies of LTCI pricing.

Table 3: Number of States Requiring Use of Actuaries

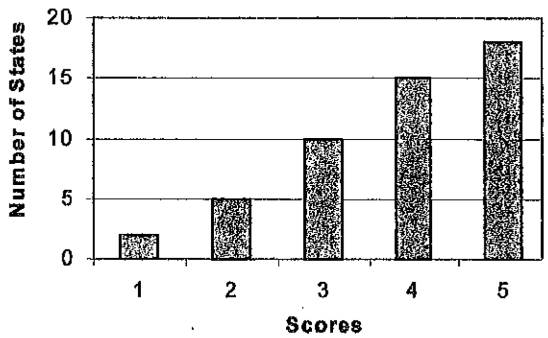
	Number	Percent
Require Actuary	15	30%
Do Not Require Actuary, But Actuary Reviews Rates	13	26%
Do Not Require Actuary, But Will Consult One As Needed	5	10%
Do Not Require Actuary and No Actuary Reviews Rates	15	30%
Do Not Review Rates	2	4%
Total	50	100%
No Response	1	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

We rated states on the qualifications of the individual or individuals reviewing rates. One concern was whether or not an actuary was reviewing rates. Another was whether the same person was reviewing both initial rate filings and rate increases. It may be important that the same individual review all filings because a single reviewer would have greater opportunity to learn which pricing assumptions tend to lead to future rate increases and which result in stable prices and thus to identify problematic insurers. Ideally, given the complexity and uniqueness of the LTCI product, it may be important for an actuary to also have specific training and experience to evaluate the LTCI pricing structures accurately. This study did not inquire about specific LTCI training and experience of the actuaries (or non-actuaries) being used by state insurance departments.

Scores overall were relatively high in this area, though only 18 states (36 percent) indicated that they were using the "best practice" of having a single individual who is an actuary review both initial rates and subsequent rate increase filings (see ***Exhibit 2***). Additional details concerning use of actuaries and the characteristics of the person or persons involved in the review process are available in ***Appendix B, Table B2: Status of Individuals Responsible for Rate Review.***

Exhibit 2: Qualifications of Individual(s) Reviewing Rates



Key to Scoring
1=No individual reviews rates.
2=Different individual, no actuary.
3=Same individual, but no actuary.
4=Same individual and use actuary as needed or different individuals, but actuary reviews rates.
5=Same individual reviews initial filings and rate increases and is an actuary.

Source: The Lewin Group Survey of State Insurance Departments in 1999.

<u>Most States Are Not Collecting All the Information Necessary to Conduct A Comprehensive Rate Review</u>. To assess the accuracy of a premium, a regulator must understand the details of policy features and the specific assumptions used in pricing the policy. The survey included several items that addressed whether regulators were requesting the types of information that would allow them to assess the justification for initial premiums or requests for rate increases. According to our consulting actuary, John Wilken at Actuarial Research Corporation, regulators need each of the following pieces of information to perform a comprehensive review of an initial premium filing:

- Definition of the benefit eligibility trigger used – The type of benefit trigger, the condition(s) a policyholder must satisfy before becoming eligible for benefits (e.g., requiring hands-on assistance with two or more activities of daily living) will affect how many policyholders go into claims status, thereby affecting premiums.

- Estimated effect of underwriting on utilization rates – Companies using stricter underwriting will generally have a healthier pool of policyholders and will experience a longer period between initial purchase and claims. This will reduce premiums.

- Projected claims costs – Higher projected claims justify higher premiums.

- Mortality tables used – Assumed life expectancy will have direct effects on premiums.

- Lapse rate assumptions – Premiums decline as the proportion of individuals assumed to drop their coverage before incurring claims (lapse) increases.

- Interest rates used in pricing – As the assumed interest rate on reserves (premiums paid) increases, the premiums required to cover a given level of future claims decreases.

- Expense loading factors on premiums – As the proportion of premiums that insurers allocate to cover the cost of expenses (e.g., administration, commissions, and profits) increases, the premiums increase.

- Agent commissions – This is a subset of expense loading factors. If an insurer's premiums assume high first year commission and low commissions for individuals who renew their policies, agents have an incentive to market aggressively regardless of the likelihood of whether the policyholder will retain the policy. Regulators who observe this pattern could either request that commissions be lowered or may examine lapse rate assumptions to make sure they are consistent with the agents' incentives.

- Profit margins – The proportion of premiums retained as profit will directly affect premiums.

The survey addressed whether regulators requested these types of information be included in an actuarial memorandum justifying either an initial premium filing or a rate increase. ***Table B3*** in ***Appendix B, Actuarial Information Requested for Initial Filings and Rate Increases,*** presents a state-by-state inventory of the actuarial information that insurance regulators request with rate filings. In addition to the information requested as part of the actuarial memorandum, the survey asked whether the regulator requested other relevant information, such as copies of the policy forms and actual claims incurred, and a comparison of actual experience to the assumptions used in pricing. States' individual responses to these items are presented in ***Appendix B, Table B4: Documentation Requirements for Rate Review.***

The survey revealed that few states collect sufficient information to conduct a comprehensive rate review (see ***Tables 4 and 5 and Exhibit 3*** for greater detail):

- Seventeen states (34 percent) request all the necessary actuarial information for initial rate filings.

- Only six states (12 percent) collect all the information deemed necessary for a comprehensive review of a premium increase.

- When reviewing filings for rate increases, most, but not all, states request information regarding the experience of the policy thus far (44 of the 48 states requiring an actuarial memorandum request information about actual claims costs and comparisons of actual experience to assumptions; 42 states request information regarding projected claims costs).

- Most states also request information on initial filings regarding lapse rate assumptions (40 states), interest rates (40 states), and mortality tables (36 states). A slightly higher number requested such information for rate changes.

- Only 25 states request information about profit margins.

We should note that the survey only asked what information states request, not what is required by regulation. These numbers would likely be dramatically lower if we had asked what information was required by regulation.

The survey suggests that much of a regulator's ability to review rates may develop as he or she gains experience reviewing filings. Very few states appear to have formal requirements or guidelines for rate reviews. Instead, regulators indicate learning about LTCI pricing based on information submitted from leading insurers. In response to open-ended questions not included in the survey, several of the regulators indicated that their standards for reviewing premiums were often based on their experience reviewing rate filings that included detailed information about many of the pricing assumptions. Thus, they learned to notice when some information regarding assumptions was not included and to specifically request such information. Regulators indicated learning to notice and pay particularly close attention when an initial filing was out of line with what they had seen for other insurers, or when a filing for a rate increase was especially large. Our conclusion is that this informal process is likely to work best when the reviewer has substantial experience reviewing rates, and that the thoroughness of reviews is likely to suffer whenever there is turnover among key staff.

In comparing states on the basis of the adequacy of their rate review processes, we focused on the review of initial rate filings and rate increases. The simple measure constructed represents whether a state is requesting information about all key assumptions insurers use in their actuarial calculations. Of course, this indicator does not reflect how well the state uses the information, once collected. As noted above, only six states collect all the information deemed necessary to conduct a thorough evaluation of a rate increase filing. Because there are many different ways for insurers to manipulate the assumptions used for pricing LTCI, it is important for a reviewer to assess all relevant assumptions.

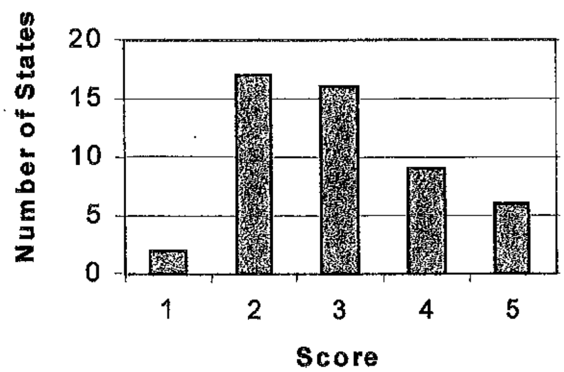
Table 4: Number of States by Documentation for Premiums

	Initial Filing		**Rate Increase**	
	Number	**Percent**	**Number**	**Percent**
Actuarial Memorandum	47	94%	48	96%
Policy Form	44	88%	15	30%
Rate Histories of Other LTCI Policies	13	26%	14	28%
Rate Histories for Policy in Other States	11	22%	16	32%
Policy Rate Increase History			42	84%
Do Not Review Rates	2	4%	2	4%
Total	50		50	
No Response	1		1	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Note: Components sum to more than total because states can require more than one form of documentation.

Exhibit 3: Adequacy of Rate Increase Review Information Requested



Key to Scoring

1=State does not request actuarial memorandum or does not review rates.

2=State requests actuarial memorandum, but is missing significant components.

3=State requests most necessary components for actuarial memorandum.

4=State does not request all necessary supporting material, but does request all necessary components for actuarial memorandum.

5=State requests all necessary material.

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Table 5: Number of States by Types of Information Requested

	Initial Filings		Rate Increases	
	Number	**Percent**	**Number**	**Percent**
Definition of Benefit Trigger	34	68%	30	60%
Effect of Underwriting on Utilization Rates or Selection Factors	29	58%	31	62%
Actual Claims Costs			44	88%
Projected Claims Costs	42	84%	42	84%
Mortality Tables Used	36	72%	39	78%
Lapse Rate Assumptions	40	80%	42	84%
Interest Rates Used in Pricing	40	80%	42	84%
Expense Loading Factors on the Premiums	36	72%	36	72%
Commissions Broken out Separately	33	66%	30	60%
Profit Margins	25	50%	25	50%
Comparison of Actual Experience to Assumptions			44	88%
Do Not Review Rates	2	4%	2	4%
Total	50		50	
No Response	1		1	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Note: Components sum to more than total because states can require more than one form of documentation.

Existing Criteria for Determining Whether Policies Are Appropriately Priced May Not Be Adequate. The survey results suggest that having criteria for determining if a policy is under or overpriced is one of the weakest areas of LTCI premium regulation. Few states have criteria to determine whether a policy is underpriced and the vast majority of states rely solely or mostly on the use of loss ratios to determine if a policy is overpriced or a rate increase is justified. As we argued in the introduction, loss ratios are an imperfect measure of the accuracy of premiums. Recent changes to NAIC standards, which de-emphasize the use of the loss ratio as a good measure of policy value, validate this concern.

As the loss ratio appears to be the primary criterion by which states evaluate rate filings, the survey asked a number of questions about the particulars of the states' loss ratio policies. The responses indicated that the states are generally using the 60 percent criterion included in the NAIC model regulations and requiring insurers to compute a policy's lifetime loss ratio, a measure that considers the pre-funded nature of LTCI policies. ***Table 6*** below summarizes state use of loss ratios in LTCI regulation.

