

# RIVERSOURCE LIFE INSURANCE COMPANY

**Address: 227 Ameriprise Financial Center, Minneapolis MN 55474**

## **Actuarial Memorandum for Policy Form 30225 Series Issued with 1997 Revised Rates**

**October 2019**

Policy form 30225A-MD1 is an individual policy form providing benefits to individuals for confinement in a nursing home. This policy form was issued with 1997 revised rates in Maryland for applications received January 1, 1999 and later from March 15, 1999 through December 15, 2002. This rate filing only applies to policies issued with the 1997 revised rates.

### **1. Purpose of Filing**

This Actuarial Memorandum has been prepared for the purpose of demonstrating the compliance of this premium rate increase filing with the applicable laws of the State of Maryland and with the rules of the Administration and that the anticipated loss ratio of this policy form issued with 1997 revised rates meets the minimum requirements of the state. It may not be appropriate for other purposes.

### **2. Description of Benefits**

This is an individually underwritten policy form which pays a daily benefit for confinement in a nursing home. Benefits are payable under skilled, intermediate or custodial levels of care. Hospital confinement is not a pre-requisite for benefit entitlement.

The confinement daily benefit amount was selected at issue. The maximum period for which confinement benefits are payable was also selected at issue. The choices were: 2 years, 3 years and unlimited (also referred to as "lifetime"). In most states, not including Maryland, a maximum benefit period of 4 years is also available. The policy also pays 100% of the confinement daily benefit for stays in a qualified Assisted Living Facility ("ALF"). A qualified ALF is one that has a minimum of 10 inpatients and has a 24-hour awake, trained and ready to respond staff. In most states, not including Maryland, the ALF benefit is equal to 60% of the confinement daily benefit.

Confinement benefit payments commence after an elimination period of 20 days or 100 days, depending on the plan initially chosen. During the continuation of confinement benefit payments, the premiums are waived after 90 days.

Benefit eligibility for nursing home coverage is based on the following: (a) the insured being unable to perform at least 2 or more of the following 5 activities of daily living ("ADLs"): (1) eating, (2) toileting, (3) transferring, (4) dressing and (5) continence, without substantial assistance for a period of at least 90 days due to a loss of functional capacity; (b) severe cognitive impairment requiring substantial supervision; or (c) the insured having a level of disability similar to that described in (a) above, based on standards established by the Secretary of the Treasury.

If temporary hospitalization is required during a period of confinement in a nursing home or an ALF and there is a charge for reserving a bed in the facility, this policy will pay the daily benefit for up to 21 days during any confinement period.

At the time of issue, the insured could choose to elect No Benefit Increase Option, the Simple Benefit Increase Option or the Compound Benefit Increase Option. The Simple Benefit Increase Option increases the original daily benefit amount by a fixed amount

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(5% of the original daily benefit amount) each year starting with the second policy year and continuing for the life of the policy. The Compound Benefit Increase Option increases the previous year's daily benefit amount by 5% per year starting with the second policy year and continuing for the life of the policy. The increasing benefit option will apply even when the policy is in claim status.

**3. Renewability**

This policy form issued with 1997 revised rates is guaranteed renewable for life.

**4. Applicability**

This rate filing is only applicable to inforce policies with application dates of January 1, 1999 and later which were issued with 1997 revised rates, as this policy form issued with 1997 revised rates is no longer being sold in the market. The rate increase will apply to the premium associated with the nursing home policy only. No rate increase is being requested for the premium associated with the optional home care rider.

**5. Actuarial Assumptions**

[REDACTED]

**6. Marketing Method**

This policy form issued with 1997 revised rates was marketed by agents of RiverSource Life.

**7. Underwriting Description**

This policy form issued with 1997 revised rates was fully underwritten with the use of various underwriting tools in addition to the application, which may have included medical records, an attending physician's statement, telephone interview and/or face-to-face assessment.

**8. Premiums**

Premiums are unisex and payable for life. Premium rates vary by issue age, the initial daily benefit amount, the benefit period, the elimination period and the Benefit Increase Option.

**9. Issue Age Range**

The issue ages were from 40 to 79, except for the benefit structures with 100-day elimination period and non-lifetime benefit periods which were issued to age 84.

**10. Area Factors**

Area factors are not used for this product.

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**11. Premium Modalization Rules**

The following modal factors and nationwide percent distributions (based on inforce count as of December 31, 2018) are applied to the annual premium (“AP”):

<b>Premium Mode</b>	<b>Modal Factors</b>	<b>Percent Distribution</b>
Annual	1.0000*AP + 0.0	48.9%
Semi-Annual	0.5020*AP+ 0.4	7.5%
Quarterly	0.2580*AP+ 0.5	6.1%
Monthly	0.0868*AP+ 0.6	37.5%

**12. Active Life Reserves**

Active life reserves, although they have significant impact, have not been used in the analysis in this rate filing.

**13. Trend Assumptions**

As this is not medical insurance, explicit medical cost trends have not been included in the projections.

**14. Past and Future Policy Experience**

Nationwide experience for policy form 30225 issued with 1997 revised rates is provided in Exhibit 6, including the previously implemented premium rate increase as described below in section 15.

