July 13, 2019
Actuarial Memorandum Supporting Rate Revision for The Prudential Insurance Company of America Individual Long-Term Care Insurance Plan Maryland

1. Scope and Purpose

The purpose of this memorandum is to provide actuarial information supporting a rate revision to premiums for the following The Prudential Insurance Company of America's Tax-Qualified individual long-term care Forms and their associated riders:

Product Name	Form Number	Issue Dates in Maryland
ILTC1, Simple Inflation	GRP 99507	12/2000 – 03/2004
ILTC1, Compound Inflation	GRP 99508	12/2000 – 03/2004
ILTC1, Periodic Inflation Option	GRP 99509	12/2000 – 03/2004

Some riders may not be available in all states. This rate filing is not intended to be used for other purposes.

This rate filing is a request for a rate increase in premium varying by Inflation Type and Benefit Period (see table below), effective upon approval by the state, on the base contract and all associated riders. References to policyholders with No Inflation in this actuarial memorandum and appendices is intended to be our classification for those policyholders that didn't elect an automatic inflation option, which includes those without an inflation rider and those with the Guaranteed Purchase Option (GPO).

This rate increase request is for a phased in rate increase over two years of 15% each, which is the annual rate increase maximum for the state of Maryland. Prudential is also offering a landing spot option for policyholders, providing the option to reduce benefits rather than increase premiums.

Inflation Type	Benefit Period	Requested Rate Increase	Rate Increase Effective Date
No Inflation	Lifetime or 10 year	15.0%	11/1/2019
No Inflation	less than 10 year	15.0%	11/1/2019
Auto Inflation	Lifetime or 10 year	15.0%	11/1/2019
Auto Inflation	less than 10 year	15.0%	11/1/2019
No Inflation	Lifetime or 10 year	15.0%	11/1/2020
No Inflation	less than 10 year	15.0%	11/1/2020
Auto Inflation	Lifetime or 10 year	15.0%	11/1/2020
Auto Inflation	less than 10 year	15.0%	11/1/2020

These revisions are necessary because the current best estimate projections of the nationwide lifetime loss ratios are higher than the originally priced expected lifetime loss ratios. The higher lifetime loss ratios are due to adverse morbidity and persistency experience. Future rate increase filings are planned or likely.

This filing is also a request to allow the company to offer a new voluntary benefit reduction option to policies with automatic inflation benefits. This option, which would reduce the rate of future inflation increases, would be applied via a rider to the policy, and would offset a substantial portion or the entire amount of the rate increase requested above, for policyholders who elect it. If elected, the reduced inflation growth factor would begin to apply at the first anniversary date following the effective date of the rider, which would coincide with the effective date of the rate increase. Once applicable, the reduced inflation factor would remain in effect in accordance with the current contract. Note that policyholders would retain any inflation increases that have accrued to date. Insureds eligible for this option would be limited to those who currently have lifetime premium and premium reduction at age 65 premium payment options, and automatic inflation where benefit growth is unlimited. Policyholders that have the automatic inflation rider where the facility care benefit and the lifetime maximum benefit are capped once they have doubled will not be eligible for the new benefit reduction option. The reduced future inflation growth factors associated with this option are as follows:

Inflation Type	Benefit Period	Current Inflation Rate	Landing Spot Inflation Rate
Auto Inflation	Lifetime or 10 year	5%	4.0%
Auto Inflation	less than 10 year	5%	3.6%

This inflation offer would only affect the rate increase request related to this filing.

Prudential is filing for premium rate increases in each state where policies of these forms were issued.

Upon approval of this rate revision, Prudential will communicate to policyholders their options to reduce the impact of the rate increase. There will also be opportunities for almost all policyholders to keep the premium at or below the premium they were paying prior to the rate revision. These options may include reducing the lifetime maximum, reducing the daily benefit, and eliminating optional riders. In addition to what is included in the policyholder notification letter, policyholders will be notified that they can call our customer service representatives to work out a benefit reduction that best works for their situation.

In addition, the contingent non-forfeiture benefit will be available for all policyholders, regardless of their age or rate increase amount.
Please refer to Section 20 for a description of the information contained in each Appendix included in the filing.

2. Description of Benefits

The policies issued on these forms are referred as the "ILTC1" product series. This product was individually underwritten and provides comprehensive long-term care coverage for care received in a nursing home, assisted living facility, or hospice in addition to home and community-based care. This product is intended to be a Tax Qualified Long Term Care Insurance Contract as defined by the internal revenue code section 7702B(b).

This product reimburses covered long-term care expenses subject to the amount of coverage purchased. A waiting period, institutional daily benefit amount, home and community care percentage, maximum lifetime benefit amount and inflation protection option are selected at issue.

The benefit eligibility criteria is based on the insured's loss of the ability to perform two of the six activities of daily living (ADLs) or having a severe cognitive impairment. Activities of Daily Living are bathing, continence, dressing, eating, toileting, and transferring. Premiums will be waived beginning the first day of the next month following when LTC benefits are payable.

There are several optional riders that were sold with this product, including a cash benefit option and a monthly benefit option. The cash benefit option allows the insured to choose to receive benefits for Home and Community-Based Care as a cash benefit rather than as reimbursement. No formal services are required to receive a cash benefit. Policies with the cash benefit option are referred to as "Cash Plans" and plans without the cash benefit option are referred to as "Reimbursement Plans". The monthly benefit option provides benefits for Home and Community-Based Care on a monthly basis such that any or all of the benefits for Home and Community-Based Care can be used within the time frames that meet the insured's needs.

3. Renewability Clause

This product is a Guaranteed Renewable, Individual Long Term Care policy.

4. Applicability

The premium increase contained in this memorandum will be applicable to all active policy holders of the policy form and riders described in Section 1, as these policy forms are no longer sold in the market.