Other relevant findings from the survey include the following:

- Of the 49 states that responded to questions concerning loss ratio use, 44 reported requiring a 60 percent or higher loss ratio for LTCI policies sold to individuals. Of the three states that reported deviating from the 60 percent criterion:
  - One state reported requiring a 65 percent or higher loss ratio if the policy did not include nonforfeiture benefits, but had no loss ratio requirements for policies that included nonforfeiture.
  - One state reported having a 65 percent loss ratio requirement for individuals ages 65 and older, and planned to implement a 55 percent loss ratio requirement for individuals below age 65.
  - One state reported that regulators only compared actual experience to predicted experience and did not use loss ratios as a criterion for assessing the accuracy of pricing.
- Nine states reported that they used loss ratios that were more stringent than 60 percent for certain populations (the most common among these was requiring a 65 percent loss ratio requirement for policies sold through groups).
- All but three states reviewing rates (94 percent) reported requesting a loss ratio that reflected the lifetime of the policy. Because LTCI is pre-funded, loss ratios can be expected to be low initially and grow over time. An estimated lifetime loss ratio takes this into account and provides an indication of the amount of claims that are likely to be paid out relative to premiums over the life of the policy rather than in just one single year. Thirty-eight states (84 percent of those that review rates) also reported requesting year-by-year loss ratios, but typically these were tied to the lifetime loss ratio.

Table 6: Number of States Using Loss Ratio Requirements

	Number	Percent
60% and Higher Requirement	44	90%
Other Standard*	3	6%
Do Not Review Rates	2	4%
Total	49	100%
No Response	2	

* See text for details.
Source: The Lewin Group Survey of State Insurance Departments in 1999.

As noted earlier, insurers may be able to meet these loss ratio requirements, in part, by choosing favorable assumptions for estimating lifetime loss ratios. The fact that lifetime loss ratios for LTCI are determined using several of the same key assumptions that are used for pricing LTCI diminishes the ability of loss ratios to serve as an independent assessment of whether premiums are accurately priced. Insurers who use questionable assumptions to justify premiums may also use questionable assumptions to meet loss ratio requirements. The survey revealed that very few states have standards for the assumptions that insurers use in calculating lifetime loss ratios (see ***Table 7***). In particular:

- Insurers appear to have substantial autonomy in manipulating assumptions about the interest rate, one of the most important components of LTCI pricing. Only two states (less than five percent) dictate the interest rate that insurers must use, while 40 states allow insurers to select the interest rate.[18]

- Only ten states (23 percent) require that insurers use the same interest rate for loss ratios as they do for justifying premiums. Thus, in most states, insurers can use separate interest rates for pricing and for developing estimated lifetime loss ratios.

[18] Seven states did not or could not answer this question and two did not review rates.

Table 7: Number of States by LTCI Loss Ratio Items

	Number	Percent
Require Lifetime Loss Ratios	44	90%
Do Not Require Lifetime Loss Ratios	3	6%
Do Not Review Rates	2	4%
Total	49	100%
No Response	2	
Require Year by Year Loss Ratios	38	81%
Do Not Require Year by Year Loss Ratios	7	15%
Do Not Review Rates	2	4%
Total	47	100%
No Response	4	
Require a Certain Interest Rate for Calculating Loss Ratios	2	5%
Do Not Require a Certain Interest Rate for Calculating Loss Ratios	40	91%
Do Not Review Rates	2	5%
Total	44	100%
No Response	7	
Allow Different Interest Rates for Loss Ratios and Interest on Reserves	31	72%
Do Not Allow Different Interest Rates for Loss Ratios and Interest on Reserves	10	23%
Do Not Review Rates	2	5%
Total	43	100%
No Response	8	
Monitor Loss Ratio Other than When Rate Increase is Filed	17	35%
Check Loss Ratio Only When Rate Increase is Filed	29	60%
Do Not Review Rates	2	4%
Total	49	100%
No Response	2	
Have Criteria for Determining Whether a Rate is Too Low	13	27%
Lack Criteria for Determining Whether a Rate is Too Low	34	69%
Do Not Review Rates	2	4%
Total	49	100%
No Response	2	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

We have identified two public policies with the potential to increase states' abilities to evaluate LTCI pricing, but only a limited number of states had adopted these policies at the time of the survey. Specifically:

- Determine Whether a New Policy Is Priced Too Low. Only 13 states (28 percent of states evaluating rates) have criteria for determining whether a new policy is priced too low. States without such criteria have limited ability to prevent an insurer from marketing an underpriced policy to gain market share. As discussed above, these underpriced policies would be at high risk of having substantial rate increases in the future.

- Take Corrective Action to Alleviate Overpricing Once an Initial Premium is Approved. Most states have limited ability to alleviate overpricing once an initial premium is approved. Only 17 states (36 percent of states evaluating rates) evaluate loss ratios at times other than when rate increases are filed. Thus, if a policy is initially overpriced, there may not be an opportunity for the state to take corrective action. However, market competition may also act to keep insurers from overcharging policyholders.

For individual states' policies and practices, see ***Table B5: Loss Ratio Requirements in Appendix B***.

We created a composite measure to evaluate the stringency of states' criteria for determining whether premiums were appropriately priced. States were rated on the basis of whether or not their review process incorporated the following:

- using a 60 percent or higher loss ratio requirement;

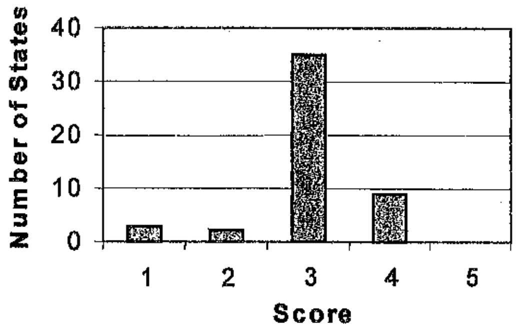
- examining loss ratios on a periodic basis, even when there has not been a rate increase filing;

- using lifetime loss ratios; and

- dictating the single interest rate insurers must use in all calculations.

We found that no state currently imposes all the standards that we judged to comprise a "best practice." Further, only nine states (18 percent) met our criteria for the second-highest rating (using a 60 percent loss ratio requirement, examining lifetime loss ratios, and requiring a single interest rate be used in all calculations) (see ***Exhibit 4***). These findings suggest that despite the inherent limitations of the loss ratio as a regulatory tool, few states are taking advantage of all the techniques and policies that can make loss ratio regulation more effective.

Exhibit 4: Loss Ratio Requirements



Key to Scoring
1 = No loss ratio requirement.
2 = 60% or higher requirement.
3 = 60% or higher requirement, examine lifetime loss ratios.
4 = 60% or higher requirement, examine lifetime loss ratios, require same interest rate for pricing and loss ratios.
5 = 60% or higher requirement, examine at times other than when rate increases requested, examine lifetime loss ratios, require same interest rate for pricing and loss ratios which are set by state.

Source: The Lewin Group Survey of State Insurance Departments in 1999.

<u>States Have Only Limited Ability to Monitor Trends in LTCI Premiums</u>. States may conduct more thorough reviews if they perceive an insurer to be problematic or if they view rate increases as being a significant problem within the market in general. However, our survey results suggest that most states' ability to track "problem" insurers or monitor trends in the local marketplace is limited. For example, other than regulators noting anecdotally that more insurers appear to be filing for rate increases, insurance departments may have limited ability to assess whether LTCI premiums are increasing or decreasing. Information about state practices in this area is summarized in *Appendix B, Table B6: Document Retention and Ability to Analyze Across Filings.*

States must retain policy-filing information if they are to track the market and identify problematic insurers. Most states do not retain policy filings for the life of the block of business. The survey found that 17 states retained filings for less than five years. Only 15 states reported retaining policy filings indefinitely (see ***Table 8***).

Table 8: Number of States by the Number of Years Filings are Retained

	Number	**Percent**
Less Than One Year	1	2%
One to Four Years	16	33%
Five to Nine Years	7	14%
Ten to Twenty-five Years[1]	10	20%
Indefinitely or as long as a plan is marketed	15	31%
Total	49	100%
No Response	2	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

[1.] One state only retains policy forms (does not review rates).

In addition, many states must rely on insurers to self-report premium rate histories because they have limited ability to extract this information themselves. In terms of their ability to analyze past filings, only about a third of the states can easily retrieve rate histories and other LTCI information electronically. The other two-thirds of the states either cannot analyze their records or would have to do so by laboriously compiling paper and microfiche records (see ***Table 9***).

Table 9: Number of States by Ability to Analyze Rate Filings

	Number	Percent
Can Extract and Analyze Information	32	64%
Information Is Coded Electronically	18	36%
Information Is Not Coded Electronically	14	28%
Can Not Extract and Analyze Information	17	34%
Do Not Review Rates	2	4%
Total	50	100%
No Response	1	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Insurance departments also appear to have limited information about the LTCI marketplace in their own states. One in four respondents could not provide the number of insurers offering LTCI policies in their state, and the majority of insurance departments (78 percent) do not collect information on the number of policies sold in their states (see ***Table 10***). These responses are difficult to interpret in light of the fact that the NAIC provides the states with annual Experience Reports that provide the numbers of lives covered by each insurer. It may be that some state insurance departments are not aware of this resource, but it seems more likely that the respondents interpreted the survey question literally, responding that the insurance department itself does not collect data on the LTCI market (see Appendix A, question two under the section titled "The LTCI Market").

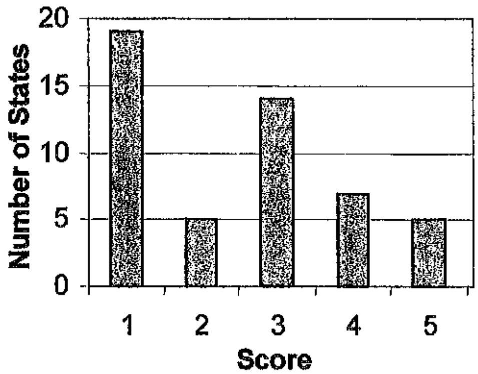
Table 10: Number of States Collecting Information about Local Market

	Number	Percent
Do Not Maintain Information on Policies Sold	38	78%
Information on Number Sold by Company	6	12%
Information on Number Sold by Company and Policy Type	5	10%
Total	49	100%
No Response	2	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Two composite measures were developed to rank states' information collection resources. The first measure assesses states' ability to track "problem" insurers who chronically increase premiums. A state will score higher on this ranking, other things being equal, the longer it retains information on policy filings and if it stores its information electronically (as opposed to storing information on paper or microfiche only). The distribution of rankings below illustrates that while several states appear to perform this task quite capably, a large number of states cannot extract or analyze premium trends at all (see ***Exhibit 5***).

