Mutual of Omaha Insurance Company

3300 Mutual of Omaha Plaza, Omaha, NE 68175

ACTUARIAL JUSTIFICATION OF PREMIUM RATES

Policy Series LTC13 (ICC13-LTC13 and ICC13-LTC13-AG)

1. PURPOSE OF FILING

This is a rate increase filing for the above captioned Long-Term Care policy forms and applies to in-force policies issued prior to the rate refresh performed on this form that began to take effect in 2020. This rate filing is not intended to be used for any other purposes.

2. SCOPE OF FILING

This filing applies to the above captioned Long-Term Care policy forms. These forms provide benefits for long term treatment in various settings when the insured meets policy benefit qualification requirements. Exhibit 1 provides a summary of benefits for the ICC-approved policy forms. Benefits and rider numbers may vary for non-compact states.

These forms are individual, guaranteed renewable policies with issue age and gender specific premiums. These policies were fully underwritten and sold by agents and brokers. The issue age limits and underwriting classes are also displayed in Exhibit 1. The in-force policies issued prior to the rate refresh for these forms were issued between 2013 and 2020 in most states.

The proposed rate increase applies to in-force policies only that were issued prior to the rate refresh performed on this form that began to take effect in 2020. The forms included in this filing were issued from September 2013 through July 2022. A detailed summary of the last month of sales by state is displayed below:

<u>Compact States</u>

- 08/2020: AK
- 10/2020: NV
- 11/2020: ID, MS, RI and WY
- 12/2020: AL, AR, CO, IA, LA, MO, NE, NH, NM, OK, SC, UT and WV
- 01/2021: GA, IL, KY ME, NC, OH, OR, TN, TX and WA
- 02/2021: KS, MA, PR, VA, and WI
- 03/2021: MD, PA and VT
- 08/2021: MI
- 10/2021: MN

<u>Non-Compact States</u>

- 06/2021: AZ, CT and IN
- 09/2021: ND and SD
- 10/2021: DE, DC and FL
- 12/2021: HI, MT and NJ
- 03/2022: NY
- 07/2022: CA

The number of pre-rate refresh policyholders and the annualized in-force premium, as of December 31, 2023, are displayed in Exhibit 2. Exhibit 2 also shows the average annual premium before and after the proposed rate increase.

3. REASON FOR RATE INCREASE REQUEST

These policies were filed under rate certification with the moderately adverse triggers, as shown below:

As stated in the original pricing Actuarial Memorandum, the moderately adverse trigger for these forms is stated as:

a) Morbidity 10% higher than expected
b) Mortality 15% lower than expected
c) Lapses 35 basis points lower than expected in durations 4+
d) Investment Earnings 100 basis points lower than expected

Sensitivity testing of these key pricing assumptions was performed. These results were shared with senior management. The management strategy for this product line is to accept lower returns in the event of adverse experience up to the impact of profitability associated with the moderately adverse condition. Any combination of adverse experience that lowers expected profit by more than any individual factor listed above is subject to extensive review that may or may not result in rate changes.

It was determined that a rate increase was necessary due to higher anticipated future and lifetime loss ratios. The higher anticipated lifetime loss ratios are mainly a result of a higher claims incidence than anticipated, longer claim continuance and lower than expected active life mortality. A portion of the negative impact on claims was offset by the updated demographic assumption as well as the lower utilization of claims dollars than expected. The Moderately Adverse Conditions that triggered a rate increase are a combination of adverse experience increasing the anticipated lifetime loss ratio more than 10% which would impact the expected profit target by more than the 10% morbidity trigger listed above.

Justification for the Moderately Adverse Conditions that triggered, as described above, is displayed in Exhibit 7 for the pre-rate refresh policies of the LTC13 Form. Given the issued LTC13 pre-rate refresh policies, the original priced for lifetime loss ratio for this block including PAD was 69.0% as found in Exhibit 7. The current loss ratio without PAD for this block is 74.3% as also found in Exhibit 7. As shown in Exhibit 7, the pre-rate refresh block of policies has passed the moderately adverse trigger. This rate increase request only applies to the pre-rate refresh block of policies on the LTC13 Form.

