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

Company Name and NAIC Number: State Farm Mutual Automobile Insurance Company

SERFF Tracking Number: STLH-129237070

Disposition: Approved

Approval Date: May 5, 2016

Revised Rates

Average Annual Premium Per Member:	**$1,603**
Average Requested Percentage Rate Change Per Member:	**36.4%**
Minimum Requested Percentage Rate Change Per Member:	**9%**
Maximum Requested Percentage Rate Change Per Member:	**41.9%**
Number of Policy Holders Affected:	**1142**

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

State Farm Mutual Automobile Insurance Company (the Company) requested an average rate increase of 36.4%, ranging from 0% to 41.9%. The percentage rate increase is lower in some cases as the company "capped" them to ensure that they don't exceed the rates currently offered on a similar product. The increase will be implemented over a three year period.

This is an individual, closed block of long term care insurance policies issued from February 1, 1998 through November 20, 2002. This rate increase filing was originally submitted November 26, 2013. There have been no prior premium rate increases on any of the affected forms.

The Company requested a rate increase because key assumptions used in pricing have not been met. The key assumptions are policyholder terminations arising from deaths, lapses and higher morbidity. The terminations have been much lower than expected, thereby increasing the Company's exposure to the high claims expected at advanced ages. The need for the rate increase is further exacerbated by poor claim experience.

In the early years the group of policyholders is prefunding the benefits to be paid in later years and a reserve is established in order to fund the claims in the later years, which are anticipated to be significantly higher than the premiums in the later years.

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 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.

Based on a review of the developing experience compared to the assumptions used in the pricing of the affected policies, the Company states that an average 214% rate increase is needed to restore the policy form back to its original pricing expectation. The company, however, is only requesting an average 37% rate increase at this time. With the 36.4% increase, the Company expects to pay out 146% of the premium in claims over the lifetime of the form, which is significantly higher than the required minimum payout of 60%. However, the company has indicated that it intends to seek further rate increases if the experience emerges as expected, although not for at least three years. The Bureau of Insurance's analysis indicates that the requested rate increase is approvable based on an independent analysis and the requirements of Virginia law

To help mitigate the impact of the rate increase, the Company is offering policyholders different 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, if they so desire.