Exhibit 5: Ability to Track Problem Insurers

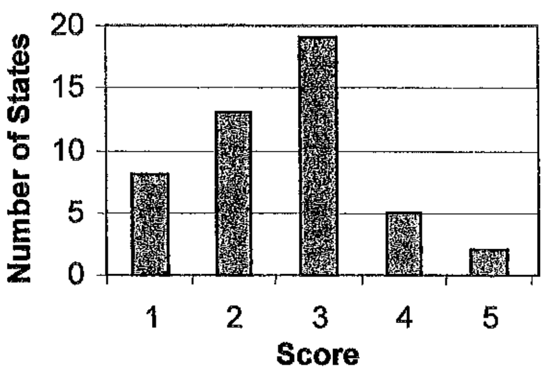


Key to Scoring
1 = Cannot extract and analyze information.
2 = Can extract and analyze information manually and maintain information for less than 10 years.
3 = Can extract and analyze information manually and maintain information for more than 10 years or can extract and analyze information electronically, but maintains information for four years or less.
4 = Can extract and analyze information electronically and by insurer and maintain data for five or more years.
5 = Can extract and analyze electronically information by insurer and maintain data indefinitely.

Source: The Lewin Group Survey of State Insurance Departments in 1999.

We developed a second measure to rate states on the extent to which they collect information about the LTCI marketplace in their state (see ***Exhibit 6***). This role includes monitoring how many insurers are active in the individual and group LTCI markets, tracking how many policies are sold in the state each year, and knowing the degree of concentration of market power among top insurers.[19] The national average rating for this measure was the lowest for all the measures constructed (2.6 out of 5.0 possible), suggesting that state insurance departments are just beginning to adopt this role as part of their mandate.

Exhibit 6: Monitoring of Local Marketplace



Key to Scoring
Base score = 1
Add 1 for knowing the number of insurers active in the state.
Add 1 for knowing the number of insurers offering group and individual plans or the number of insurers by the tax qualification status of their plans.
Add 1 for knowing the number of LTCI policies sold or in-force in the state.
Add 1 for knowing the number of LTCI policies by company and plan type.

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Few States Exercise Their Regulatory Authority to Disapprove Premium Increases. We combined data from our survey with data from another recent study by the Larsen LTC Group to

[19] Less than a quarter of all state insurance departments are capable of monitoring the degree of market concentration in the LTCI market. Only 22 percent of states are able to track the number of policies sold by company, the information needed to compute a company's market share (see ***Table 10***). As guarding against excessive concentration of market power has traditionally been viewed as one of the main responsibilities of a regulator, it is surprising that so few states are collecting the information necessary to this task.

test a hypothesis that states with the strictest regulatory standards and the most thorough review of rates would have the highest propensity to disapprove or modify insurers' proposed rate increases (see Table 11).[20] The Larson study found that only about half of the states surveyed had ever disapproved, or required a modification of, a LTCI premium increase. Only seven states had objected to 10 percent or more of all rates increase filings.

Table 11: Analysis of LTCI Rate Increases

State	Lewin Ranking	Average Lewin Rating	Number of Approved Increase Filings (1997-1999)	Percentage of Increases Disapproved or Modified	If Modified, Average % of Requested Increase Eventually Granted	Comment
Florida	1	4.43	37	60.3%	54.4%	
New York	1	4.43				A
Illinois	3	4.29	12	0.0%	N/A	
Washington	4	4.14	22	18.2%	36.0%	
North Dakota	5	4.00	18	49.1%	28.4%	
Virginia	6	4.00	5	41.7%	30.0%	
Colorado	7	3.86	17	32.3%	50.0%	
Vermont	8	3.86				A
Wisconsin	8	3.86	13	0.0%	N/A	
Iowa	10	3.71	22	9.1%	0.0%	
Rhode Island	11	3.67				A
Alabama	12	3.57				A
Oregon	13	3.43	3	0.0%	N/A	
South Dakota	13	3.43	14	0.0%	N/A	
Maine	15	3.43				A
Massachusetts	15	3.43				A
New Hampshire	15	3.43				A
New Mexico	15	3.43	35	25.5%	35.0%	
Tennessee	15	3.43	56	0.0%	N/A	
North Carolina	20	3.33	24	1.6%	77.1%	
South Carolina	21	3.33				A
Mississippi	21	3.33				A
Georgia	23	3.29	44	4.9%	0.0%	
Minnesota	23	3.29				A
District of Columbia	25	3.29				A
Connecticut	25	3.29				A
New Jersey	25	3.29				A
Ohio	25	3.29	28	0.0%	N/A	
Nebraska	29	3.17	54	Unknown	Unknown	B

[20] The Larson LTC Group (1999), *Rate Increases by Long Term Care Insurance Companies.* Complete data exists for only 30 states. It is perhaps noteworthy that none of the 21 states with incomplete data reported disapproving or modifying a rate increase.

Table 11: Analysis of LTCI Rate Increases, continued

State	Lewin Ranking	Average Lewin Rating	Number of Approved Increase Filings (1997-1999)	Percentage of Increases Disapproved or Modified	If Modified, Average % of Requested Increase Eventually Granted	Comment
Nevada	29	3.17	1	0.00%	N/A	
Indiana	31	3.14	9	6.7%	80.0%	
Oklahoma	31	3.14				A
Kentucky	32	3.14	15	14.3%	93.8%	
Texas	32	3.14	90	0.0%	N/A	
Utah	32	3.14	5	0.0%	N/A	
Arkansas	36	3.00				A
Idaho	36	3.00	30	3.9%	0.0%	
Maryland	36	3.00	13	7.1%	60.0%	
Pennsylvania	39	2.86				A
Arizona	40	2.86	39	0.0%	N/A	
Delaware	40	2.86				A
Kansas	42	2.71	21	65.0%	40.0%	
Michigan	43	2.71	18	3.6%	52.6%	
West Virginia	43	2.71	3	0.0%	N/A	
Montana	45	2.57	9	0.0%	N/A	
Missouri	46	2.43				A
Wyoming	47	2.29				A
Hawaii	48	2.17				A
Louisiana	49	1.14	15	0.0%	N/A	
Alaska	50	1.00				A
California	N/A	N/A	51	0.0%	N/A	
Mean		3.22	22.30	11.4%	45.5%	C

Source: Lewin analysis of Larson Long Term Care Group's "Rate Increases by LTCI Companies, 1999" and The Lewin Group survey of state insurance departments in 1999.

Comment: A = Larson LTC Group was unable to obtain complete data for this state.
B = Only approved rate filings are public in Nebraska. However, a representative of the Nebraska Insurance Department indicated that Nebraska does sometimes disapprove or modify rate increases, though he declined to speculate on the frequency of this event.
C = The value in the last column is the mean amount approved, conditional on some modification of the rate increase amount.

Analysis of the rate increase data showed that a composite measure of a state's regulatory capacity was positively and significantly related to the proportion of rate increases the state had disapproved or modified.[21] States that look carefully at LTCI rate increase requests are finding

[21] We estimated the relationship between the percentage of rate increases not approved (the response or dependent variable) and a rating of regulatory authority (the explanatory variable). Our measure of regulatory authority was designed to capture those characteristics that would most affect an insurance commissioner's ability to identify and reject unjustified rate increases. This measure, *REGCAP*, was calculated for each state i as:

$$REGCAP_i = \frac{\sum_{j=1}^{5} R_{ij}}{5} - (1 - TOOLOW_i)$$

where the R_{ij}'s represent our rating of the qualifications of the person reviewing rates, the extent of rate review, the adequacy of rate review, the monitoring of loss ratios, and the ability to track problem insurers. *TOOLOW* is a some premium increases are *not* justified. The implication is that unjustified rate increases are almost certainly occurring in all states, but that many states lack the necessary authority, resources, or will to stop these increases.

Consumers Have Little Ability To Determine Whether A Policy Is Accurately Priced. The survey findings suggest that it would be very difficult for the typical consumer to find meaningful information about the comparative pricing practices of a carrier, much less determine whether a policy is appropriately priced. The majority of states have some published resource for consumers considering buying LTCI. Thirty-one states (63 percent) offer a consumer LTCI guidebook that provides an introduction to LTCI and advice for comparing plans. Usually the guidebooks list the companies licensed to sell LTCI in the state. An additional five states (10 percent) offer LTCI rate books, which provide a comparison of the premiums for plans offered by different insurers. See Appendix B, Table B7: Public Access to LTCI Information for the state-specific responses. The rate books are limited in that they only provide current premiums and give no indication whether an insurer has historically raised premiums. A comparison of the rate increase histories of different insurers would allow consumers to infer which policies are likely to experience stable premiums in the future.

In all but one of the states that review rate filings, rate history information is public. However, most consumers would have great difficulty utilizing this information in its current form. In more than half the states responding to the survey item (25 states or 57 percent), consumers would have to visit the insurance department in the capital and go through the records themselves to find information on rate histories (see ***Table 12***). Only 11 states offer consumers a relatively simple means (e.g. phone, fax, or electronic) of obtaining rate filing information.[22] Even then, the consumer often needs to know the right forms and filings for which to ask. Because insurers are currently not required to provide consumers with rate histories, there does not appear to be a reliable and accessible resource consumers can use to compare insurers' rate histories.[23]

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dummy variable that equals one if the state has criteria for determining if an initial rate is too low and equals zero otherwise. As almost half the states in the sample had never rejected or modified a rate increase, we chose to estimate a Tobit, or left-censored regression, model. The coefficient estimates of the model are presented below. The result of interest is that the coefficient for our measure of regulatory capacity is positive and significant at the .05 level.

Tobit Regression Results

Variable	*DF*	*Estimate*	*Standard Error*	*Chi Square*	*Prob > Chi* ^{2}
Intercept	1	-39.8610	21.6665	3.3847	.0658
Regulatory	1	14.2707	6.9203	4.2525	.0392
Scale Parameter	1	27.3306	5.3530		

[22] The specific method of obtaining LTCI rate information for each state is listed in ***Appendix B, Table 8***.
[23] This is one of the reasons given by the Larson LTC Group for their effort to document LTCI rate increases.

