

LTC Rate Increases / Experience Update

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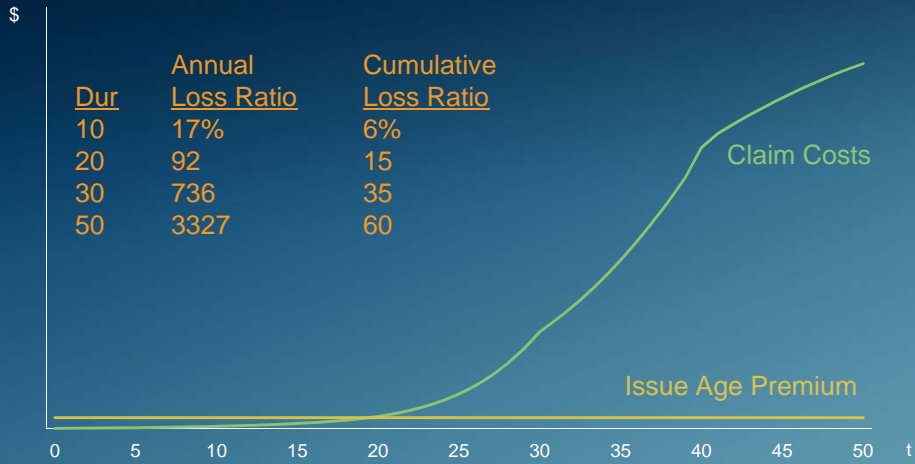


Why are rate increases required?

- Mechanics of issue age rating and prefunding
- Misconceptions
 - Annually renewable
 - Low historical loss ratios means company enjoyed healthy profits
 - Using historical loss ratios to determine performance
 - Have time to wait and see how experience unfolds
- Drivers
 - Higher persistency
 - Lower interest
 - Higher morbidity

Why are rate increases required?

