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Rate Increase Approaches Impact LTC Policyholder Behavior

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Premium increases on in-force long-term care (LTC) insurance policies have been a minefield for the LTC industry for nearly the past 20 years. As a company that works closely with LTC insurers, state insurance departments and policyholders, we understand the difficulties that LTC rate increases impose on all parties involved. Rate increases are hard on everyone involved:

- The policyholder bears the heaviest burden. Often at an advanced age, the policyholder is forced to make difficult choices between paying the higher premiums or accepting reduced benefits in order to mitigate the premium increase.
- The companies spend an enormous amount of time and resources to coordinate a very complicated, labor-intensive effort that involves many departments/personnel/communications and can last several years from start to finish.
- And finally the state regulator needs to evaluate the actuarial justifications of the requested increase, consider the financial/solvency needs of the company, while yet protecting the consumer insureds (and field complaints from all parties throughout the process).

Our experience has been that most everyone involved with rate increases at the companies and states have been doing their absolute best to help policyholders through these difficult but necessary rate increases. There have been great improvements in the information and communications provided to policyholders at the time of rate increases. Companies have worked hard to improve on the availability of meaningful benefit modification options, as well as the ability to communicate individual customized alternatives within the premium increase notifications.

The landscape surrounding LTC insurance premium increases has been continuously evolving since such inforce rate increases became more commonplace in the early 2000s. Many aspects of LTC rate increases have changed in recent years. For example, in the beginning, insurers generally pursued rate increases with a simplified, straight-forward structure that requested a level increase percentage across all in-force policies. Now many insurers take a more targeted approach to premium rate increases. Often higher rate increase percentages are requested for plan designs or issue ages that are impacted most by the changes in experience and assumptions that are driving the needs for the increase. In turn, smaller increase percentages, (or even no increases at all), are requested in other segments of the block that are not impacted as greatly by changing assumptions.

Evolution in the area of LTC rate increases has not been limited to insurance companies. State insurance department regulators are placed in the very difficult position of balancing the financial/solvency needs of the insurer while still providing meaningful consumer protections to LTC policyholders. In walking this fine line, several state insurance departments have also modified their approaches to reviewing company rate increase filings and seemingly their philosophies with regards to rate increase approvals in recent years.

STATE APPROACHES

As more legacy LTC blocks have encountered the need for sizable rate increases, there has seemingly been some evolution of state regulatory approaches when reviewing medium to large LTC rate increase requests. For a long time, it seemed as though most states fell into one of two categories when reviewing such filings. The first category consists of states that would review such filings and, provided the state was satisfied the requested increase was actuarially justified, would ultimately approve the entire requested increase. The second category would be those states that would perform similar reviews of the filings, but would generally attempt to protect consumers from larger rate increases by limiting the company to an increase that was smaller, (sometimes significantly so), than requested. In most cases, these states would request that the insurer pursue the remainder of the increase at a later date (usually one year). This resulted in more frequent, but smaller, rate increases for policyholders in these states. It is important to note that states approving the entire rate increases were trying just as hard to protect policyholders as the states limiting the increases. States approving the full increases believe that although the larger increase is painful for policyholders, in the long run the policyholders is better off to be aware of the full increase so they can best manage their decisions around paying the higher premiums versus modifying coverage.

In recent years, a subset of states has taken a hybrid approach that somewhat blends the philosophies previously discussed. In an effort to limit the one-time impact to policyholder premiums, yet provide the policyholder with more complete information about upcoming rate increases, there are now several states that will approve a rate increase but ask the insurer to phase-in the increase to policyholders over a selected number of years. The entire rate increase schedule of the current and future premium changes is communicated to the policyholder during the rate increase notification process. The intent is that policyholders are well informed of the entire rate increase amount, yet receive some protection from having their premiums increase by very large amounts all at one time.

Having seen these different approaches for some time now, I was curious what, if any, impact would the different rate increase philosophies have on policyholder behavior. Do policyholders accept rate increases, or modify coverage and premiums, in a similar manner when the rate increase is approved and implemented differently? Does the level and timing of rate increase approvals drive different behaviors? Can we conclude anything about the level of consumer protection that is ultimately provided with these approaches?

BACKGROUND

We have been able to view the rate increase approval experience and monitor policyholder activity for a particular LTC block's recent medium to large size rate increase in an effort to look at such impacts. This block began the filing and implementation of the national rate increase about four years ago. Although there is still some ongoing implementation activity, the vast majority of the block has received all or part of the increase that was initially filed (roughly 94 percent of the filed increase is now approved). In general, policyholders fell into one of the three state categories previous described:

- Entire rate increase was approved and implemented at one time.
- Entire rate increase was approved, but implementation was in a scheduled series (usually two or three steps) with the policyholder informed of entire series of increases at each communication.
- Smaller increase was approved, requiring one or more catch-up filings, policyholder only able to be informed about the approved partial increase at each step.

A similar number of policies fell into each of the above categories, with each category containing at least 7,500 impacted insureds.

RESULTS AND OBSERVATIONS

In general, policyholder reactions to the rate increase studied here have varied based upon the category of state approval as previously described. Table 1 shows that policyholders receiving a one-time approval of the entire rate increase and those receiving notification of the entire series of rate increases have modified coverage, (either by modifying benefits or by accepting contingent nonforfeiture), at a slightly higher ultimate rate than those policyholders receiving only partial rate increase notifications.