Table 12: Number of States by Whether LTCI Filings are Public

	Number	Percent
Rates are Public and Available Via...	43	93%
Internet/E-Mail	3	7%
Phone/Fax	8	17%
Write	7	15%
Visit Insurance Department	25	54%
Rates are Not Public	1	2%
Don't Review Rates	2	4%
Total	46	100%
No Response	5	

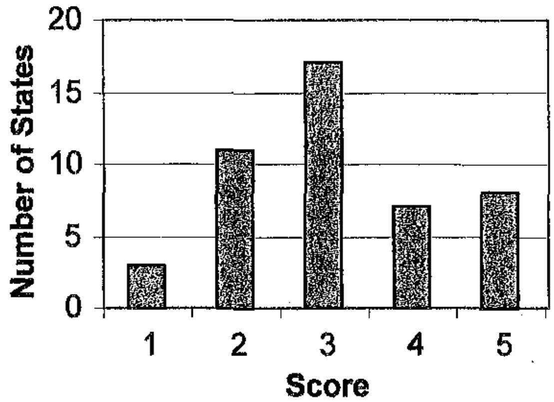
Source: The Lewin Group Survey of State Insurance Departments in 1999.

We constructed a composite measure of consumer access to LTCI information that incorporates the following:

- whether LTCI rate increase information is considered public,
- the ease with which consumers can obtain rate information from the state, and
- whether the state publishes an LTCI consumer resource such as a guidebook or rate book.

States appear weakest in their ability to disseminate rate information to consumers in a timely and convenient fashion (see ***Exhibit 7***). A small number of states seem to have taken the lead nationally on this issue, earning very high ratings for particularly useful and novel approaches to informing consumers. The Iowa insurance department, in particular, has been a pioneer in this area, publishing all rate increases (and decreases) on its web site. The bulk of states insurance departments, however, could still benefit consumers by streamlining public access to LTCI rate information.

Exhibit 7: Consumer Access



Key to Scoring
1 = Not all rate information public or doesn't review rates.
2 = Public, but requires visit to get info.
3 = Public, can write for info.
4 = Public, easy to get info (fax, e-mail, phone, or internet)
Add 1 for having a guidebook or rate book.

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Policy Lessons And Considerations

Our findings suggest that current practices for regulating LTCI cannot ensure appropriately priced premiums. The problems identified include:

- Many states do not require prior approval of LTCI premium rates, and five states have no authority to regulate premiums;
- Individuals reviewing rates in many states may lack adequate knowledge and skills to ensure thorough reviews;
- Most states are not collecting all information necessary to conduct a comprehensive rate review;
- Existing criteria for determining whether policies are appropriately priced may not be adequate;
- States have only limited ability to monitor trends in LTCI premiums;
- Few states exercise their regulatory authority to disapprove premium increases; and
- Consumers have little ability to determine whether a policy is accurately priced.

Thus, market competition provides the only external pressure with a strong effect on LTCI premiums. This competition creates pressure to lower the initial price of policies, thereby increasing the danger of underpricing, and hence, subsequent rate increases.

A first step towards improving the regulation of LTCI would be to develop standards and guidelines which regulators could use to determine what types of information they should be requesting and provide benchmarks for assumptions used in pricing, such as the range of lapse rates that may be expected. The individuals interviewed at the state insurance departments generally supported measures to develop standards and guidelines for reviewing LTCI premiums (see ***Table 13***). Respondents from only ten of the states contended that they would not benefit from the development of guidelines for the actuarial assumptions used for LTCI pricing, while 35 states responded that a need exists. The state representatives were almost as supportive of standards for approving LTCI premiums and rate increases. Standards could provide more stringent criteria than guidelines for evaluating rate filings (e.g., disallowing the approval of a filing with a lapse rate higher or lower than a certain level).

State representatives also supported efforts to improve the procedures for monitoring and tracking LTCI rates and increases. Thirty-eight states support this initiative. Anecdotal responses indicated that most states would likely support an effort by the NAIC to centralize the collection of this information. For example, the NAIC could collect centralized information on problem insurers and make available to consumers comparative information regarding the types of policies sold by companies in various states. The responses of individuals at each of the state insurance departments to these three questions are available in ***Appendix B, Table B8: Subjective Opinions About the Need for Greater Guidance.*** Although state adoption of NAIC recommendations is voluntary, improvements in NAIC model regulations can help set the tone for optimum state oversight.

Table 13: Subjective Question Responses

There is a need for...	**Guidelines for LTCI Actuarial Assumptions?**		**Standards for Approving LTCI Rates & Increases?**		**Procedures for Monitoring LTCI Rates & Increases?**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Agree	35	70%	34	68%	38	76%
Do Not Agree	10	20%	12	24%	8	16%
No Opinion	5	10%	4	8%	4	8%
Total	50	100%	50	100%	50	100%
No Response	1		1		1	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

The NAIC revisions to the Model Regulation, adopted in August of 2000, require:

- Greater disclosure to consumers about the possibility that their premiums may increase;
- Elimination of initial loss ratios;
- Strict lifetime loss ratio standards for rate increases (58 percent of the initial rate and 85 percent of the rate increase must go to covering claims);
- Enhanced regulatory monitoring and sanctions if rate increases are requested;
- Actuarial certification from insurers regarding adequacy of all rates (i.e., under moderately adverse experience, no further rate increases are expected for the life of the policy);
- Reimbursement of unnecessary rate increases to policyholders; and
- Specific information about the rate increase history of a carrier for the last 10 years.

The new regulations also allow the insurance commissioner to:

- Mandate that the insurer provide consumers the opportunity to transfer their coverage to another LTCI policy if the commissioner deems that a rate spiral exists after a rate increase; and
- Curtail the ability of insurers who have a "persistent practice of filing inadequate initial premium rates" to file and market policies for up to five years.

If adopted by states, these regulations should help to improve the regulation of LTCI premiums.[24] However, the regulations do not go far enough to ensure that the individuals responsible for reviewing filings can adequately enforce the regulations. Therefore, we make the following additional recommendations:

- Develop and require training specific to LTCI pricing for all individuals reviewing rates.
- Develop standards for assumptions used to price LTCI that would alert regulators when a new policy has premiums that are too low to support the eventual claims.
- Periodically review pricing on all policies being sold regardless of whether a rate increase has been requested. This would allow regulators to identify under- or overpriced policies and make necessary adjustments sooner, decreasing the probability of a rate spiral.
- Develop comparative rate guides to help consumers access available policies.
- Make comparative information regarding an insurer's history of rate increases or the likelihood that a rate increase will occur more available to the public. Policy recommendations designed to increase the information available to regulators and consumers include requiring state insurance departments to:
  - Require agents to provide comparative rate histories with every policy offered for sale.
  - Devote more resources to the tracking of rate increase histories in an effort to identify "problem" insurers.
  - Store information collected by the states electronically, as well as regularly publish, and update this information. This would allow consumers to access the information at a low cost and direct their business to the most responsible and competitive of insurers.
  - Collect data on conditions in the local marketplace (e.g., policy sales, policy replacements, and recision), make these data available to consumers, and incorporate the data into the mandate of every state insurance department.

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[24] According to the NAIC, as of September 1, 2001, five states had adopted the NAIC Model Regulation on rate stability and 24 states had indicated their intention to adopt these provisions.

APPENDIX A

SURVEY INSTRUMENT

Long-Term Care Insurance Regulatory Survey

State: ____________________

Please identify the person or persons responsible for overseeing long-term care insurance (LTCI) market

Name: ______________________________

Job Title: ______________________________

Phone Number: ______________________________

Please identify the person or persons responsible for reviewing LTCI initial rate filings

Is this the same person as individual I? ☐ Yes If No, please supply the following information

Name: ______________________________

Job Title: ______________________________

Phone Number: ______________________________

Please identify the person or persons responsible for reviewing LTCI rate changes

Is this the same person as individual I? ☐ Yes

Is this the same person as individual II? ☐ Yes If No, please supply following information

Name: ______________________________

Job Title: ______________________________

Phone Number: ______________________________

Please identify the person or persons responsible for LTCI document retention

Is this the same person as individual I? ☐ Yes

Is this the same person as individual II? ☐ Yes

Is this the same person as individual III? ☐ Yes If No, please supply following information

Name: ______________________________

Job Title: ______________________________

Phone Number: ______________________________

The LTC Market

1. With respect to LTC policy forms and rates *(please check all applicable responses):*

   a) Does your state require prior approval of *rates?* ☐ Yes ☐ No

   b) Does your state permit file and use for *rates?* ☐ Yes ☐ No

   c) Does your state permit use without filing for rates? ☐ Yes ☐ No

   d) Does your state require prior approval of policy forms? ☐ Yes ☐ No

   e) Does your state permit file and use for policy forms? ☐ Yes ☐ No

2. How does your state maintain data identifying the type and number of LTC policies actually sold? *(check one)*

   Does not maintain any information ☐

   Maintains information on number sold only ☐

   Maintains information on number sold by company only ☐

   Maintains information on number sold by company and policy types ☐

   Other (describe)____

3. Please describe the NAIC statement forms that you require insurers to file:

   Annual filing ☐

   Annual statement supplement page ☐

   Quarterly filing ☐

   Quarterly supplement ☐

   Other (describe)____

The Approval Process

1. Does your state have regulations, guidelines or directives, other than those found in your statutes, specifying the requirements for LTC rate filings? ☐ YES ☐ No

   a) If yes, please identify those regulations, guidelines or directives. If possible, please attach copies. ______________________________

2. Are there any differences between how individual and group policies are reviewed?

   ☐ Yes ☐ No

   a) If yes, please describe: ______________________________

   ____

3. Is the individual (or individuals) responsible for reviewing and approving rate increases an employee or outside contractor? ☐ Employee ☐ Outside Contractor

   If outside contractor, what firm is he or she with? ______________________________

   Can you supply a telephone number? ______________________________

4. Does your state require that the rate review be done by an actuary? ☐ Yes ☐ No

   a) If no, please describe the credentials or experience of the individuals currently performing rate review functions for your department:

   ____

   ____

5. Please describe the type of documentation required with an <u>initial rate filing</u>:

   actuarial memorandum ☐ Yes ☐ No

   policy form ☐ Yes ☐ No

   rate histories of other LTCI policies ☐ Yes ☐ No

   rate histories for policy in other states ☐ Yes ☐ No

   other (describe) ______________________________

6. Please describe materials required with a request for <u>rate increases:</u>

Actuarial memorandum	☐ Yes ☐ No
Policy form	☐ Yes ☐ No
Policy rate increase history	☐ Yes ☐ No
Rate histories of other LTCI policies	☐ Yes ☐ No
Rate histories for policy in other states	☐ Yes ☐ No

Other (describe) ______________________________

7. If your state requires an actuarial memorandum with the initial rate filing, does your state request information regarding:

