Long Term Care Insurance Rate Request Summary
Part 2 –To Be Completed By Bureau of Insurance

Company Name and NAIC Number: CMFG Life Insurance Company 62626

SERFF Tracking Number: CUNA-128867185

Disposition: Upon Approval

Approval Date: 12/21/2015

Revised Rates

Average Annual Premium Per Member: $1,699

Average Requested Percentage Rate Change Per Member: 52.1%

Minimum Requested Percentage Rate Change Per Member: 52.1%

Maximum Requested Percentage Rate Change Per Member: 52.1%

Number of Policy Holders Affected: 82

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Summary of the Bureau of Insurance's review of the rate request:

CMFG Life Insurance Company (the Company) requested a rate increase of 52.1%, to be implemented over three years at 15% per year. The Bureau reviewed the rate increase in accordance with the requirements of 14VAC5-200-150, which requires that the filing demonstrate that both the future and lifetime loss ratios will be at least 60% after application of the rate increase. The Bureau's review, based on the requirements of Virginia law and regulation and using actuarially accepted and justified assumptions, indicated that the future loss ratio will be 93.2% and the lifetime loss ratio will be 108.3%. Since the filing met the requirements of 14VAC5-200-150 after implementation of the rate increase, **approval was recommended**.

This is a closed block of business in Virginia and nationwide. This block of business was sold nationwide from 1997 to 2004 and policies were sold in Virginia from 1998 to 2003. Since all Virginia policies were sold prior to October 1, 2003 it is subject to the requirements of 14VAC5-200-150 (pre rate stabilization block) . At the time of filing there were 82 policies in Virginia and 2,371 policies nationwide. There have been no prior rate increases on this block of business in Virginia. These are individual policies and guaranteed renewable for life, which gives the company the contractual right to increase premiums subject to regulatory approval. The Company is basing the requested increase on their nationwide experience which is appropriate as the Virginia experience has little credibility. The Virginia historical earned premiums are less than 4% of the nationwide premium and the Virginia historical incurred claims are less than $.8 million. Thus the Virginia only claim experience has a significant credibility issue.

This document is intended to help explain the rate filing and it is only a summary of the company's request. It is not intended to describe or include all factors or information considered in the review process. For more detailed information, please refer to the complete filing.

The Company is requesting a rate increase because key assumptions used in pricing have not been met. There are three primary drivers for the rate increase. They are claims, policy lapses and deaths. The last two can be lumped together into terminations. The Company has experienced high claims. Claims have been about 40% higher than expected in the original pricing. The terminations have been much lower than expected, thereby increasing the Company's exposure to the high claims expected at advanced ages.

In the early years the group of policyholders is prefunding the benefits to be paid in later years. In the early years the premium exceeds the expected claims. A reserve is established in order to fund the claims in the later years, which are significantly higher than the premiums in the later years.
The terminations are a key element for two reasons. First, if too many policyholders continue their coverage, there will be much higher claims in the later years. Second, the pricing anticipates that reserves released by terminating policyholders will be used to fund the claims of persisting policyholders. If terminations are low, then the reserves released will not be sufficient.
In summary, when policyholders terminate at a lower rate

- there are more policyholders continuing to the high claim costs in later years
- there is not as much reserve being released to the group of continuing policyholders, and
- there is a larger group of continuing policyholders that need this reserve release.

The Company has found that lapses have been much lower than anticipated in the original pricing. In general, the lapse experience has been only 30% of the expected rate. This is a significant difference. Our analysis shows that approximately 40% of the rate increase is attributable to higher claims and 60% is attributable to low terminations.

The original expectation was that the Company would pay out 60% of the premium in claims over the lifetime of the product. The revised expectation is that, even with the rate increase, they will pay out approximately 101% of premium in claims.

The Company is offering all policyholders the option to reduce the premium increase by reducing their coverage. These reductions could be in the form of lower daily benefits, a shorter benefit period, a longer elimination period, the termination of riders or any combination of these reductions..