LifeSecure Insurance Company

ACTUARIAL JUSTIFICATION OF PREMIUM RATES
Long Term Care Policies

1. **Purpose of Filing**

This is a rate increase filing for Long Term Care forms and attached options. The purpose of this rate increase filing actuarial memorandum is to demonstrate that the requirements for a rate increase are satisfied. This rate increase filing actuarial memorandum is not intended to be used for any other purpose.

A rate increase is being requested on this policy form due to higher than anticipated future and lifetime loss ratios.

This filing was previously submitted to the Office of the Interstate Insurance Product Regulation Commission (Compact Office). Upon review of this filing, the Advisory Finding of the Compact Office reported that the Company demonstrated compliance with the Standards for Filing Revisions and that a rate increase of 58.6% on policy form LS-0004 (gender specific) and 54.6% on policy form LS-0005 (unisex) is justified.

The Compact Office further advised that the rate increase request filed with your state may vary from the amounts above for at least these reasons:

- The Company may choose to use nationwide data in determining the rate increase.
- The Company may use updated data and assumptions from 2023 that were not available when they submitted this filing to the Compact.

The Company applied both variations above, and the justified rate increase is 54.8% on policy form LS-0004 (gender specific) and 53.4% on policy form LS-0005 (unisex).

2. **Scope of Filing**

This filing applies to the Company’s Long Term Care policy forms:

LS-LTC-0004, et al (LS-0004, Sex-Distinct)	Tax Qualified Individual Long Term Care Insurance Policy
LS-LTC-0005, et al (LS-0005, Unisex)	Tax Qualified Individual Long Term Care Insurance Policy

These forms provide reimbursement for long term care services in various settings when the insured meets policy benefit qualification requirements. The forms contain individual guaranteed renewable policies. These policies are subject to the rate stability regulation and were issued in Maryland from 4/2/2014 to 2/1/2018. These products are not currently being marketed in any state or district. The rate increase will apply to inforce policies only.

The LS-0004 policy was marketed to individuals and the LS-0005 policy series was primarily marketed to members of employer-based groups that were list-billed and/or marketed together, and to members of associations through direct agents and brokers. Underwriting and/or premium rates varied among the applicant types.

The justified rate increase for policy form LS-0004 is 54.8%, and for policy form LS-0005 it is 53.4%. If the fully justified rate increase is approved, LifeSecure would phase-in the rate increase over two years (24.42% each year for policy form LS-0004 and 23.85% each year for policy form LS-0005).

The number of policyholders and annualized inforce premium as of 12/31/2023 are shown in the tables below on a Nationwide and Maryland specific level broken down by policy form and premium payment duration. The tables also show the Nationwide and Maryland specific average annualized premium both before and after the rate increases are applied.

Nationwide Policies Inforce as of 12/31/2023 Split by Policy Form				
			Average Annualized Premiums	
Form Type	**Annualized Premiums**	**Inforce**	**Before Requested Rate Increase**	**After Requested Rate Increase**
Sex-Distinct (LS-0004)	11,545,322	4,790	2,410	3,731
Unisex (LS-0005)	16,294,336	10,953	1,488	2,282
Total	**27,839,658**	**15,743**	**1,768**	**2,723**

Maryland Policies Inforce as of 12/31/2023 Split by Policy Form				
			Average Annualized Premiums	
Form Type	**Annualized Premiums**	**Inforce**	**Before Requested Rate Increase**	**After Requested Rate Increase**
Sex-Distinct (LS-0004)	469,488	145	3,238	5,012
Unisex (LS-0005)	1,356,634	749	1,811	2,778
Total	**1,826,122**	**894**	**2,043**	**3,141**

Nationwide Policies Inforce as of 12/31/2023 Split by Premium Payment Duration				
			Average Annualized Premiums	
Payment Period	**Annualized Premiums**	**Inforce**	**Before Requested Rate Increase**	**After Requested Rate Increase**
Lifetime Pay	25,303,496	15,346	1,649	2,539
10-Pay	2,536,162	397	6,388	9,848
Total	**27,839,658**	**15,743**	**1,768**	**2,723**

Maryland Policies Inforce as of 12/31/2023 Split by Premium Payment Duration				
			Average Annualized Premiums	
Payment Period	**Annualized Premiums**	**Inforce**	**Before Requested Rate Increase**	**After Requested Rate Increase**
Lifetime Pay	1,505,073	852	1,767	2,720
10-Pay	321,049	42	7,644	11,784
Total	**1,826,122**	**894**	**2,043**	**3,141**

3. Benefit Description

For both plans, the elimination period is 90 calendar days. The benefit period is administered on a "pool of money" or benefit bank basis. Three possible monthly benefit/benefit bank configurations are available: one where the monthly benefit is 1% of the benefit bank, one where it is 2%, and one where it is 3%. These three possible configurations result in inherent benefit periods of 100 months (8.3 years), 50 months (4.2 years), or 33 months (2.8 years), respectively.