Definition of benefit trigger	☐ Yes ☐ No
Effect of underwriting on utilization rates or selection factors	☐ Yes ☐ No
Projected claim costs	☐ Yes ☐ No
Mortality tables used	☐ Yes ☐ No
Lapse rate assumptions	☐ Yes ☐ No
Interest rates used in pricing	☐ Yes ☐ No
Expense loading factors on the premiums	☐ Yes ☐ No
Commissions broken out separately as one of expenses	☐ Yes ☐ No
Profit margin	☐ Yes ☐ No

8. Does your state request information regarding:

Definition of benefit trigger	☐ Yes ☐ No
Effect of underwriting on utilization rates or selection factors	☐ Yes ☐ No
Mortality tables used	☐ Yes ☐ No
Lapse rate assumptions	☐ Yes ☐ No
Interest rates	☐ Yes ☐ No
Expense loading factors on the premiums	☐ Yes ☐ No
Commissions broken out separately as one of expenses	☐ Yes ☐ No
Profit margin	☐ Yes ☐ No
Comparison of actual experience to assumptions	☐ Yes ☐ No
Actual Claims Costs	☐ Yes ☐ No
Projected Future claims costs	☐ Yes ☐ No

9. Please describe the standards used by your state in the review and approval of rate submissions (e.g., loss ratio or other benchmarks)

   a) The loss ratios stay above 60% ☐ Yes ☐ No

   b) Other loss ratio criteria

      Please describe:____

   c) Can only changes in certain factors be used to justify a rate increase? (e.g., higher than average claims experience justified but lower interest rates not justified).

      ☐ Yes ☐ No

      If yes, which factors? ____________________________________

10. In regard to loss ratios:

   a) Do you look at loss ratios over the lifetime of the policy? ☐ Yes ☐ No

   b) Do you ask for year by year loss ratios? ☐ Yes ☐ No

   c) Does the state require a certain interest rate to be used in the loss ratio calculation?

      ☐ Yes ☐ No

      If yes, What is it?__________________

   d) Does the state allow use of an interest rate different than that used in pricing?

      ☐ Yes ☐ No

   e) Does the state monitor loss ratio compliance other than when a rate increase is filed?

      ☐ Yes ☐ No

      If yes, how? ____

      If a company is found to be out of compliance, what corrective action is taken?

      ____

      ____

      ____

   f) Does your state have any criteria for determining whether rates are too low?

      ☐ Yes ☐ No

11. If your state is not a "prior approval" state, what factors will trigger a rate review?

   All LTCI rate filings ☐ Yes ☐ No

   All changes in rates ☐ Yes ☐ No

   Only changes in rates beyond a certain point ☐ Yes ☐ No

   If yes describe criteria____________________________________

   Other criteria (describe) __________________________________

Document Retention

1. For how long does your state keep policies and rate filings on file? ____________

2. How are policy filings retained?

   By company ☐ Yes ☐ No

   By product line ☐ Yes ☐ No

   By form number ☐ Yes ☐ No

   Other (describe) ____________

3. Does your state have the capability to extract and analyze the history of rate filings and requests for rate increases by company? ☐ Yes ☐ No

   a) Is this information coded electronically ☐ Yes ☐ No

   b) If yes, since when ____________

4. With respect to LTC products, do you believe there is a need for:

   a) Guidelines related to actuarial assumptions? ☐ Yes ☐ No

   b) Standards for approving premiums and premium increases? ☐ Yes ☐ No

   If yes, when /how?

   Comments: ____________

5. Are rate filings and are requests for premium rate increases considered public information? ☐ Yes ☐ No

6. Is rate information available to the public? ☐ Yes ☐ No

   If yes, when /how?

   Comments: ____________

7. Do you have a guide or rate book for consumers? ☐ Yes ☐ No

Questions on LTCI Market

Thank you for participating in the Long-Term Care Insurance Regulatory Survey. The questions below may take some research. If you complete the form before the telephone interview, you may give the information to the interviewer. If you prefer, you may fax the completed

Form Completed By:

Name: ______________________ **Date:** ___/___/___

Title: ______________________ **Phone #:** ______________

State: ______________________ **Fax #:** ______________

1. **How many carriers write long term care in your state?**
   a) Individual ____________
   b) Group ____________
2. **How many individual LTC policy forms have been approved for sale?**
   Number ____________
   Notes/qualifications: ______________________________
3. **Please provide information about the number of long term care policy forms approved for sale in each year since 1994.**
   1994 __________
   1995 __________
   1996 __________

HIPAA-Qualified policies:		**Non-HIPAA-Qualified policies:**	
1997	__________	1997	__________
1998	__________	1998	__________
1999	__________	1999	__________

4. **Please provide information about the number of long term care policies sold.**

1994	______
1995	______
1996	______

HIPAA-Qualified policies:		**Non-HIPAA-Qualified policies:**	
1997	______	1997	______
1998	______	1998	______
1999	______	1999	______

APPENDIX B

STATE-SPECIFIC TABLES

Table B1: State Requirements for LTCI Rate and Policy Forms: Prior Approval vs. File and Use

State	Does Insurer Have to Receive Approval Before Using a New or Altered LTCI Premium?	Does Insurer Have to Receive Approval Before Using a New or Altered LTCI Policy Form?	State's Authority w/r/t Approval/Disapproval of LTCI Premium Increases	Notes
Alabama	Prior Approval	Prior Approval	Full Authority, Proactive	
Alaska	No Rate Review	Prior Approval	No Rate Oversight Authority	
Arizona	Prior Approval	Prior Approval	Full Authority, Proactive	
Arkansas	Prior Approval	Prior Approval	Full Authority, Reactive	
California	N/A	N/A	N/A	
Colorado	File and Use	File and Use	Full Authority, Reactive	
Connecticut	Prior Approval	Prior Approval	Full Authority, Reactive	
Delaware	File and Use	File and Use	Full Authority, Reactive	
District of Columbia	Prior Approval	Prior Approval	Full Authority, Reactive	A
Florida	Prior Approval	Prior Approval	Full Authority, Proactive	
Georgia	Prior Approval	Prior Approval	Full Authority, Reactive	
Hawaii	File and Use	File and Use	Review Large Changes, Limited Authority	C
Idaho	File and Use	File and Use	Full Authority, Reactive	
Illinois	Prior Approval	Prior Approval	Full Authority, Reactive	
Indiana	Prior Approval	Prior Approval	Full Authority, Proactive	
Iowa	Prior Approval	Prior Approval	Full Authority, Reactive	
Kansas	File and Use	Prior Approval	Full Authority, Reactive	
Kentucky	Prior Approval	Prior Approval	Full Authority, Reactive	
Louisiana	Filed for Information Only	Prior Approval	Review All, No Authority	
Maine	Prior Approval	Prior Approval	Full Authority, Reactive	
Maryland	Prior Approval	Prior Approval	Full Authority, Proactive	
Massachusetts	Prior Approval	Prior Approval	Full Authority, Reactive	
Michigan	Prior Approval	Filing Not Required	Full Authority, Reactive	
Minnesota	Prior Approval	Prior Approval	Full Authority, Proactive	
Mississippi	Prior Approval	Prior Approval	Full Authority, Reactive	
Missouri	Filing Not Required for Increases	Prior Approval	No Rate Oversight Authority	A
Montana	Filing Not Required for Increases	Prior Approval	No Rate Oversight Authority	A, B
Nebraska	File and Use	Prior Approval	Full Authority, Reactive	
Nevada	Prior Approval	Prior Approval	Full Authority, Reactive	
New Hampshire	Prior Approval	Prior Approval	Full Authority, Reactive	
New Jersey	Prior Approval	Prior Approval	Full Authority, Reactive	
New Mexico	Prior Approval	Prior Approval	Full Authority, Reactive	
New York	Prior Approval	Prior Approval	Full Authority, Proactive	
North Carolina	Prior Approval	Prior Approval	Full Authority, Proactive	
North Dakota	Prior Approval	Prior Approval	Full Authority, Proactive	
Ohio	Prior Approval	Prior Approval	Full Authority, Reactive	
Oklahoma	Prior Approval	Prior Approval	Full Authority, Reactive	
Oregon	Prior Approval	Prior Approval	Full Authority, Reactive	
Pennsylvania	File and Use	File and Use	Full Authority, Reactive	

Table B1: State Requirements for LTCI Rate and Policy Forms: Prior Approval vs. File and Use - continued

State	Does Insurer Have to Receive Approval Before Using a New or Altered LTCI Premium?	Does Insurer Have to Receive Approval Before Using a New or Altered LTCI Policy Form?	State's Authority w/r/t Approval/Disapproval of LTCI Premium Increases	Notes
Rhode Island	Prior Approval	Prior Approval	Full Authority, Reactive	
South Carolina	Prior Approval	Prior Approval	Full Authority, Proactive	
South Dakota	Prior Approval	Prior Approval	Full Authority, Proactive	
Tennessee	Prior Approval	Prior Approval	Full Authority, Proactive	
Texas	File and Use	File and Use	Review All, Limited Authority	
Utah	File and Use	File and Use	Full Authority, Proactive	
Vermont	Prior Approval	Prior Approval	Full Authority, Proactive	
Virginia	Prior Approval	Prior Approval	Full Authority, Proactive	
Washington	File and Use	File and Use	Full Authority, Proactive	
West Virginia	Prior Approval	Prior Approval	Full Authority, Reactive	
Wisconsin	File and Use	Prior Approval	Full Authority, Proactive	
Wyoming	Filing Not Required for Increases	Prior Approval	No Rate Oversight Authority	

Source: The Lewin Group Survey of State Insurance Departments in 1999.

EXPLANATION:

Full Authority, Proactive	Full authority to review & check loss ratios annually or at times other than when a rate increase.
Full Authority, Reactive	Full authority to review & check loss ratios when a rate increase proposed.
Review All, Limited Authority	Reviews all increases, but can only disapprove increases on basis of loss ratio compliance.
Review Large Changes, Limited Authority	Review rate increases only if above a certain amount.
Review All, No Authority	Review all increases, but no authority.
No Rate Oversight Authority	Rate filings not required; no rate oversight authority.

NOTES

A State plans to adopt the final version of the NAIC rate stabilization plan later this year.
B State does check loss ratios on all policies annually.
C Adopting 1998 NAIC standards on 07/01/00.