5. Actuarial Assumptions

The assumptions used in this filing are Prudential's best estimate expectations, developed in 2018, of future experience, and do not include any provisions for adverse experience. These assumptions are the basis for the assumptions being used in the company's internal cash flow testing. Changes to morbidity, mortality and voluntary lapse rates are used to justify the rate increase.

Interest Rate

An annual interest rate of 4.5% was used to calculate the lifetime loss ratio in the supporting appendices.

Expenses

The need for a rate increase is based on the lifetime loss ratio being in excess of the minimum loss ratio. Expenses do not directly impact the lifetime loss ratio and therefore are not used as justification for the rate increase. As such, expenses are not being projected and are not included in this filing.

6. Issue Age Range

This product was available for issue ages 18 - 84. Premiums are based on issue age.

7. Area Factors

The Company did not use area factors within the state in the premium scale for this product.

8. Average Annual Premium

The average annual premium for this product for both prior to the impact of the requested rate increase, and after, is indicated in Appendix A to this memorandum.

9. Modal Premium Factors

Modal loads are required because of the varied expenses incurred by the Company and the effect of interest and persistency. The modal premium factors will remain unchanged from the current factors.

10. Claim Liability and Reserve

Claim reserves were calculated using appropriate actuarial methods for IBNR and for open claims on a disabled life basis. The claim reserves were discounted to the date of incurred for each claim and have been included in the historical incurred claims.

11. Active Life Reserves

We have provided supporting evidence for the justification of the proposed increase based on the relationship of incurred claims divided by earned premium compared to the minimum required loss ratios. Incurred claims exclude any change in active life reserves.

12. Trend Assumption

Benefits payable are equal to or less than the daily or monthly benefit limit. We have not included any medical trend in the projections.

13. Requested Rate Increase and Demonstration of Satisfaction of Loss Ratio Requirements

Prudential is requesting a premium increase varying by inflation type and benefit period, to be applied to all ILTC1 active policies.

Because policies were sold both prior to and after the state's rate stability date, satisfaction of loss ratio requirements are demonstrated two different ways in Appendix A.

The first approach applies to policies sold prior to the rate stabilization date and is based on the minimum required loss ratio. This approach shows that with the requested rate increase the expected lifetime loss ratio exceeds the minimum loss ratio requirement.

The second approach applies to policies sold on or after the rate stabilization date and is based on a 58% loss ratio on the initial premium and an 85% loss ratio on the increased premium. This approach requires that the sum of the historical and projected future incurred claims must exceed the sum of 58% of the initial premium and 85% of the increased premium.

The requested rate increase satisfies the loss ratio requirements under either approach. The state's rate stabilization date and minimum loss ratio are also shown in Appendix A.

14. Distribution of Business

The historical experience reflects the actual distribution of policies during the experience period. We used the current distribution of business as of June 30, 2018 to project future experience.

15. Experience – Past and Future

The historical and projected nationwide experience, both with and without the rate increase, is contained in Appendix B. Note that there is no margin for adverse deviation in the future incurred claim projections in Appendix B. Additionally, the historical and projected nationwide experience is on a Maryland rate basis.

The historical and projected experience for this state, both with and without the rate increase, is contained in Appendix F. Note that there is no margin for adverse deviation in the future incurred claim projections in Appendix F.

Historical experience is shown by claim incurred year.

16. Lifetime Loss Ratio

The anticipated nationwide lifetime loss ratios, both without a rate increase and with the requested rate increase, are shown in Appendix A. The development of these nationwide lifetime loss ratios is shown in Appendix B.

The rate increase is assumed effective November 1, 2019 for phase one and November 1, 2020 for phase two in our projections.

17. History of Rate Adjustments

See Appendix A for a history of previous rate adjustments on this policy form.

18. Number of Policyholders

The current number of policyholders as of June 30, 2018 can be found in Appendix A.

19. Proposed Effective Date

This rate revision will be implemented following state approval and a minimum of a 60 day notification to the certificate holder. Implementation will be no earlier than November 1, 2019 for phase one and November 1, 2020 for phase two.

20. Summary of Appendices

Appendix A contains information that is specific to the state in which this filing is made. Examples of some items include are the requested rate increase, the average annual premium, demonstration of meeting required minimum loss ratio standards, the number of Policy holders inforce, etc.

Appendix B contains historical and projected nationwide experience for all policies issued under this form. The appendix also includes the projected lifetime loss ratios both without and with the proposed increase.

21. Relationship of Renewal Premium to New Business Premium.

Prudential is no longer selling any new Long-Term Care business. Therefore, the comparison of renewal premium rates after the rate increase to the Company's current new business premium rate schedule is not applicable.

22. Actuarial Certification

I am a member of the American Academy of Actuaries. I meet the Academy's qualification standards for rendering this opinion and am familiar with the requirements for filing long term care insurance premiums.

To the best of my knowledge and judgment this rate filing is in compliance with the applicable laws and regulations of this State as they relate to premium rate developments and revisions.

The policy design and coverages, the underwriting used at the time of issue, and the claim adjudication process were all taken into consideration.

In forming my opinion, I have used actuarial assumptions and actuarial methods as I considered necessary. The pricing assumptions are consistent with Prudential's current best estimates and do not include a margin for adverse experience. These assumptions are used to calculate the new target lifetime loss ratio as shown in Appendix A, Section 22a.

The premium rates are not excessive or unfairly discriminatory. Prudential intends to file additional rate increase requests in the future to further reduce the loss ratios of the business.

This opinion is in accordance with all Actuarial Standard of Practice including No. 8, "Regulatory Filings for Health Plan Entities".

Keith Burns

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Vice President & Actuary
Prudential Long Term Care
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