Benefits are payable when the insured becomes disabled in two out of six Activities of Daily Living (ADL's) for 90 days, or when they become severely cognitively impaired. The six ADL's are: bathing, dressing, continence, eating, toileting, and transferring. In order to be considered impaired in an ADL, a person must need substantial human assistance or supervision. Services must be provided pursuant to a Plan of Care.

The following describes the base benefits and optional benefits provided by the products:

<u>Base Policy</u>

- Pool of money approach: insured has lifetime benefit amount to use as needed.
- Maximum monthly benefit equals 1, 2, or 3% of lifetime benefit amount
- All nursing home, assisted living facility (ALF), and formal home care benefits are expense incurred subject to the monthly maximum. Bed reservation is included in the nursing home and ALF benefit.
- Informal caregiver benefits will also be paid, through a "Flexible Benefit", assuming the benefit triggers are met and that the benefits provided are contained in the person's Plan of Care. Usual and customary expenses will be paid. Informal caregiver benefits are paid with 50% of the remaining monthly benefit maximum, after formal care expenses have been paid. If no formal care was received and the benefit triggers have been met, the insured will have 50% of their monthly benefit maximum available for informal care.
- Caregiver training, home modification, and other ancillary benefits can be paid out of the Flexible Benefit, subject to the 50% of remaining monthly maximum limit.
- International benefit is provided which pays for 1-year of care, on an indemnity basis, at 100% of the monthly benefit for nursing facility care or at 50% of the monthly benefit for home care.
- Waiver of premium after the 90-day elimination period (not payable if international benefit is being paid)
- Endorsements LS-LTC-CNB-E and LS-LTC-LPOCNB-E provide the contingent non-forfeiture benefit (i.e. a shortened benefit period non-forfeiture option is provided if there is a substantial increase in premiums)
- Guaranteed future purchase endorsement (LS-LTC-GPO-E)) is included if no other inflation is selected. An additional 15% of the current benefit will be offered every 3 years, until the insured reaches age 80, with the additional premium based on the person's attained age at the time.

Optional Riders

- Rider LS-LTC-5P-R: Inflation benefit where monthly maximum and remaining lifetime benefit amount are both increased by 5% per year, compounded, for life
- Rider LS-LTC-3P-R: Inflation benefit where monthly maximum and remaining lifetime benefit amount are both increased by 3% per year, compounded, for life
- Rider LS-LTC-LPB-R: Lapse protection benefit rider, which provides the NAIC mandated shortened benefit non-forfeiture option
- Rider LS-LTC-SCB-R: Shared care benefit rider. This rider must be sold to two spouses or domestic partners who are purchasing the same coverage. When either spouse's lifetime maximum is depleted, he is allowed to use benefits under the lifetime maximum of the spouse's pool (subject to leaving 365 days untouched while the spouse is alive).
- Rider LS-LTC-MBP-R: Money back promise rider, which provides a return of premiums paid on death. This return is 0% in the first four policy years, 25% in policy years 5-9, 50% in years 10-14, and 75% in years 15+. Cumulative premiums, less benefits paid, times the durational factor are returned on policyholder death. There is no age maximum.

4. Issue Ages, Premium Classes, and Modalization Rules

Policies were issued from ages 18 – 79 for LS-0004 and 18 – 78 for LS-0005.

The average issue age is for inforce policies as of 12/31/2023 is:

	Average Issue Age	
Form	**Nationwide**	**MD**
Gender-Distinct	57.9	56.5
Unisex	52.8	53.5

For policies marketed to individuals, policyholders were classified as preferred risks, or as standard or substandard risks. Preferred rates are 10% lower than standard, and substandard rates are 40% higher than standard. Employer group policies, which is the majority of LS-0005, went through simplified underwriting and did not receive any factors applied to the standard rates.

No modal factors were used.

Factors were made available that converted the annual premiums into premiums which would be paid up after 10 years.

5. Trend Assumption

Only insurance trend, due to the effect of underwriting wearing off, was assumed.

6. Margins for Adverse Experience and Trigger for Rate Increase

REDACTED

7. Reason for Rate Increase Request

REDACTED

8. Requested Rate Increase

The rate increase LifeSecure is requesting for policy form LS-0004 is 54.8%, and for policy form LS-0005 it is 53.4%. These rate increases were calculated using all inforce policies for these policy forms issued nationwide. LifeSecure has already filed or will be filing for a rate increase in all states.