Table B2: Status of Individual Responsible for Rate Review

State	Same individual reviews initial filings and rate increases	Status of individual who reviews rates	Requirement that actuary review rates
Alabama	Same	Outside Contractor	Use Actuary, Not State Requirement
Alaska	N/A	No Rate Review	No Rate Review
Arizona	Same	Employee	Actuary Not Included In Review
Arkansas	Same	Employee	Refer Questions to Actuary as Needed
California	No Response	N/A	N/A
Colorado	Same	Employee	State Requires Actuary
Connecticut	Same	Employee	Use Actuary, Not State Requirement
Delaware	Same	Employee	Refer Questions to Actuary as Needed
District of Columbia	Different	Employee	State Requires Actuary
Florida	Different	Outside Contractor	State Requires Actuary
Georgia	Same	Employee	Actuary Not Included In Review
Hawaii	Same	Employee	Actuary Not Included In Review
Idaho	Same	Employee	Refer Questions to Actuary as Needed
Illinois	Same	Employee	State Requires Actuary
Indiana	Same	Outside Contractor	State Requires Actuary
Iowa	Different	Employee	Use Actuary, Not State Requirement
Kansas	Same	Employee	Actuary Not Included In Review
Kentucky	Different	Outside Contractor	Use Actuary, Not State Requirement
Louisiana	N/A	No Rate Review	No Rate Review
Maine	Same	Employee	Use Actuary, Not State Requirement
Maryland	Different	Employee	Use Actuary, Not State Requirement
Massachusetts	Same	Employee	Use Actuary, Not State Requirement
Michigan	Different	Employee	Actuary Not Included In Review
Minnesota	Same	Employee	State Requires Actuary
Mississippi	Same	Outside Contractor	State Requires Actuary
Missouri	Same	Employee	Actuary Not Included In Review
Montana	No Response	Employee	Use Actuary, Not State Requirement
Nebraska	Same	Employee	State Requires Actuary
Nevada	Same	Employee	Actuary Not Included In Review
New Hampshire	Different	Employee	Use Actuary, Not State Requirement
New Jersey	Same	Employee	Actuary Not Included In Review
New Mexico	Same	Employee	Actuary Not Included In Review
New York	Same	Employee	State Requires Actuary
North Dakota	Same	Employee	State Requires Actuary
Ohio	Different	Employee	Actuary Not Included In Review
Oklahoma	Same	Employee	Refer Questions to Actuary as Needed
Oregon	Same	Employee	State Requires Actuary
Pennsylvania	No Response	Employee	Actuary Not Included In Review
Rhode Island	Same	Outside Contractor	State Requires Actuary
South Carolina	Same	Employee	Actuary Not Included In Review

Table B2: Status of Individual Responsible for Rate Review- continued

State	Same individual reviews initial filings and rate increases	Status of individual who reviews rates	Requirement that actuary review rates
South Dakota	No Response	Employee	Use Actuary, Not State Requirement
Tennessee	Same	Outside Contractor	Use Actuary, Not State Requirement
Texas	Different	Employee	State Requires Actuary
Utah	Same	Employee	Use Actuary, Not State Requirement
Vermont	Same	Employee	Actuary Not Included In Review
Virginia	Same	Outside Contractor	State Requires Actuary
Washington	Different	Employee	Refer Questions to Actuary as Needed
West Virginia	Different	Employee	Actuary Not Included In Review
Wisconsin	No Response	Employee	Use Actuary, Not State Requirement
Wyoming	N/A	Employee	Actuary Not Included In Review

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Table B3: Actuarial Information Requested for Initial Filings and Rate Increases

	Information Requested in Actuarial Memorandum-Initial Filings								
State	**Definition of benefit trigger**	**Effect of underwriting on utilization rates or selection factors**	**Projected claims costs**	**Mortality tables used**	**Lapse rate assumptions**	**Interest rates used in pricing**	**Expense loading factors on the premiums (e.g., marketing and overhead costs)**	**Commissions broken out separately as one of expenses**	**Profit margin**
Alabama	X	X	X	X	X	X	X	X	
Alaska	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Arizona			X		X				
Arkansas			X		X	X	X	X	
California	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Colorado	X	X	X	X	X	X	X	X	X
Connecticut	X		X						X
Delaware	X	X	X	X	X	X	X	X	X
District of Columbia	X	X	X	X	X	X	X	X	X
Florida	X	X	X	X	X	X	X		X
Georgia	X		X	X	X	X	X		X
Hawaii	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Idaho	X	X	X	X	X	X	X	X	X
Illinois	X	X	X	X	X	X	X	X	X
Indiana	X	X	X	X	X	X	X	X	X
Iowa									
Kansas	X	X	X	X	X	X	X	X	X
Kentucky	X		X	X	X	X	X	X	
Louisiana	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Maine			X		X	X			
Maryland			X	X	X	X		X	
Massachusetts		X	X	X	X	X	X	X	
Michigan	X		X	X			X	X	
Minnesota	X	X	X	X	X	X			
Mississippi			X	X	X	X		X	X
Missouri									
Montana	X	X	X	X	X	X	X		

Table B3: Actuarial Information Requested for Initial Filings and Rate Increases- continued

State	Information Requested in Actuarial Memorandum-Initial Filings								
	Definition of benefit trigger	Effect of underwriting on utilization rates or selection factors	Projected claims costs	Mortality tables used	Lapse rate assumptions	Interest rates used in pricing	Expense loading factors on the premiums (e.g., marketing and overhead costs)	Commissions broken out separately as one of expenses	Profit margin
Nebraska	X	X		X		X	X	X	
Nevada	X	X	X	X	X	X	X	X	X
New Hampshire	X	X	X	X	X	X	X	X	
New Jersey		X	X	X	X	X	X	X	X
New Mexico	X	X	X	X	X	X	X	X	
New York	X	X	X	X	X	X	X	X	X
North Carolina	X	X	X	X	X	X	X	X	X
North Dakota	X	X	X	X	X	X	X	X	X
Ohio	X	X	X	X	X	X	X	X	X
Oklahoma	X	X	X	X	X	X	X	X	X
Oregon	X	X	X	X	X	X	X	X	X
Pennsylvania								X	
Rhode Island	X		X	X	X	X	X		X
South Carolina	X	X	X	X	X	X	X		
South Dakota	X		X		X	X			
Tennessee	X		X	X	X	X	X		
Texas	X	X	X	X	X	X	X	X	
Utah			X		X	X	X	X	X
Vermont	X	X	X	X	X	X	X	X	X
Virginia		X	X	X	X	X	X	X	X
Washington	X	X	X	X	X	X	X	X	X
West Virginia			X		X	X	X	X	X
Wisconsin	X							X	
Wyoming	X	X	X	X	X	X	X		

Source: **The Lewin Group Survey of State Insurance Departments in 1999.**

Table B3: Actuarial Information Requested for Initial Filings and Rate Increases- continued

	Information Requested in Actuarial Memorandum - Rate Increases										
State	**Definition of benefit trigger**	**Effect of underwriting on utilization rates or selection factors**	**Actual claims costs**	**Projected future claims costs**	**Mortality tables used**	**Lapse rate assumptions**	**Interest rates used in pricing**	**Expense loading factors on the premiums (e.g., marketing and overhead costs)**	**Commissions broken out separately as one of expenses**	**Profit margin**	**Comparison of actual experience to assumptions**
Alabama	X	X	X	X	X	X	X	X	X		X
Alaska	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Arizona			X			X					X
Arkansas			X		X	X	X	X			X
California	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Colorado	X	X	X	X	X	X	X	X	X	X	X
Connecticut		X	X	X	X	X	X	X		X	X
Delaware	X	X	X	X	X	X	X	X	X	X	X
District of Columbia	X	X		X	X	X	X	X	X	X	X
Florida	X	X	X	X	X	X	X	X		X	X
Georgia	X		X	X	X	X	X	X		X	X
Hawaii	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Idaho	X	X	X	X	X	X	X	X	X	X	X
Illinois	X	X	X	X	X	X	X	X	X	X	X
Indiana	X	X	X	X	X	X	X	X	X	X	X
Iowa			X	X	X	X	X		X		X
Kansas		X	X								X
Kentucky	X		X	X	X	X	X	X	X		
Louisiana	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Maine			X	X							X
Maryland			X	X	X	X	X	X	X		X
Massachusetts		X	X	X	X	X	X	X	X		X
Michigan	X		X	X	X			X	X		X
Minnesota	X	X	X	X	X	X	X				X
Mississippi			X	X	X	X	X		X	X	
Missouri											
Montana	X	X	X	X	X	X	X	X			X

Table B3: Actuarial Information Requested for Initial Filings and Rate Increases- continued

State	Information Requested in Actuarial Memorandum - Rate Increases										
	Definition of benefit trigger	Effect of underwriting on utilization rates or selection factors	Actual claims costs	Projected future claims costs	Mortality tables used	Lapse rate assumptions	Interest rates used in pricing	Expense loading factors on the premiums (e.g., marketing and overhead costs)	Commissions broken out separately as one of expenses	Profit margin	Comparison of actual experience to assumptions
Nebraska	X	X	X		X		X	X	X		X
Nevada	X	X	X	X	X	X	X	X	X	X	X
New Hampshire	X	X	X	X	X	X	X	X	X		X
New Jersey		X		X		X	X				X
New Mexico	X	X	X	X	X	X	X	X	X		X
New York	X	X	X	X	X	X	X	X	X	X	X
North Carolina	X	X	X	X	X	X	X	X	X	X	X
North Dakota	X	X	X	X	X	X	X	X	X	X	X
Ohio	X	X	X	X	X	X	X	X	X	X	X
Oklahoma	X	X	X	X	X	X	X	X	X	X	X
Oregon	X	X	X	X	X	X	X	X	X	X	X
Pennsylvania			X	X	X	X	X		X	X	X
Rhode Island	X		X	X	X	X	X	X		X	X
South Carolina	X	X	X	X	X	X	X	X			X
South Dakota	X		X	X		X	X				X
Tennessee	X		X	X	X	X	X	X			X
Texas		X	X	X	X	X	X				X
Utah			X	X		X	X	X	X	X	X
Vermont	X	X	X	X	X	X	X	X	X	X	X
Virginia		X	X	X	X	X	X	X	X	X	X
Washington	X	X	X	X	X	X	X	X	X	X	X
West Virginia			X	X		X	X	X	X	X	X
Wisconsin		X	X	X	X	X	X	X	X	X	X
Wyoming	X	X	X	X	X	X	X	X			X

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Table B4: Documentation Requirements for Rate Reviews

