United of Omaha Life Insurance Company

3300 Mutual of Omaha Plaza, Omaha, NE 68175

ACTUARIAL JUSTIFICATION OF PREMIUM RATES

Policy Series LTC09U

Maryland

1. PURPOSE OF FILING

This is a rate increase filing for the above captioned Long-Term Care policy forms. 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. A list of policy forms are displayed in Exhibit 1. These forms provide daily benefits for long term treatment in various settings, as summarized in Exhibit 1, when the insured meets policy benefit qualification requirements.

These forms are individual, guaranteed renewable policies with issue age premiums. These policies were fully underwritten and sold by agents and brokers. The issue age limits, years of issue, and underwriting classes are also displayed in Exhibit 1.

The proposed rate increase applies to in-force policies only as these forms are no longer being marketed.

The number of policyholders and the annualized inforce premium, as of December 31, 2019, 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, a loss ratio would increase by 10% if one of the following occurred:
>
> a) Morbidity 10% higher than expected
> b) Mortality 10% lower than expected
> c) Lapses 25 basis points lower than expected
> d) Investment Earnings 25 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 a result of a combination of insureds keeping their policies longer and longer claim continuance affecting higher inflation and longer benefit periods. The Moderately Adverse Conditions that triggered are a combination of adverse experience increasing the anticipated lifetime loss ratio more than 10%.

Justification for the Moderately Adverse Conditions that triggered, displayed above, is displayed in Exhibit 3.

4. RATE INCREASE HISTORY

The nationwide and State rate increase history for these forms is displayed in Exhibit 4.

5. PROJECTION ASSUMPTIONS

The updated assumptions, which are consistent with the assumptions used for pricing our forms currently available for sale, are summarized below:

Interest

A 4.0% 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.

Distribution

Actual demographics and policy distributions are included in Exhibit 5.

Lapse Rates

The company reviews its persistency assumptions on a yearly basis to monitor any changes in lapse rates. As the experience develops, we continue to see ultimate lapse assumptions decrease, especially as we gain experience in later durations. As such, the persistency assumptions were also revised based on the actual experience of the affected blocks.

Exhibit 6A contains our actual experience and revised assumptions.

Mortality

Mortality rates are derived using the 2012 AIM Basic table with gender distinct rates adjusted for experience with selection factors grading from 30% to 100% over 12 years. Generational mortality improvement of Scale G2 are assumed but is something that we will continue to monitor closely as we gain more experience to ensure that it remains an appropriate assumption.

Exhibit 6B contains an actual experience and revised assumptions. Mutual of Omaha's LTCi business is used in this analysis.

Morbidity

The Milliman 2017 Guidelines now serves as the morbidity basis. Milliman claim costs are created from data contributed by LTC insurance companies that agreed to provide claim datasets. The datasets consisted of more than 49 million life years of exposure and over $50 billion of incurred claims. In 2019, Mutual of Omaha performed a comprehensive claim study on the policy forms mentioned in this filing. Below are our key findings.

> Overall, Mutual of Omaha's claim costs align with Milliman claim costs. Some adjustments were made to the Milliman Guidelines based off of the actual to expected analysis. We will continue to reflect our experience as we gain credibility. Generational morbidity improvement of 1% per year and future morbidity improvement of 1% per year for 20 years are assumed but is something that we will continue to monitor closely as we gain more experience to ensure that it remains an appropriate assumption.

Rate increase

The proposed rate increase amounts, as noted in Section 9, assume a January 1, 2022, effective date for all policies.

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 @ 4.0%. The 1994 GAM mortality table with gender weighted by expected distribution by issue age with selection factors grading from 0.40 to 1.00 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%.

7. HISTORICAL EXPERIENCE

The nationwide experience since inception through December 31, 2019, is shown in Exhibit 7A.

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 5 along with a 10% claims PAD for moderately adverse experience, is shown in Exhibit 8A and demonstrates that the Dual Loss Ratio Test has been satisfied.

9. SUMMARY OF PROPOSED RATE INCREASE

The total Nationwide increase for LTCi policy series LTC09U will range from 9.0% to 152.3%, with an overall average increase of 91.7%. Please refer to Exhibit 2 for the increase amounts in your State based on your State's distribution of business. The proposed rate increase will vary by benefit period, inflation option, spouse discount, cash benefit, and Issue Age. The proposed rate increase will be implemented over a three-year period, as summarized below:

<u>2022</u>

The proposed rate increase for 2022 will range from 0.0% to 38.0%, with an average increase of 29.8%.

<u>2023</u>

The proposed rate increase for 2023 will range from 9.0% to 38.0%, with an average increase of 20.3%.

<u>2024</u>

The proposed rate increase for 2024 will range from 0.0% to 32.5%, with an average increase of 22.5%.

The target implementation date of the 2022 premium increase is January 1, 2022, and each subsequent rate increase will be implemented 12 months after the initial rate increase.

These premiums were set by the following process:

- Calculate the premium necessary to achieve the allowed lifetime loss ratio based on Model Regulation 641, using the updated assumptions previously outlined.
- Determine the rate increases necessary at a policy level with changes being implemented for benefit period, inflation options, marital status discounts and cash benefit charges to match the lifetime loss ratio determined in the step above.
- Calculate 138% of the current premium in each future year of a rate increase. (This limits the annual impact to an individual policyholder to 38%.)
- Take the minimum premium from the three steps above.

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. In general, higher inflation types, longer benefit periods and younger issue ages result in higher increase percentages. See Exhibit 5 for a summary of the requested increases by various splits.

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

- Decrease their benefit period.
- Increase their elimination period.
- Reduce their maximum daily benefit.
- Reduce their inflation option.
- Accept the nonforfeiture option, which will be offered to all policyholders.

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

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Attachments:

Attachment A – Actuarial Certification

Exhibit 1 – Benefit Summary
Exhibit 2 – Policies In-Force, Annualized Premium and Average Annual Premium
Exhibit 3 – Moderately Adverse Trigger Justification
Exhibit 4 – Rate Increase History
Exhibit 5 – Rate Increase Splits
Exhibit 6A – Actual to Revised (Lapse Rates)
Exhibit 6B – Actual to Revised (Mortality)
Exhibit 7A – Nationwide Historical Experience
Exhibit 8A – Nationwide Lifetime Experience Projection