Mechanics of Issue Age Rating

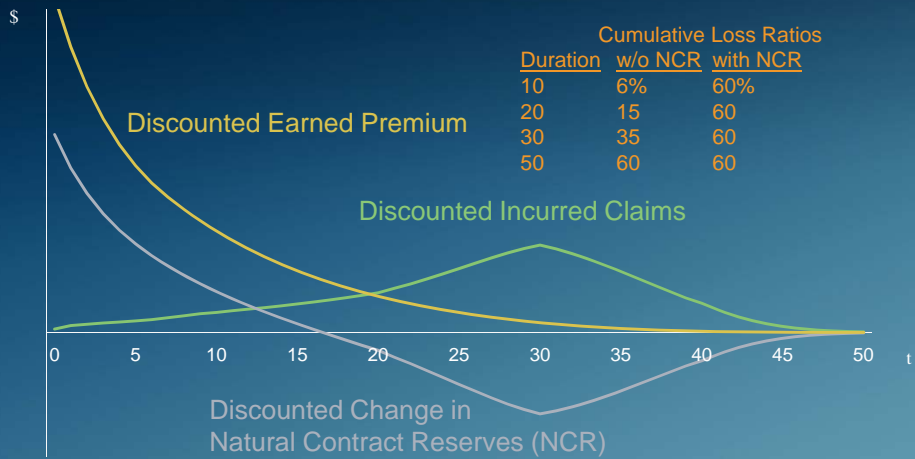


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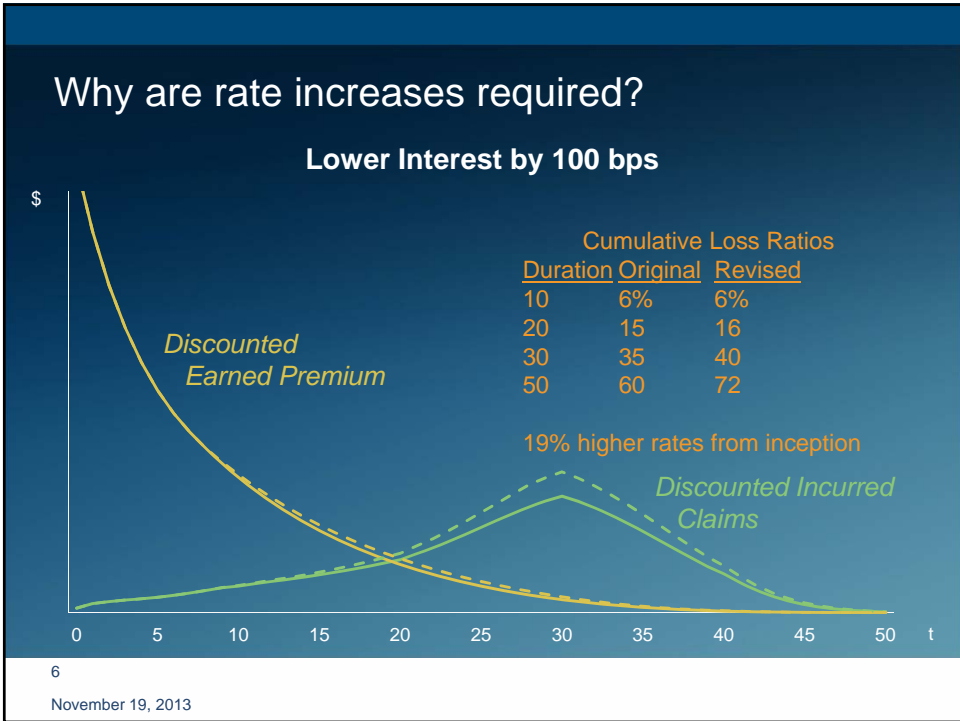
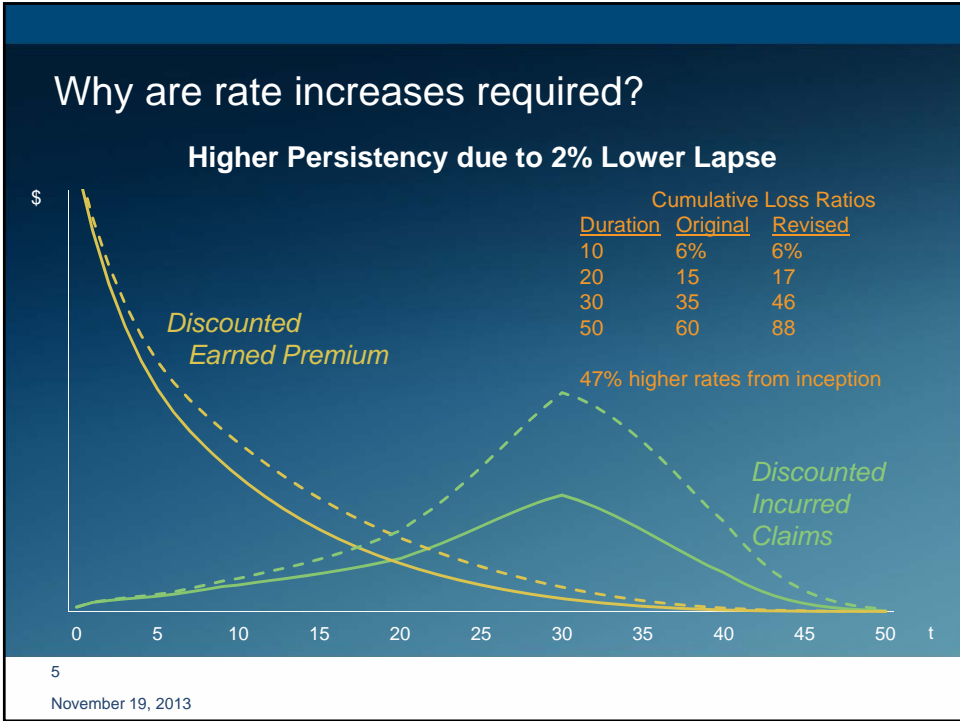
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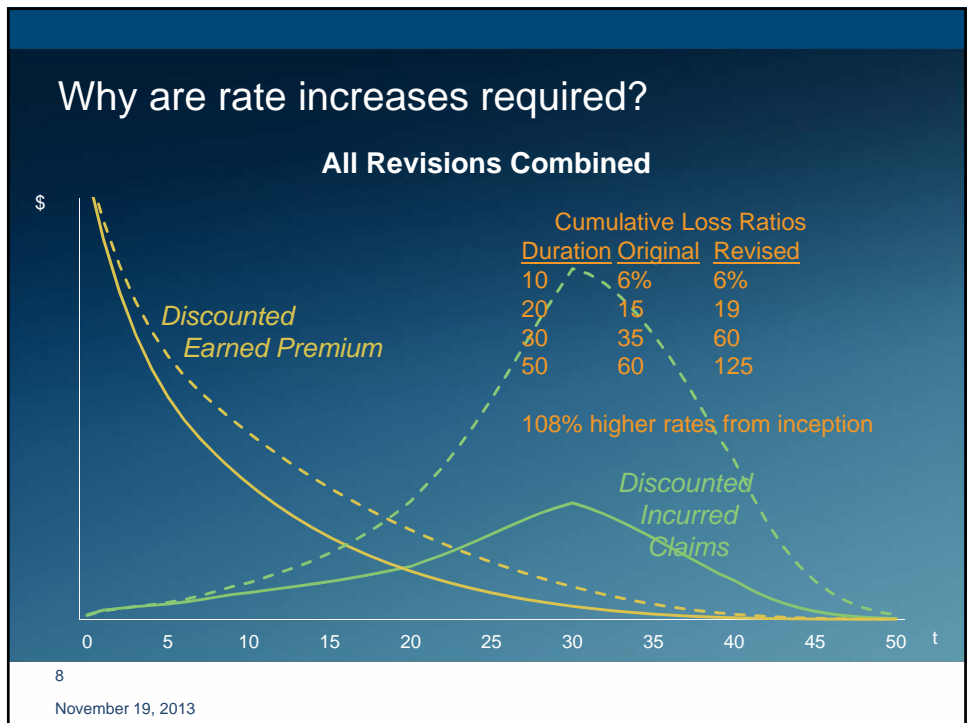
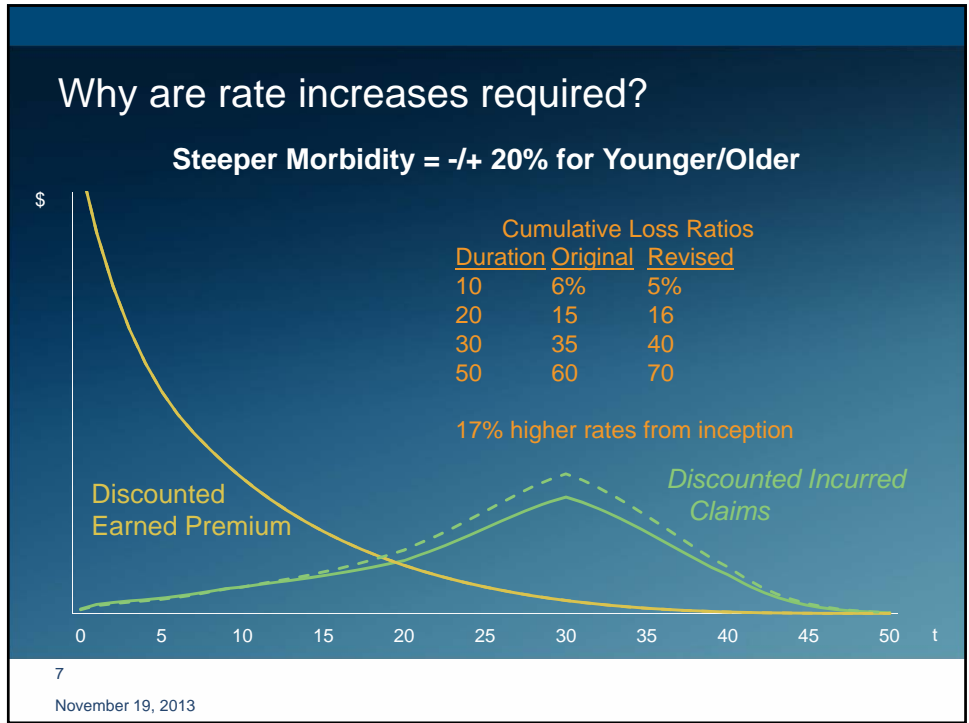
Impact of Prefunding on Loss Ratios