State	Type of documentation required with an initial rate filing	Type of documentation required for LTCI rate increase
Alabama	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form policy rate increase history
Alaska	No Rate Review	No Rate Review
Arizona	Actuarial memorandum & Policy form	Actuarial memorandum, policy rate increase history & rate histories for policy in other states
Arkansas	Actuarial memorandum, Policy form & Rate histories of other policies	Actuarial memorandum, policy rate increase history & rate histories of other LTCI policies
California	N/A	N/A
Colorado	Actuarial memorandum, Policy form, Rate histories of other policies and policies in other states	Actuarial memorandum, policy rate increase history, rate histories of other LTCI policies and rate histories for policy in other states
Connecticut	Actuarial memorandum & Policy form	Actuarial memorandum, & policy rate increase history
Delaware	Actuarial memorandum	Actuarial memorandum, & policy rate increase history
District of Columbia	Actuarial memorandum, Policy form & Rate histories of other states	Actuarial memorandum, Policy form, policy rate increase history, and rate histories for policy in other states
Florida	Actuarial memorandum, Policy form & Rate histories of other policies	Actuarial memorandum, Policy form, policy rate increase history, & rate histories of other LTCI policies
Georgia	Actuarial memorandum & Policy form	Actuarial memorandum
Hawaii	Policy form	Actuarial memorandum
Idaho	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form, policy rate increase history, and rate histories for policy in other states
Illinois	Actuarial memorandum & Policy form	Actuarial memorandum, & policy rate increase history
Indiana	Actuarial memorandum, Policy form & Rate histories of other policies	Actuarial memorandum, Policy form, policy rate increase history, & rate histories of other LTCI policies
Iowa	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate history
Kansas	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum, policy rate increase history & rate histories of other LTCI policies
Kentucky	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate history
Louisiana	No Rate Review	No Rate Review
Maine	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate history
Maryland	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form, policy rate increase history, and rate histories for policy in other states
Massachusetts	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate history
Michigan	Actuarial memorandum	Actuarial memorandum
Minnesota	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate history
Mississippi	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate history
Missouri	Actuarial memorandum	Actuarial memorandum
Montana	Actuarial memorandum & Policy form	No Rate Review (Actuarial memorandum, policy form & policy rate history)
Nebraska	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate history

Table B4: Documentation Requirements for Rate Reviews- continued

State	Type of documentation required with an initial rate filing	Type of documentation required for LTCI rate increase
Nevada	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form, policy rate increase history, and rate histories for policy in other states
New Hampshire	Actuarial memorandum	Actuarial memorandum, policy rate increase history, and rate histories for policy in other states
New Jersey	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate increase history
New Mexico	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum, Policy form, policy rate increase history, rate histories of other LTCI policies rate' histories for policy in other states
New York	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum, policy rate increase history, rate histories of other LTCI policies rate' histories for policy in other states
North Carolina	Actuarial memorandum, Rate histories of other policies & Rate histories of policy in other states	Actuarial memorandum, policy rate increase history & rate histories of other LTCI policies
North Dakota	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum, policy rate increase history & rate histories for policy in other states
Ohio	Actuarial memorandum & Policy form	Actuarial memorandum, & policy rate increase history
Oklahoma	Actuarial memorandum & Policy form	Actuarial memorandum, rate histories for other LTCI policies & rate histories of other LTCI policies rate' histories for policy in other states
Oregon	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum, policy rate increase history, rate histories of other LTCI policies rate' histories for policy in other states
Pennsylvania	Actuarial memorandum & Policy form	Actuarial memorandum, policy rate increase history & rate histories for policy in other states
Rhode Island	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form, & policy rate increase history,
South Carolina	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum & policy rate increase history
South Dakota	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate increase history
Tennessee	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form, & policy rate increase history,
Texas	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form, policy rate increase history, & rate histories of other LTCI policies
Utah	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum, Policy form, policy rate increase history, rate histories of other LTCI policies rate' histories for policy in other states
Vermont	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate increase history
Virginia	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate increase history
Washington	Actuarial memorandum & Policy form	Actuarial memorandum, Policy form, policy rate increase history, rate histories of other LTCI policies rate' histories for policy in other states
West Virginia	Actuarial memorandum, Policy form, Rate histories of other policies & rate histories for policy in other states	Actuarial memorandum, Policy form, policy rate increase history, rate histories of other LTCI policies rate' histories for policy in other states
Wisconsin	Actuarial memorandum & Policy form	Actuarial memorandum & policy rate increase history
Wyoming	Actuarial memorandum & Policy form	Actuarial memorandum

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Table B5: Loss Ratio Requirements

State	Loss Ratio Criteria	State Considers Lifetime Loss Ratios	State Considers Year-by-Year Loss Ratios	State Sets Interest Rate for Calculating Loss Ratios	State Allows Insurers to Use Different Interest Rates for Loss Ratios than For Pricing	State Monitors Loss Ratio Compliance Other Than When Rate Increase is Filed	Changes in Only Certain Assumptions Can Be Used to Justify Rate Increases
Alabama	60% or Higher Standard	Yes	Yes	N/A	Yes	Yes	Yes
Alaska	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Arizona	60% or Higher Standard	Yes	Yes	No	Yes	Yes	Yes
Arkansas	60% or Higher Standard	Yes	Yes	No	Yes	No	Yes
California	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Colorado	60% or Higher Standard	Yes	Yes	No	No	No	N/A
Connecticut	60% or Higher Standard	Yes	Yes	No	Yes	No	Yes
Delaware	60% or Higher Standard	Yes	Yes	No	Yes	No	No
District of Columbia	60% or Higher Standard	Yes	Yes	No	N/A	No	No
Florida	60% or Higher Standard	Yes	Yes	No	No	Yes	Yes
Georgia	60% or Higher Standard	Yes	Yes	No	Yes	No	No
Hawaii	60% or Higher Standard	Yes	No	No	Yes	No	No
Idaho	60% or Higher Standard	No	Yes	No	No	No	No
Illinois	60% or Higher Standard	Yes	Yes	No	No	No	No
Indiana	60% or Higher Standard	Yes	Yes	No	Yes	Yes	Yes
Iowa	60% or Higher Standard	Yes	Yes	No	Yes	No	Yes
Kansas	Compare Actual-to-Expected Ratios	No	Yes	No	Yes	N/A	N/A
Kentucky	60% or Higher Standard	Yes	No	No	Yes	N/A	N/A
Louisiana	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Maine	60% or Higher Standard	Yes	No	No	Yes	No	No
Maryland	60% or Higher Standard	Yes	N/A	No	No	Yes	N/A
Massachusetts	60% or Higher Standard	Yes	Yes	No	Yes	No	No
Michigan	60% or Higher Standard	Yes	Yes	No	Yes	No	No
Minnesota	60% or Higher Standard	Yes	Yes	No	Yes	Yes	No
Mississippi	60% or Higher Standard	N/A	N/A	N/A	N/A	N/A	N/A
Missouri	60% or Higher Standard	Yes	N/A	N/A	Yes	No	N/A
Montana	60% or Higher Standard	Yes	Yes	No	Yes	Yes	No

Table B5: Loss Ratio Requirements- continued

State	Loss Ratio Criteria	State Considers Lifetime Loss Ratios	State Considers Year-by-Year Loss Ratios	State Sets Interest Rate for Calculating Loss Ratios	State Allows Insurers to Use Different Interest Rates for Loss Ratios than For Pricing	State Monitors Loss Ratio Compliance Other Than When Rate Increase is Filed	Changes in Only Certain Assumptions Can Be Used to Justify Rate Increases
Nebraska	60% or Higher Standard	Yes	Yes	No	Yes	No	No
Nevada	60% or Higher Standard	Yes	Yes	No	No	No	No
New Hampshire	60% or Higher Standard	Yes	Yes	No	No	No	No
New Jersey	65%+ for Ages 65+; 55%+ for Ages<65	Yes	No	Yes	Yes	No	No
New Mexico	65%+ If No Nonforf.; No Loss Ratio Requirement If Nonforf.	Yes	Yes	No	Yes	No	No
New York	60% or Higher Standard	Yes	Yes	Yes	Yes	Yes	No
North Carolina	60% or Higher Standard	Yes	Yes	No	N/A	Yes	No
North Dakota	60% or Higher Standard	Yes	Yes	N/A	No	Yes	No
Ohio	60% or Higher Standard	Yes	Yes	N/A	N/A	N/A	N/A
Oklahoma	60% or Higher Standard	Yes	No	No	Yes	No	No
Oregon	60% or Higher Standard	Yes	Yes	N/A	N/A	No	No
Pennsylvania	60% or Higher Standard	Yes	Yes	No	Yes	No	No
Rhode Island	60% or Higher Standard	Yes	Yes	No	Yes	No	No
South Carolina	60% or Higher Standard	Yes	Yes	No	Yes	Yes	N/A
South Dakota	60% or Higher Standard	Yes	Yes	No	Yes	Yes	Yes
Tennessee	60% or Higher Standard	Yes	Yes	No	Yes	Yes	Yes
Texas	60% or Higher Standard	Yes	Yes	No	Yes	No	No
Utah	60% or Higher Standard	Yes	Yes	No	Yes	Yes	No
Vermont	60% or Higher Standard	No	No	No	N/A	Yes	Yes
Virginia	60% or Higher Standard	Yes	Yes	No	N/A	Yes	Yes
Washington	60% or Higher Standard	Yes	Yes	No	Yes	No	Yes
West Virginia	60% or Higher Standard	Yes	Yes	No	No	No	No
Wisconsin	60% or Higher Standard	Yes	Yes	No	Yes	Yes	No
Wyoming	60% or Higher Standard	Yes	No	No	No	No	No

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Table B6: Document Retention and Ability to Analyze Across Filings