This filing demonstrates that actual past experience combined with projected future experience results in a lifetime loss ratio of 83.8% for LS-0004 and 85% for LS-0005 without these rate increases. The minimum lifetime loss ratio for this filing is the original pricing loss ratios of 58.3% for LS-0004 and 59.9% for LS-0005. The rate increase was calculated such that the 58%/85% rate stability regulation test was passed, and the projections did not produce a loss ratio lower than the original pricing loss ratio. This rate increase is the same across all pricing cells.

The exhibits with best estimate assumptions showing the lifetime loss ratio projections for nationwide business, are shown in Exhibits I (no prior rate increase), II (with previous rate increase), and III (with requested rate increase) are attached at the end of this memorandum.

For projection purposes, the proposed effective date of the rate increase is 1/1/2025.

Once the rate increases were calculated for the overall forms, the rates were then capped at the new business rates per the rate stability regulation. Currently, the only marketed product that LifeSecure has is LTC-0006 (LTC 3.0), which is solely a unisex product that only offers a 2% Monthly Benefit Access Limit (MBAL). Therefore, the only form in this filing that is capped is the 2% MBAL portion of the unisex form, LTC-0005 (LTC 2.0 Unisex).

In order to make sure that the LTC 2.0 Unisex rates were capped for all lifetime benefit amounts, the LTC 3.0 base rates were converted into premium per 100 dollars of daily benefit for each lifetime benefit band, and the lowest premium rate was used to compare to the LTC 2.0 Unisex rates. Therefore, the rate comparison was on the most conservative premium basis for all benefit amounts and the rate cap is assured of limiting the premium increase at or below the appropriate new business premium, regardless of the policy's lifetime benefit amount size.

9. Rate Increase History

The Department approved a 14.4% rate increase and a 10.7% rate increase for policy forms LS-0004 and LS-0005 respectively which were implemented on 5/21/2021.

10. Area Factors

Geographic area factors are not used in rating these policies.

11. Nationwide and Statewide Distribution of Inforce Policies as of 12/31/2023 alongside Original Pricing Distribution Percentages

REDACTED

12. Projection Assumptions

REDACTED

13. Comparison of Original and Current Assumptions

For these products, even though there are two different sets of rates, unisex and sex-distinct, the unisex morbidity assumption is based on the sex-distinct morbidity assumption. Unisex voluntary lapse rates are based on worksite market expectations, which are slightly higher than individual market lapse rates.

The current morbidity assumptions were developed from Milliman's 2020 edition of the Long-Term Care (LTC) *Guidelines*. The *Guidelines* are based directly on 900,000 claims and 63 million life years of exposure, using data collected from 15 of the top 20 LTC companies based on lives inforce. This significant amount of data makes the *Guidelines* a credible baseline for developing morbidity assumptions. The *Guidelines* data distinguish between individual and worksite-sold business, and are comprised of comprehensive policies with similar benefits, and sold in a similar manner, to LifeSecure's.

The morbidity assumption includes Milliman consultant adjustments to reflect the policy benefits and the expected policyholder behavior based on the degree of underwriting, the distribution method, and other factors. LifeSecure's morbidity experience is not credible, and we believe the *Guidelines* data is the most relevant data available. The Milliman consultant adjustments customize the morbidity assumption to LifeSecure's inforce policies. Although this is a unisex policy form, the morbidity assumption is sex-distinct.

The original morbidity assumption for this policy form was the 2011 Milliman Long-Term Care Guidelines. The previous rate increase request was based on the 2017 Milliman Long-Term Care Guidelines.

A. Mortality and Interest

For non-claimant lives, mortality is based on the 2021 SOA / AAA LTC Mortality and Lapse Study which uses a variation of the 2012 IAM mortality table. The mortality of claimant lives uses three tables provided to LifeSecure in the Milliman 2020 LTC Guidelines which has different mortality rates based upon which facility a policyholder is in.

REDACTED

The present value of future projected benefits is discounted at a weighted-average interest rate based on the statutory valuation interest rates in effect at the time the policies were issued, which is calculated as 3.5% for this policy form.

B. Lapse Rates

The 2022 voluntary lapse assumptions were derived from total termination studies on the LifeSecure's block of Long Term Care business, a review of Milliman's industry lapse data, as well as a review of the 2012 IAM mortality table.

REDACTED

14. Historical Experience

The historical experience for nationwide business split by policy form since inception through 2023 are shown in Exhibit II Sex-Distinct & Exhibit II Unisex. The following table summarizes the historical loss ratios:

REDACTED

Consistent with the original filing, incurred claims do not include active life reserves.