4. RATE INCREASE HISTORY

This form has not received any previous rate increases.

5. PROJECTION ASSUMPTIONS

The updated assumptions, which are consistent with the assumptions used in analyzing our forms currently available for sale and for cash flow testing, are summarized below:

<u>Interest</u>
A 3.5% effective annual rate of interest, the valuation interest rate originally filed with these forms, has been assumed for accumulating historical experience and for discounting projected future experience. The statutory prescribed interest rate of 3.5% is used in the pricing of our current product.

<u>Distribution</u>
Actual demographics and policy distributions are included in Exhibit 3.

<u>Lapse Rates</u>
The company reviews its persistency assumptions annually to monitor changes in experience. Our current lapse rates are based on actual Mutual of Omaha historical experience and vary by duration, issue age, inflation coverage, attained age, issue year, and partner status. We continue to monitor closely as we gain more experience to ensure that it remains an appropriate assumption.

Exhibit 4 shows the pricing assumptions from the original LTC13 filing.

Mortality

Mortality rates are derived using Mutual of Omaha historical experience. Selection factors grade from 12% to 100% over 23 years and vary by partner status. Historical and future mortality improvement utilize 100% of Scale G2 and are centered around 2016, which was the average year of the experience study. We continue to monitor closely as we gain more experience to ensure that it remains an appropriate assumption.

Exhibit 4 shows the pricing assumptions from the original LTC13 filing.

Morbidity

Mutual of Omaha historical experience serves as the morbidity basis with adjustments from industry (SOA) tables where credibility is low.

In 2022, we reviewed our actual experience and compared it against illumifin (formerly LTCG) expected industry experience. Overall, our morbidity experience is in line with illumifin industry experience. This analysis was done with Mutual of Omaha's policies, consistent with ASOP 18, utilizing available experience data.

Exhibit 4 shows the pricing assumptions from the original LTC13 filing.

Rate increase

No explicit assumption for policyholder behavior due to the rate increase (i.e., shock lapse and/or reduced benefit option election) is assumed as a modeling simplification and because of the offsetting nature of these assumptions.

Attachment A to this memorandum provides a description of the development of and justification for the assumptions used in this filing.

6. POLICY RESERVES

The valuation basis for contract reserves which generates the net valuation premium for renewal years is: one-year preliminary term using pricing claim costs @ 3.5% discounting with 10% PAD. The Gender specific 1994 GAM with selection factors grading from 0.4 to 1.0 over 10 years was used. Terminations, other than mortality, do not exceed:

a) For policy year one, the lesser of 80% of the voluntary lapse rate used in the calculation of gross premiums and 6%;
b) For policy years two through four, the lesser of 80% of the voluntary lapse rate used in the calculation of gross premiums and 4%;
c) For policy years five and later, the lesser of 100% of the voluntary lapse rate used in the calculation of gross premiums and 2%.

The contract reserve basis was filed in the initial product filing and there are no anticipated changes. No changes have been incorporated in the reserves for the contingent nonforfeiture benefit.

7. HISTORICAL EXPERIENCE

The nationwide experience since inception through December 31, 2023, is shown in Exhibit 5A. Exhibit 5B provides similar information as Exhibit 5A, except reflects Maryland-specific experience for the LTC13 pre-rate refresh forms. Please note that the company does not consider Maryland-specific experience to be fully credible.

8. PROJECTED FUTURE AND LIFETIME EXPERIENCE

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. The nationwide lifetime experience, which has been projected using the assumptions described in Section 4 along with a 10% claims PAD for moderately adverse experience, is shown in Exhibit 6A and demonstrates that the Dual Loss Ratio Test has been satisfied. Exhibit 6B provides similar information as Exhibit 6A, except reflects Maryland-specific experience for the LTC13 pre-rate refresh forms.

