

**March 16, 2023**  
**Actuarial Memorandum Supporting Rate Revision for**  
**The Prudential Insurance Company of America**  
**Public Version**  
**Individual 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 individual long-term care Forms and their associated riders:

<u>Product Name</u>	<u>Form Number</u>	<u>Issue Dates in Maryland</u>
ILTC1, Simple Inflation	GRP 99507	12/2000 - 03/2004
ILTC1, Compound Inflation	GRP 99508	12/2000 - 03/2004
ILTC1, Periodic Inflation Option	GRP 99509	12/2000 - 03/2004

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

This rate filing is a request for a rate increase in premium, effective upon approval by the state, on the base contract and all associated riders. References to policyholders with No Inflation in this actuarial memorandum and appendices is intended to be our classification for those policyholders that didn't elect an automatic inflation option, which includes those without an inflation rider and those with the Guaranteed Purchase Option (GPO). Although the historical experience justifies a higher rate increase, Prudential will limit the requested rate increase to 15% to satisfy Maryland’s regulation COMAR 31.14.01.04A(6).

<b>Benefit</b>	<b>Requested Rate Increase</b>
All Policies	15%

While Prudential is willing to limit this rate increase request to the 15% maximum allowable under Maryland regulation, we have included a table below as a reference to show the rates we would ultimately need.

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of America  
Individual Long-Term Care Insurance Product  
Public Version  
March 16, 2023**

<b>Inflation Type</b>	<b>Benefit Type</b>	<b>Benefit Period</b>	<b>Requested Rate Increase</b>
No Inflation	Cash	Lifetime or 10 year	178.5%
No Inflation	Cash	Less than 10 year	68.1%
No Inflation	Reimbursement	Lifetime or 10 year	100.6%
No Inflation	Reimbursement	Less than 10 year	29.0%
Simple Inflation	Cash	Lifetime or 10 year	304.3%
Simple Inflation	Cash	Less than 10 year	160.5%
Simple Inflation	Reimbursement	Lifetime or 10 year	157.9%
Simple Inflation	Reimbursement	Less than 10 year	80.6%
Compound Inflation	Cash	Lifetime or 10 year	205.7%
Compound Inflation	Cash	Less than 10 year	97.0%
Compound Inflation	Reimbursement	Lifetime or 10 year	95.0%
Compound Inflation	Reimbursement	Less than 10 year	36.5%

These revisions are necessary because the current best estimate projections of the nationwide lifetime loss ratios are higher than the originally priced expected lifetime loss ratios. The higher lifetime loss ratios are due to adverse morbidity and persistency experience.

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 be opportunities for most, if not all, policyholders to keep the premium close to the premium they were paying prior to the rate revision. These options may include reducing the lifetime maximum, reducing the daily benefit, and eliminating optional riders. In addition to what is included in the policyholder notification letter, policyholders will be notified that they can call our customer service representatives to work out a benefit reduction that best works for their situation.

In addition, the contingent non-forfeiture benefit will be available for all policyholders impacted by this rate increase, 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.

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of America  
Individual Long-Term Care Insurance Product  
Public Version  
March 16, 2023**

## **2. Description of Benefits**

The policies issued on these forms are referred as the “ILTC1” product series. This product was individually underwritten and provides comprehensive long-term care coverage for care received in a nursing home, assisted living facility, or hospice in addition to home and community-based 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. An elimination period, institutional daily benefit amount, home and community care percentage, maximum lifetime benefit amount and inflation protection option are selected at issue.

The benefit eligibility criteria are based on the insured’s loss of the ability to perform two of the six 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 completion of the applicable elimination period.

There are several optional riders that were sold with this product, including a cash benefit option and a monthly benefit option. The cash benefit option allows the insured to choose to receive benefits for Home and Community-Based Care as a cash benefit rather than as reimbursement. No formal services are required to receive a cash benefit. Policies with the cash benefit option are referred to as “Cash Plans” and plans without the cash benefit option are referred to as “Reimbursement Plans”. The monthly benefit option provides benefits for Home and Community-Based Care on a monthly basis such that any or all of the benefits for Home and Community-Based Care can be used within the time frames that meet the insured’s needs.

## **3. Renewability Clause**

This product is a Guaranteed Renewable, Individual Long Term Care policy.

## **4. Applicability**

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of America  
Individual Long-Term Care Insurance Product  
Public Version  
March 16, 2023**

The premium increase contained in this memorandum will be applicable to all active premium-paying policy holders of the policy form and riders described in Section 1, as these policy forms are no longer sold in the market.

## **5. Actuarial Assumptions**

The assumptions used in this filing are Prudential's 2022 best estimate expectations of future experience for the individual long term care block of business, and do not include any provisions for adverse experience. These assumptions are the basis for the assumptions being used in Prudential'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 issues 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 18 - 84. Premiums are based on issue age.

## **7. Area Factors**

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of America  
Individual Long-Term Care Insurance Product  
Public Version  
March 16, 2023**

Prudential 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**

Modal loads are required because of the varied expenses incurred by Prudential 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**

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of America  
Individual Long-Term Care Insurance Product  
Public Version  
March 16, 2023**

Prudential is requesting a premium increase varying by inflation type, benefit type, and benefit period, to be applied to all ILTC1 active policies.

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.

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.

The requested rate increase satisfies the loss ratio requirements under either approach. The state's rate stabilization date and minimum loss ratio are also shown in Appendix A.

#### **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, 2022 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. Note that there is no margin for adverse deviation in the future incurred claim projections in Appendix B. Additionally, the historical and projected nationwide experience is on a Maryland rate basis.

Historical experience is shown by claim incurral year.

#### **16. Lifetime Loss Ratio**

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of America  
Individual Long-Term Care Insurance Product  
Public Version  
March 16, 2023**

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 July 1, 2023 in our projections.

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

See Appendix A for a history of previous rate adjustments on this policy form.

## **18. Number of Policyholders**

The current number of policyholders as of June 30, 2022 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 policy holder. Implementation will be no earlier than July 1, 2023.

## **20. Summary of Appendices**

Appendix A contains state-specific information, indexed to the section numbers applied in this memorandum.

Appendix B contains historical and projected nationwide experience for all policies issued under this form on a Maryland state rate basis. The appendix also includes the projected lifetime loss ratios both without and with the proposed increase. Note that there is no margin for adverse deviation in the future incurred claim projections in Appendix B.

## **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 Prudential's current new business premium rate schedule is not applicable.

**Actuarial Memorandum Supporting Rate Revisions for  
The Prudential Insurance Company of America  
Individual Long-Term Care Insurance Product  
Public Version  
March 16, 2023**

**22. Actuarial Certification**

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, with the exception that Prudential is not currently providing a certification that no future increases are anticipated under moderately adverse experience.

The policy design and coverages, the underwriting used at the time of issue, and the claim adjudication process were all taken into consideration.

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.



Michael Zilberman, FSA, MAAA  
Director, Actuary  
Prudential Long Term Care  
March 16, 2023