*Incurred Claims are calculated as Paid Claims plus Claim Reserves and IBNR for claims through 12/31/2023.

15. Projected Future Experience

Future experience which has been projected 60 years using the assumptions described in section 6 are shown in Exhibit II Sex-Distinct & Exhibit II Unisex. These are the company's best estimate assumptions without any additional margin for moderately adverse experience included. The following summarizes the anticipated future loss ratios without the requested rate increases:

REDACTED

16. Lifetime Anticipated Loss Ratio

The lifetime anticipated loss ratio is defined as the present value of the historical and projected future incurred claims divided by the present value of the historical and projected future earned premiums. These values without the requested rate increases are summarized below:

REDACTED

Exhibit III Sex-Distinct & Exhibit III Unisex show the historical and projected future lifetime loss ratio exhibit with requested rate increase in this filing.

17. Rate Stability 58/85 Regulation Test

The loss ratio standard on rate stability policies is 58% of the original premium schedule, plus 85% of the premium increase and is summarized in the following tables. These tables are used for the rate stability analysis broken out for nationwide business and then split by gender-distinct and unisex forms. These values include the currently requested rate increases for each cohort and demonstrate that the rate increases due fall within the rate stability guidelines.

REDACTED

18. Actuarial Certification

I, Nasreen Ali, am an Actuary at LifeSecure Insurance Company, an Associate of the Society of Actuaries, and a member of the American Academy of Actuaries, and I meet the Academy's qualification standards for rendering this opinion. I am familiar with the requirements for filing long-term care insurance premiums.

I hereby certify that, to the best of my knowledge, this filing is in compliance with all applicable laws and regulations of Maryland, and Actuarial Standard of Practice (in particular ASOP 18) as adopted by the Actuarial Standards Board.

In my opinion, if the requested rate increase is implemented and the underlying assumptions emerge as expected, then the revised premium rate schedule is sufficient to cover anticipated costs under normal and moderately adverse experience. This would make the premium rates reasonably expected to be sustainable over the life of the forms without further rate increases being necessary or anticipated. The margin for moderately adverse experience defined for these forms is an increase in the lifetime loss ratio of 10%.

I have reviewed and taken into consideration the policy design and coverage provided and our current underwriting and claims adjudication processes.

The premium rate schedules that the information in this actuarial memorandum applies to are included in the filing in Exhibit V, which is attached as pdf files.

The premium rate schedules cap rate increases at currently marketed premium levels. This means that policies originally paying higher premiums than currently marketed premiums will have a 0% rate increase. Policies originally paying less than currently marketed premiums will receive a rate increase resulting in premiums that are not greater than the rate schedules for similar products currently being marketed.

The benefits are reasonable in relation to the premiums.

In forming my opinion, I have used actuarial assumptions, actuarial methods, and such tests of the actuarial calculations as I considered necessary. The assumptions present my best judgment and are consistent with LifeSecure's business plan at the time of the filing.

Respectfully Submitted,

N.Ali

Nasreen Ali, ASA, MAAA
Manager, Actuary
LifeSecure Insurance Company
3/20/2024

Exhibit I - Actual Historical Experience – REDACTED
Exhibit II – Best Estimate Assumptions with Approved Rate Increase Lifetime Loss Ratio Exhibit – REDACTED
Exhibit III – Best Estimate Assumptions with Requested Rate Increase Lifetime Loss Ratio Exhibit – REDACTED

Exhibit IV – Projection Assumptions

1. Interest

   A 3.5% effective annual rate of interest for this policy form has been assumed for accumulating historical experience and for discounting projected future experience. This is the average of the prescribed statutory valuation interest rates by policy issue year weighted on sales premium.

2. Mortality

   The active life mortality is based on the 2021 SOA / AAA LTC Mortality and Lapse Study which uses a variation of the 2012 IAM mortality table. Disabled life mortality is from the 2020 Milliman LTC Guidelines.

3. Voluntary Lapse Rates

   The voluntary lapse rates assumed are as follows:

   REDACTED

   These rates are consistent with the assumptions used for the currently marketed product.

4. Morbidity

   Milliman's 2020 Long Term Care Cost Guidelines were utilized. Milliman's basis for the cost guidelines is governmental studies, experience of clients, and the expertise and judgment of Milliman actuaries.

   Durational select factors, also determined by Milliman, were applied to these claim costs to allow for the impact of underwriting. Durational select factors vary by marital status, gender, and age to reflect the difference in morbidity experience due to these attributes.

   These claim costs are consistent with the company's current pricing assumptions.