State	Method of retaining LTCI Policy filings	Number of years state retains LTCI policy and rate filings	Data Maintained by State on Number of LTCI Policies Sold	States can extract and analyze LTCI rate filings/increases by insurer (noted if coded electronically)
Alabama	By Company	3	Policies sold by Insurer and Policy Type	No
Alaska	By Company	18*	Does Not Maintain Data	No
Arizona	By Company	6	Policies sold by Insurer	No
Arkansas	By Company	Indefinitely**	Does Not Maintain Data	No
California	N/A	N/A	N/A	No Response
Colorado	By Company	Indefinitely	Policies sold by Insurer	Yes
Connecticut	By Company and by Group vs. Individual	4	Does Not Maintain Data	No
Delaware	By Company	5	Does Not Maintain Data	No
District of Columbia	By Form Number	5	Does Not Maintain Data	No
Florida	By Form Number	Indefinitely	Policies sold by Insurer	Yes (electronically)
Georgia	By Company, Product Line and Form Number	12	Does Not Maintain Data	Yes (electronically)
Hawaii	By Product Line	3	Does Not Maintain Data	no
Idaho	By Company	3	Does Not Maintain Data	Yes (electronically)
Illinois	By Company	Indefinitely	Does Not Maintain Data	Yes (electronically)
Indiana	By Company	3	Policies sold by Insurer	no
Iowa	Computerized Records	25	Does Not Maintain Data	Yes (electronically)
Kansas	By Company and by Form Number	Indefinitely	Does Not Maintain Data	No
Kentucky	By Company and by Form Number	Indefinitely	Does Not Maintain Data	Yes
Louisiana	By Company	Indefinitely	N/A	State Doesn't Review Rates
Maine	By Product Line	10	Does Not Maintain Data	Yes
Maryland	By Company	3	Does Not Maintain Data	No
Massachusetts	By Product Line	As Long As Product is Marketed	Does Not Maintain Data	Yes
Michigan	No Filings Since 1997	10	Does Not Maintain Data	No
Minnesota	By Company, Product Line and Form Number	4	Does Not Maintain Data	No
Mississippi	By Company	2	Does Not Maintain Data	Yes
Missouri	By Company	Indefinitely	Policies sold by Insurer	No
Montana	By Company	3	Does Not Maintain Data	Yes
Nebraska	By Company	3	Does Not Maintain Data	Yes (electronically)
Nevada	By Company	No Response	Does Not Maintain Data	Yes
New Hampshire	By Company	7	Does Not Maintain Data	Yes
New Jersey	By Company	Indefinitely	Does Not Maintain Data	Yes (electronically)

Table B6: Document Retention and Ability to Analyze Across Filings- continued

State	Method of retaining LTCI Policy filings	Number of years state retains LTCI policy and rate filings	Data Maintained by State on Number of LTCI Policies Sold	States can extract and analyze LTCI rate filings/increases by insurer (noted if coded electronically)
Nevada	By Company	No Response	Does Not Maintain Data	Yes
New Hampshire	By Company	7	Does Not Maintain Data	Yes
New Jersey	By Company	Indefinitely	Does Not Maintain Data	Yes (electronically)
New Mexico	By Company	6	Policies sold by Insurer and Policy Type	Yes (electronically)
New York	By Company, Product Line, and Form Number	10	Policies sold by Insurer and Policy Type	Yes
North Carolina	By Company and Form Number	3	Does Not Maintain Data	Yes
North Dakota	By Company	3	Does Not Maintain Data	Yes (electronically)
Ohio	Computerized Records	3	Does Not Maintain Data	Yes (electronically)
Oklahoma	By Company and Form Number	Indefinitely	Does Not Maintain Data	No
Oregon	By Age in Weekly Bins	30 days	Does Not Maintain Data	Yes (electronically)
Pennsylvania	By Company and Product Line	10	Does Not Maintain Data	Yes (electronically)
Rhode Island	Computerized Records	20	Does Not Maintain Data	Yes
South Carolina	By Company and Product Line	Indefinitely	Policies sold by Insurer and Policy Type	Yes
South Dakota	By Computer	5	Does Not Maintain Data	Yes (electronically)
Tennessee	By company	Indefinitely	Does Not Maintain Data	Yes
Texas	By Company, Product Line, and Form Number	4	Does Not Maintain Data	Yes (electronically)
Utah	By Company	10	Does Not Maintain Data	Yes
Vermont	By Company	Indefinitely	Policies sold by Insurer and Policy Type	Yes (electronically)
Virginia	By Company and Form Number	Indefinitely**	Does Not Maintain Data	Yes (electronically)
Washington	By Product Line and Form Number	7	Does Not Maintain Data	Yes (electronically)
West Virginia	By Company	2	Does Not Maintain Data	No
Wisconsin	Computerized Records	10	Policies sold by Insurer	Yes (electronically)
Wyoming	By Company and Product Line	1.6	Does Not Maintain Data	No

*Maintain policy forms only

**Domestic policies only; non-domestic policies maintained for minimum of 2 years

Source: The Lewin Group Survey of State Insurance Departments in 1999.

Table B7: Public Access to LTCI Information

State	Rates are public?	Rate increase filings are public?	State has consumer guide or rate book?	Ease of obtaining information	Notes	Rating
Alabama	Yes	Yes	Guidebook	Write	D	4
Alaska	No Rate Review	No Rate Review	No	No Rate Review		1
Arizona	Yes	Yes	Guidebook	Visit		3
Arkansas	Yes	Yes	Guidebook	Visit		4
California	N/A	N/A	N/A	N/A		N/A
Colorado	Yes	Yes	Guidebook	Visit		3
Connecticut	Yes	Yes	No	Write		3
Delaware	Yes	Yes	Guidebook	Visit		3
District of Columbia	Yes	Yes	No	Phone		4
Florida	Yes	Yes	Guidebook	Phone		5
Georgia	Yes	Yes	Guidebook	Visit		3
Hawaii	Yes	Yes	Guidebook	No Response		No Response
Idaho	Yes	Yes	Guidebook	Visit	C	3
Illinois	Yes	Yes	Guidebook	Write/E-mail		5
Indiana	Yes	Yes	No	Visit	A	2
Iowa	Yes	Yes	Ratebook	Internet		5
Kansas	Yes	Yes	Guidebook	Phone		5
Kentucky	Yes	Yes	Guidebook	Visit		3
Louisiana	No Rate Review	No Rate Review	Guidebook	No rate review.		2
Maine	Yes	Yes	Ratebook	Visit		3
Maryland	Yes	No	No	Visit	B	1
Massachusetts	Yes	Yes	No	Visit		2
Michigan	Yes	Yes	No	Fax		4
Minnesota	Yes	Yes	Guidebook	Write	A	4
Mississippi	Yes	Yes	No	Write		3
Missouri	Yes	No Rate Review	Guidebook	Visit		2
Montana	Yes	No Rate Review	Guidebook	Visit		2
Nebraska	Yes	Yes	No	Visit	B	2
Nevada	No	No	No	Not public		1
New Hampshire	Yes	Yes	Guidebook	Visit	A	3
New Jersey	Yes	No	Guidebook	Write		2
New Mexico	Yes	Yes	No	Visit	C	2
New York	Yes	Yes	Guidebook	Request Rate Manuals.		5
North Carolina	Yes	Yes	Guidebook	No Response		No Response
North Dakota	Yes	Yes	N/A	No Response		No Response

Table B7: Public Access to LTCI Information - continued

State	Rates are public?	Rate increase filings are public?	State has consumer guide or rate book?	Ease of obtaining information	Notes	Rating
Ohio	Yes	Yes	Ratebook	Visit		3
Oklahoma	Yes	Yes	No	Visit		2
Oregon	Yes	Yes	Guidebook	Visit	E	2
Pennsylvania	Yes	Yes	Guidebook	Visit		3
Rhode Island	Yes	Yes	Guidebook	Visit		3
South Carolina	Yes	Yes	No	No Response	A	No Response
South Dakota	Yes	Yes	Ratebook	Visit	A	3
Tennessee	Yes	Yes	Guidebook	Visit		3
Texas	Yes	Yes	Guidebook	Write		4
Utah	Yes	Yes	Guidebook	Write		4
Vermont	Yes	Yes	Guidebook	Visit		3
Virginia	Yes	Yes	Guidebook	Phone		5
Washington	Yes	Yes	Guidebook	Phone	C	5
West Virginia	Yes	Yes	Guidebook	Visit		3
Wisconsin	Yes	Yes	Ratebook	Internet		5
Wyoming	Yes	No Rate Review	Guidebook	Phone	D	2

Source: The Lewin Group Survey of State Insurance Departments in 1999

Explanation of Notes:
A = Information becomes public after approval/disapproval process.
B = Only approved rates are public.
C = Company may request at least some elements of filing remain confidential.
D = Details of pricing are not public.
E = Only retain records for 30 days.

Scoring Key:
1 = Not all info public or don't review rates.
2 = Public, but must visit to get info.
3 = Public, can write for info.
4 = Public, easy to get info (fax, e-mail, phone, internet)
+1 = Has guidebook or ratebook.

APPENDIX C

SUMMARY SCORING METHODOLOGY

The methods used to calculate the various scores summarized in ***Table 1*** and presented throughout the report are explained below.

Extent to which the state reviews rates

5 = Prior approval required for all premiums.

4 = File and use system, state reviews all premiums.

3 = File and use system, but only limited review of premiums (e.g. only review large increases or only check loss ratios).

2 = State reviews premiums on new policies, but lacks authority to review increases.

1 = State does not review premiums at all.

Qualifications of the individual reviewing rates

5 = Same individual reviews initial filings and rate increases and is an actuary.

4 = Same individual and use actuary as needed or different individuals, but actuary reviews rates.

3 = Same individual, but no actuary.

2 = Different individual, no actuary.

1 = No individual reviews rates.

Adequacy of information requested for the rate review process

5 = State requests all necessary material.

4 = State does not request all necessary supporting material, but does request all necessary components for actuarial memorandum.

3 = State requests most necessary components for actuarial memorandum.

2 = State requests actuarial memorandum, but is missing significant components.

1 = State does not request actuarial memorandum or does not review rates.

Loss ratio requirements

5 = 60% or higher requirement, examine at times other than when rate increases requested, examine lifetime loss ratios, require same interest rate for pricing and loss ratios which is set by state.

4 = 60% or higher requirement, examine lifetime loss ratios, require same interest rate for pricing and loss ratios.

3 = 60% or higher requirement, examine lifetime loss ratios.

2 = 60% or higher requirement.

1 = No loss ratio requirement.

Ability to track problem insurers

5 = Can extract and analyze electronically information by insurer and maintain data indefinitely.

4 = Can extract and analyze information electronically and by insurer and maintain data for five or more years.

3 = Can extract and analyze information manually and maintain information for more than 10 years or can extract and analyze information electronically, but maintains information for four years or less.

2 = Can extract and analyze information manually and maintain information for less than 10 years.

1 = Cannot extract and analyze information.

Extent to which state monitors the LTCI marketplace

Base score = 1

Add 1 for knowing the number of insurers active in the state.

Add 1 for knowing the number of insurers offering group and individual plans or the number of insurers by the tax qualification status of their plans.

Add 1 for knowing the number of LTCI policies sold or in-force in the state.

Add 1 for knowing the number of LTCI policies by company and plan type.

Consumer access to LTCI information

1 = Not all rate information public or doesn't review rates.

2 = Public, but requires visit to get info.

3 = Public, can write for info.

4 = Public, easy to get info (fax, e-mail, phone, Internet)

Add 1 for having a guidebook or rate book.