As commonly requested by the Administration, the company has also provided nationwide and Maryland-specific versions of the Administration's "Proformas Template w Reserves" spreadsheet. The same experience underlying Exhibit 6 is used to populate the Proformas spreadsheet. Please note that the "Reserves" column is populated for each tab with active life reserves only to ensure no double counting occurs with the claim reserves underlying the "Incurred Claims" column.

9. SUMMARY OF PROPOSED RATE INCREASE

The proposed increase results in a rate level consistent with the currently marketed rates on the LTC13 form (post-rate refresh). As such, the proposed rate increase will vary by benefit period, inflation option, gender, marital status, cash benefit and issue age. The factors for the remaining riders will not change; however, the increase to the base policy will result in the same increase percentage for the premium for these riders. See Exhibit 3 for a summary of the requested increases by various splits. Please note that issue age is used for determining the proposed rates based on the company's currently marketed rates; however, the company reserves the right to modify its methodology in the future, as allowed by regulation.

Nationwide, the total increase for policy series LTC13 pre-rate refresh policies will range from 1% to 50.3%, with an overall average increase of 32.8%. Please refer to Exhibit 2 for the increase amounts based on the nationwide distribution of business. A flat increase of 35% could be applied to all policyholders if there was no restriction to limit rates to the new business rates.

Additionally, as commonly requested by the Administration, the company has provided a completed version of the "Simplified MN Approach Template" based on nationwide experience without PAD. Please note that the company does not believe it is appropriate to use the maximum valuation interest rate when discounting cash flows for use in MN approach (a.k.a., Blended If-knew/makeup) calculations as the method was not designed in this manner. In particular, the Multi-State Rate Review Framework stipulates that, "The Minnesota approach considers changes in expectations regarding interest rates and related investment returns in a manner consistent with how other key assumptions are considered." As such, the company has provided an "Alternative" version of this calculation that reflects deviations in interest. This alternative version demonstrates that a 39.8% rate increase is justified on this business.

We plan to implement the proposed increase over a 2-year period, as summarized below based on the nationwide distribution of business:

Year 1 – The increase will range from 1% to 38.0%, with an average increase of 27.2%.
Year 2 – The increase will range from 0% to 8.9%, with an average increase of 4.4%.

The Year-2 increase will be implemented 12 months after the implementation of the Year-1 increase.

Rate sheets reflecting the cumulative proposed rate increase level are enclosed with this filing. These rate sheets reflect the rate level consistent with the currently marketed LTC13 form. The actual rates implemented may vary from those in the enclosed rate sheets due to implementation algorithms.

If the whole rate increase is approved in a timely manner, a future rate increase could not be justified until the best estimate loss ratio exceeds 68%, which is consistent with the current loss ratio including PAD for this block with the requested rate increase as found in Exhibit 6.

Policyholders will be given the options such as the following in an effort to reduce the impact of the proposed rate increase:

- Decrease their benefit period.
- Increase their elimination period.
- Reduce their maximum monthly benefit.
- Reduce their inflation option.

In addition, policyholders will be encouraged to contact our Customer Service Department to find the best option to maintain affordable coverage.

Rylan F.A. Deemer, FSA, MAAA, CERA
Product Director and Actuary
Mutual of Omaha Insurance Company
3300 Mutual of Omaha Plaza
Omaha, NE 68175

Phone: (402) 351-7299
E-Mail: Rylan.Deemer@mutualofomaha.com

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Attachments and Exhibits:

Attachment A – Assumption Justification
Attachment B – Actuarial Certification

Exhibit 1 – Benefit Summary (LTC13)
Exhibit 2 – Policies In-Force, Annualized Premium and Average Annual Premium
Exhibit 3 – Rate Increase Splits
Exhibit 4 – Pricing Assumptions from Original LTC13 Filing (Pre-Rate Refresh)
Exhibit 5A – Nationwide Historical Experience
Exhibit 5B – Maryland Historical Experience
Exhibit 6A – Nationwide Lifetime Experience Projection
Exhibit 6B – Maryland Lifetime Experience Projection
Exhibit 7 – Moderately Adverse Trigger Justification