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because it is calculated from the current reserve level.

There are many other variations to the aforementioned approaches, some of which include the gross premium and reflect the level of rate increase in the reserve calculation.

It can be argued that neither the retrospective nor the prospective approach is necessary if the business satisfies a gross premium valuation. However, if the reason for the rate increase is a steeper claim cost curve, it may be that the gross premium valuation is satisfied today, but is not expected to be satisfied several years into the future. In this instance, it may be prudent to gradually strengthen reserves now based on either the retrospective or prospective methods.

As with some of the other rate increase considerations, issues surrounding LTC reserves can be surprisingly complex.

This article attempts to answer the question of what analysis and considerations should be reviewed to determine if a rate increase is necessary and appropriate. While there often are not any easy answers to the issues raised, rigorous analysis and careful thought to all pertinent issues will yield the best results.

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From the Editor

The Possibilities

by Bruce A. Stahl

When you read my accompanying article on return of premium riders, you will understand why I found myself reminiscing about our former president, Ronald Reagan. He maintained an optimism about everything that was good in our nation. Among those things that he saw as good were entrepreneurs, of whom he said that they see "possibilities where others see only problems."

The LTCI industry grew to what it is because entrepreneurs saw the possibilities inherent in the aging of the baby boomers and their need to have long-term care down the road. They also had the courage to invest capital in something that had little experience. Some will argue that the consumers were the ones who took risks, because many rate increases became necessary. Yet the consumers purchased insurance coverage without premium rate guarantees in order to reduce risk. They may not have eliminated all of the risk, but they certainly reduced a significant part of it. The investors in LTCI were the ones who had the courage to assume the risks that the consumers transferred to them, and they have received a range of rewards, from losses to large gains, for doing so.

Today's investors in LTCI continue to take a risk, though it is somewhat different than it had been 10 or 15 years ago. With the new model regulation, the investor takes a greater pricing risk though the experience supporting the pricing is much more credible than it was.

In this edition, you will find an article by Jim Robinson on pricing within the context of the greater pricing risk that is within the NAIC model regulation. You will also find an article by Al Schmitz on evaluating the need for rate increases on blocks of business that were issued prior to the current NAIC model regulation when the inherent risk was related more to lack of experience. My article is about a specific pricing mistake, which is a risk that today's investors ought to be able to minimize when they rely on members of our profession. It is a conceptual error and is not directly dependent on the quality of experience supporting it. Finally, you will see an article by Steve Cooperstein who sees "possibilities where others see only problems," and who therefore began to develop a policy accordingly.

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