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Why are rate increases required?

Illustration		108% Rate Increase at Policy Duration:			
		0	10	20	30
Cumulative Loss Ratio through Policy Duration:	10	3%	5%	6%	6%
	20	9	14	19	19
	30	29	41	52	60
	Lifetime	60	83	105	119
Policyholder Lifetime Savings		0%	-28%	-43%	-50%

Even with a 108% rate increase the policyholders are paying 28% to 50% less than what they should have paid over the life of the policy

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New business level = amount that should have been paid since issue

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Historical loss ratio exceeds 60% is too late; only 5% of PV premium left

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Why are rate increases required?

- Issue age rated with benefits financed by reserves vs. pay-as-you-go
- Performance measured using lifetime versus historical loss ratios
- Lifetime loss ratio is the weighted average of the annual loss ratios using the % of premium in each year as weight
- Higher persistency means more weight given to later years with high loss ratios
- Low interest rates cause the policy reserves to not grow enough to support the future liabilities
- Morbidity curve has steepened as insured versus population data is available and continues to become more credible

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Experience Update

- Industry Experience
 - Lower Mortality
 - Lower Lapses
 - Longer Continuance
 - Steeper Incidence
 - Lower Interest Rates
 - Lower Shock Lapses
 - Reduced Paid Ups and Downgrades

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Special Thanks to Missy Gordon!

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