Table 1
Percentages of Policyholders Choosing to Modify Coverage by State Approval Category[1,2,3]

	Benefit Modifications	Contingent Nonforfeiture	Total Modifying Coverage
All Policyholders	20.2%	9.1%	29.2%
One-Time Approval	20.0%	9.4%	29.4%
Pre-Approved Series	22.8%	7.9%	30.7%
Partial Approval(s)	17.6%	9.9%	27.5%

It is interesting to note that policyholder reactions to larger one-time rate increases appear to be substantially similar, (in terms of the total percentages that modify coverage in one form or another), to those receiving the pre-approved, reduced increases that are spread-out over two or three years. However, slightly more of the coverage modifications for one-time approvals were in the form of accepting contingent nonforfeiture benefits than was true in the case of the pre-approved series.

One interesting contrast in the data is shown when looking at the results for states in the latter two categories broken down by round/step of the rate increase mailings. For states that approved the entire rate increase via a series, which allows for communication of the entire series to the policyholder, Table 2 illustrates the breakdowns of policyholder reactions both in total (as a percentage of initial notification mailings) and then by each individual step (as a percentage of the notifications that occurred in the individual step).

Table 2
Pre-Approved Series of Increases: Coverage Modifications by Series Step

	Benefit Modifications	Contingent Nonforfeiture	Total Modifying Coverage
All Policyholders	22.8%	7.9%	30.7%
Step 1 of Series	14.3%	4.7%	18.9%
Step 2 of Series	7.4%	3.1%	10.4%
Step 3 of Series	6.0%	1.4%	7.5%

As one might expect, policyholders that were shown the multi-step increase were much more likely to make a coverage modification early in the process.

Table 3 shows a similar breakdown of data, in total and by round, for policyholders in states where only Partial Approvals have been granted and passed along to the policyholder, and the company pursues catch-up increases in additional rounds.

Table 3
Partial Approval States: Coverage Modifications by Series Round

	Benefit Modifications	Contingent Nonforfeiture	Total Modifying Coverage
All Policyholders	17.6%	9.9%	27.5%
Round 1 Increase	10.1%	5.9%	16.0%
Round 2 Increase	9.1%	5.0%	14.1%
Round 3 Increase	4.3%	1.7%	6.0%

The data shows that while the ultimate percentages of policyholders modifying coverages was roughly similar between these two groups of states, the pattern of when the modifications occurred was meaningfully different. When policyholders were aware of the entire series of the rate increase, they were 82% more likely to modify coverage in Step 1 versus Step 2 (18.9 percent versus 10.4 percent). In Partial Approval states, policyholders were only 13 percent more likely to modify coverage in Round 1 versus Round 2 (16.0 percent versus 14.1 percent).

In general it would seem that if policyholders are going to make benefit modifications in the short term, it would likely be in their best interest to make such modifications sooner in order to save on premium dollars over this period. One could even conclude that the one-time larger rate increase results in the best outcome for policyholders that ultimately modify benefits, as it appears to cause policyholders to make their modifications right away, and hence save on premiums they would pay in the next year or two before making the modifications that are done after step/round 1 in the other state categories.

The data shown here may also be considered by some companies with older, pre-rate stability blocks that are still in need of rate increases. Companies in this situation will sometimes forgo a larger rate increase with the plan being to file for a series of two or three smaller increases. The data appears to show that roughly the same percentage of policyholders will ultimately elect to modify coverage regardless of the pattern of increases. Therefore, it appears to be in the best interest of the policyholders who will modify coverage, to have their company file the full increase initially so these policyholders can make their coverage choices/changes at an earlier stage.

CONCLUSIONS

The results presented for this case study are likely to vary from block to block, and company to company, and in particular based upon the magnitude of the rate increase and policyholder demographics. However it is reasonable to assume that similar patterns of results and variances by state category would occur for other rate increases of other blocks.

The data shows that when a rate increase is approved in smaller, separate steps, policyholders do change behavior, which is not necessarily in their best interest. Decisions on benefit modifications are generally made at the same rate, but the decisions are deferred to later steps meaning these policyholders pay additional premiums in the interim years for benefits that will later be reduced/modified. In other words, policyholders who receive the most information about their ultimate rate increase upfront are better served in the long run by being able to make informed, and earlier, decisions in regards to their LTC coverage and premiums.

In addition, there are significant inefficiencies for both the companies and regulators when multiple smaller rate increase filings are required to obtain the needed result. Companies must prepare multiple filings and pursue multiple implementations/communications with policyholders, while state regulators also must perform multiple rate filing reviews.

Last but not least, delaying necessary rate increases can hurt the financial solvency of LTC insurers in the short term and may lead to larger cumulative increases for policyholders in the long term. Both of which are detriments to protecting LTC policyholders. ■

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ENDNOTES

1 The percentages in the two state categories where multiple increase mailings are required are measured as total policy changes from any round/step in the rate increase process divided by the number of mailings made in round one of the process.

2 In order to better account for the fact that policyholders in One-Time Approval states have experienced the entire rate increase, but some policyholders in the other categories have not yet done so, we have excluded data from a few states that are less complete in the implementation process (particularly those in Partial Approval states where catch-up increases are still being pursued and the policyholders have incurred only a portion of the increase).

3 The details and makeup of the particular LTC block studied yielded contingent nonforfeiture benefits that were generally more attractive than what might be seen in many other LTC blocks which likely elevated the frequency of this particular election.