

**January 14th, 2019**  
**Actuarial Memorandum Supporting Rate Revision for**  
**The Prudential Insurance Company of America**  
**Group 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 group long-term care Forms and their associated riders:

<u>Product Name</u>	<u>Form Number</u>
GLTC2	83500 GR 1067

This product was first available nationwide in 1998. Some riders may not be available in all states. This rate filing is not intended to be used for other purposes.

These revisions are necessary because the current best estimate projections of the nationwide lifetime loss ratios are worse than the expected loss ratios. The higher lifetime loss ratios are due to adverse morbidity and persistency experience. In addition, the rate increase being requested meets the 58/85 loss ratio test established in the 2000 LTC NAIC Model Regulation.

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 certificate holders to keep the premium at or below the same level they were paying prior to the rate revision. These options will include reducing the lifetime maximum, reducing the daily benefit, and eliminating optional riders. In addition, the contingent non-forfeiture benefit will be available for all certificate holders 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 "GLTC2" product series. This plan was a Guaranteed Renewable, Group Long-Term Care policy that was issued to eligible active

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of American  
Group Long-Term Care Insurance Product  
January 14th, 2019**

employees and retirees of employer groups and eligible members of association groups. In addition, coverage was offered to spouses, parents, parents-in-law, and grandparents of eligible active employees and members in these groups.

This product provides comprehensive long-term care coverage for care received in a nursing home, assisted living facility, home and community-based care or hospice 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 benefit waiting / elimination period, daily maximum benefit amount for nursing home, assisted living facility and home and community care, lifetime maximum benefit period and inflation protection option are selected at issue. The Group client selects a limited number of benefit choices for their employees to choose from. Several optional riders were also available. The available choices can be found in the attached premium rate tables.

The benefit eligibility criteria is based on the insured's loss of the ability to perform 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.

### **3. Renewability Clause**

These products are Guaranteed Renewable, Group Long Term Care policies.

### **4. Applicability**

The premium increase contained in this memorandum will be applicable to all certificate holders of the policy form and riders described in Section 1 as well as all future periodic inflation protection offers.

### **5. Actuarial Assumptions**

The current assumptions are Prudential's best estimate expectations of future experience and

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of American  
Group Long-Term Care Insurance Product  
January 14th, 2019**

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. This was determined based on the predominant number of certificates issued in years that the maximum statutory valuation rate was 4.5%.

## **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 up to 85. 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**

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of American  
Group Long-Term Care Insurance Product  
January 14th, 2019**

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 incurral 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 106% premium increase, to be applied to all GLTC2 inforce certificate holders.

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.

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of American  
Group Long-Term Care Insurance Product  
January 14th, 2019**

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.

#### **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.

The historical and projected experience for this state, both with and without the rate increase, is contained in Appendix F.

Historical experience is shown by claim incurral 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 August 1, 2019 in our projections.

#### **17. History of Rate Adjustments**

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of American  
Group Long-Term Care Insurance Product  
January 14th, 2019**

There have been no previous rate increases on inforce policyholders with 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 August 1, 2019.

## **20. Summary of Appendices**

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

Appendix F contains the same information as Appendix B except it contains only state specific experience and projections.

## **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**

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of American  
Group Long-Term Care Insurance Product  
January 14th, 2019**

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

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 considered when setting the actuarial assumptions.

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.

The premium rates are not excessive or unfairly discriminatory.



Keith Burns, ASA, MAAA  
Vice President and Actuary  
Prudential Long Term Care  
January 14, 2019