Historical experience is shown by claim incurral year with the loss ratio for each calendar year. The following formula provides an illustration of the historical loss ratio calculation for each calendar year:

$$LR_j = \frac{\sum_k \sum_t {}_j Pmt_t^k * v^{t-k} + \sum_k ({}_j CR_{ValDate}^k + {}_j IBNR_{ValDate}^k) * v^{ValDate-k}}{EP_j}$$

$LR_j$  = loss ratio for year  $j$

${}_j Pmt_t^k$  = claim payments at time  $t$  for claims incurred at time  $k$  in year  $j$

${}_j CR_{ValDate}^k$  = open claim reserve held on December 31, 2018 for claims incurred at time  $k$  in year  $j$

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${}_jIBNR_{ValDate}^k$  = incurred but not reported reserve as of December 31, 2018 attributable to claims incurred at time  $k$  in year  $j$

$EP_j$  = earned premium in year  $j$

$ValDate$  = December 31, 2018

$j$  = year of claim incurral

$k$  = date of claim incurral

$t$  = date of claim payment

$v = 1 / 1.045 = 0.956938$

A historical annual loss ratio is calculated, without and with interest, as historical incurred claims divided by historical earned premiums. Historical earned premiums in Exhibit 6 are calculated based on the issue and, if appropriate, termination date for each policy. Historical incurred claims in Exhibit 6 are determined by discounting claim payments and open claim reserves to the actual original loss date for each claim and by discounting IBNR to the time it is assumed to occur. These items are then summed to produce a total for each calendar year. For purposes of accumulating historical experience for a historical or for a lifetime loss ratio calculation, these calendar year totals are assumed to represent a mid-year value.

A future annual loss ratio is calculated, without and with interest, as anticipated incurred claims divided by anticipated earned premiums. Anticipated earned premiums and incurred claims are projected on a seriatim basis and then summed to produce a total for each calendar year. For purposes of discounting projected future experience for an anticipated or for a lifetime loss ratio calculation, these calendar year totals are assumed to represent a mid-year value.

A lifetime loss ratio as of December 31, 2018 is calculated as the sum of accumulated historical experience and discounted projected future experience where accumulation and discounting of the total for each calendar year occur at 4.5% and assume mid-year values.

**15. History of Previous Premium Rate Revisions**

One prior premium rate increase has been received and filed and implemented on this policy form issued with 1997 revised rates in Maryland. A 15% increase was received and filed in November 2015 and implemented on each policyholder's next policy anniversary beginning in February 2016.

The actual and projected premiums in Exhibit 6 reflect the premium rate increase as received and filed in Maryland and implemented from 2016 through 2017 on a nationwide basis.

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**16. Requested Premium Rate Increase and Demonstration of Satisfaction of Loss Ratio Requirements**

The company is requesting a premium rate increase of 15% on this policy form issued with 1997 revised rates.

Some policies on policy form 30225A-MD1 issued with 1997 revised rates were issued on or after the October 1, 2002 effective date of rate stability requirements in Maryland. While 2 of the 38 policies in force as of December 31, 2018 have issue dates on or after October 1, 2002, we are seeking the same premium rate increase on all policies on policy form 30225A-MD1 issued with 1997 revised rates, since the revised premium rates on the policy form were approved prior to October 1, 2002 and no changes were made to the policy form after that date. This request is consistent with the prior premium rate increase which the Administration filed on all policies regardless of issue date.

**[REDACTED]**

The reason for the requested premium rate increase is due to a combination of actual lapse and mortality running less than expected in pricing and actual morbidity experience worse than expected for older attained ages. A premium rate increase is considered an effective way to reduce projected losses.

**[REDACTED]**

**17. Maryland Average Annual Premium (Based on December 31, 2018 Inforce)**

Before increase: \$1,471  
After increase: \$1,691

These values assume the previously received and filed premium rate increase has been fully implemented on all policies.

**18. Proposed Effective Date**

The premium rate increase will apply to policies on their policy anniversary date following a 60-day notification period.

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**19. Nationwide Distribution of Business (Based on December 31, 2018 Inforce Count)**

By Issue Age:

<b>Issue Ages</b>	<b>Percent Distribution</b>
<55	31.6%
55-59	23.4%
60-64	23.9%
65-69	13.3%
70-74	5.9%
75-79	1.8%
>79	0.1%

By Elimination Period:

<b>Elimination Period</b>	<b>Percent Distribution</b>
20-day	27.2%
100-day	72.8%

By Benefit Period:

<b>Benefit Period</b>	<b>Percent Distribution</b>
2-Year	2.6%
3-Year	8.0%
4-Year	19.2%
Unlimited	70.2%

By Inflation Protection Option:

<b>Inflation Option</b>	<b>Percent Distribution</b>
None	15.4%
Simple	28.8%
Compound	55.8%

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By Gender:

<b>Gender</b>	<b>Percent Distribution</b>
Female	65.4%
Male	34.6%

**20. Number of Policyholders**

As of December 31, 2018, the number of policies and annual premium inforce, assuming the premium rate increase previously received and filed in Maryland has been fully implemented on all policies in both the state and nationwide, is:

	<b>Number of Insureds</b>	<b>Annual Premium</b>
Maryland	38	\$55,898
Nationwide	1,942	\$2,255,922

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**21. Actuarial Certification**

I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries, and I meet the Academy's qualification standards for preparing health rate filings and to render the actuarial opinion contained herein.

I believe this rate filing is in compliance with the applicable laws of the State of Maryland and with the rules of the Administration. This Actuarial Memorandum has been prepared in conformity with all applicable Actuarial Standards of Practice, including ASOP No. 8.

I hereby certify that, to the best of my knowledge and judgment, this rate submission is in compliance with the applicable laws and regulations of the State of Maryland which were in effect when the original premium rates were approved. Furthermore, the actuarial assumptions are appropriate. In my opinion, the rates are not excessive or unfairly discriminatory. This rate filing will progress toward premium adequacy but may not be sufficient to prevent future rate action. Therefore, benefits cannot be certified as reasonable in relation to premiums.



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Anju Gupta-Lavey, FSA, MAAA  
Director - Actuary  
RiverSource Life Insurance Company  
Date: October 4, 2019