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

Company Name and NAIC Number: Continental Casualty Company

SERFF Tracking Number: MILL-128834437

Disposition: Approve

Approval Date: 11/23/2015

Revised Rates

Average Annual Premium Per Member: $2,362

Average Requested Percentage Rate Change Per Member: 44.96%

Minimum Requested Percentage Rate Change Per Member: 44.96%

Maximum Requested Percentage Rate Change Per Member: 44.96%

Number of Policy Holders Affected: 3662

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

Continental Casualty Company (the Company) requested a 52% across the board rate increase. We 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 no less than 60% after application of the rate increase. Our review indicated that the in order for future loss ratio to not exceed 60%, the maximum rate increase should is 45%, not the requested 52%. With a 45% premium increase, the future loss ratio is 60% and the lifetime loss ratio is 63%.

This is a closed blocks of business in Virginia and nationwide. Policies were sold in Virginia and nationwide from 1998 to 2002. Since all Virginia policies were sold prior to October 1, 2003 it is subject to the requirements of 14VAC5-200-150 (pre-rate stabilization). At the time of filing there were 3,662 policies in Virginia and 94,619 policies nationwide. There have been no prior rate increases on these policies These are individual policies which are guaranteed renewable for life. The Company is basing the requested increase on their nationwide experience as the Virginia experience is less than 4% of the total nationwide experience and there would be a problem with the Virginia credibility.

The Company is requesting a rate increase because key assumptions used in pricing have not been met. The key assumptions are claim costs and policyholder terminations arising from deaths and lapses. The terminations have been much lower than expected, thereby

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.

increasing the Company's exposure to the high claims expected at advanced ages. The requested rate increase is not based on poor claim experience. In fact, claim experience to date has been 34% favorable. However the policy terminations have been only 44% of expected. Future terminations are projected to be about 75% of the terminations used in original pricing.

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 very much 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 outer 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.

A rate increase of 45% will result in a lifetime loss ratio of 63%. This is comparable to the originally priced loss ratio of 60%.

The Company is offering insureds options to reduce the premium increase by reducing their coverage. These reductions would 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. These options are available to all policyholders.