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CORRESPONDENCE MEMORANDUM

DATE: January 13, 2012

TO: Group Insurance Board

FROM: Roni Harper, Manager, Optional Insurance Plans
Division of Insurance Services

SUBJECT: Consideration of Long-Term Care Proposal
New Policy Offering by Prudential

Staff requests that the Group Insurance Board (GIB) approve the "Evolution" long-term care insurance offering from Prudential, submitted in conjunction with SeniorCare Insurance Services, Inc. (SeniorCare). The policy meets the guidelines of the Board as required by Wis. Admin. Code ETF 41.02(5).

BACKGROUND

When long-term care insurance was originally authorized under §40.55 of the statutes, the intent was to facilitate the purchase of insurance to offset costs of the various types of long-term care, in addition to nursing home care or adult day care in a facility. Under Wis. Admin. Code Ch. ETF 41, created in 1991, long-term care policies should, among other things, "promote the use of non-institutional care settings as an alternative…." , leaving the specific types and settings for care open to expansion as the industry evolves to meet demands. See Wis. Admin. Code ETF 41.02(1)(c). Equally important, Wis. Admin. Code ETF 41.02 requires that long-term care policies offered to Wisconsin Retirement System (WRS) members include protections against inflation. Having benefits payable as a percentage of the cost of care is one of the authorized types of inflation protections required under Wis. Admin. Code ETF 41.02(5)(a).

Inclusion of one or more inflation protection features is meant to ensure that a policy purchased at age 50, for example, would still cover a substantial portion of long-term care that might be needed well into the future, when the majority of the benefits are used for an individual.

At the same time that price increases for long-term care have been fluctuating, the revenue basis for long-term care insurance has stalled. Interest earnings and lapse rates have been much weaker than predicted a decade ago. Some major providers of

Reviewed and approved by Lisa Ellinger, Division of Insurance Services
Lisa Ellinger 2/8/12
Signature Date

Board	Mtg Date	Item #
GIB	2.7.12	6B

long-term care insurance have stopped selling new policies. The GIB turned down a 2011 rate increase proposal by John Hancock because the insurer could not agree to the minimum standards for inflation protection. This has left WRS members with just one provider of long-term care insurance marketed through provisions of Wis. Stat. § 40.55. This provider is United of Omaha, whose general agent is HealthChoice [see separate proposal for review - Ref. GIB | 02.7.12 | 6A)].

Staff recommends approval of a new type of long-term care policy with benefit and inflation protection provisions that are quite different from those approved in the past. Staff believes the Prudential Evolution policy (Prudential policy) offers a viable alternative for our members.

DISCUSSION

Benefit Structure: The Prudential policy would be unique among the long-term care products offered through the WRS. The benefit structure of the Prudential policy pays 80% of qualified long-term care expenses, up to the selected lifetime maximum. In this way, it bears a closer resemblance to a typical health policy rather than a traditional long-term care policy. In contrast, long-term care plans previously marketed to WRS employees typically paid benefits as a fixed daily or monthly rate. The types of care that are "qualified" under the Prudential policy appear to be common to other long-term care policies.

Cost Comparison: While the differences in policy construction and available benefits make comparisons very difficult, we can compare the initial annual premiums for the Prudential policy with other policies sold in Wisconsin. The table below summarizes 2011 cost comparison data for the Prudential policy and three comparable products currently being sold in Wisconsin. The Prudential policy has higher annual premiums if purchased at age 55, relatively average premiums if purchased at age 65, and lower annual premiums than comparable plans if purchased at age 75.

	Prudential Evolution Annual and % vs. Average	Comparable Plans Average Annual premium	Genworth Privileged Choice Flex	John Hancock CCIII	Transamerica TransCare II
Age 55	$1657/ +18%	$1406	$1421	$1530	$1268
Age 65	$2971/ +3.3%	$2875	$2763	$3042	$2614
Age 75	$6493/ -11%	$7493	$8573	$7722	$7062

(Premium estimates are rounded. The assumptions reflect premium rates for a basic benefit plan for a single person with an underwriting rating of Preferred, a $200 daily benefit amount, 5-yr plan, Guaranteed Purchase Option, and 90-day elimination period, $300,000 lifetime maximum pool.)

To put these premiums and benefits into perspective, Wisconsin's average monthly cost for nursing home care (in a semi-private room) was $7,315 in 2011. At 80% of costs, the Prudential policy would have paid benefits of $5,900 monthly toward nursing home care. A $200/day policy would pay $6000. In evaluating the higher annual cost for the

Prudential policy purchased at age 55, if a 65-year-old policyholder filed a claim for nursing home benefits in 2021, the Prudential policy would pay about $8,630 monthly, or $360/day which represents 80% of the $10,788 monthly cost. The average $200/day plan would still pay $6000 per month or just 56% of the actual monthly cost of care (this assumes neither person had taken a future/guaranteed purchase option).

Therefore, a Prudential policy that is purchased and used at relatively younger ages requires higher premiums because it will require a higher claim payment from the company than a policy with a daily cap design.

Inflation Protection: As noted, the Prudential policy's payment mechanism has built-in inflation protection and meets Wis. Admin. Code ETF 41.02(5). For additional inflation protection, Prudential has a "Guaranteed Increase Feature" (GIF) which is sometimes called a guaranteed purchase option that is built into the Prudential policy. Since the 80% payment rate remains in effect for the life of the policy, the company will notify a policyholder every five years of the opportunity to increase the premium and the lifetime benefit pool by 25%. If a policyholder accepts or fails to reject that option, the policy's lifetime maximum available would increase on the anniversary date. The GIF is only offered every five years and cannot be elected in between offerings. It is a default and will take effect unless the member refuses it. However, there is a 30-day grace period to reverse its implementation.

> GIF example: For a single person, age 55, who purchased a basic plan with a $300,000 lifetime pool in 2012, the annual premium would be $1,681. After two "Guaranteed Increases," the annual premium would be $2,224 at age 65, with a new lifetime pool of $450,000.

One advantage of the Prudential policy's GIF may be that it will take place even if the member is already in claim status. Like comparable plans, premiums are waived while a policyholder is in claim status, but the lifetime pool would increase on the five-year anniversary date even though the premiums are being waived.

Premium Increases for New Business: The Prudential policy includes automatic increases of 2% to 3% for new business (not for existing policies). Example: A single person, age 55, who purchases a plan in 2012 with a $100,000 maximum would have a basic annual premium of $931. Another 55-year-old who purchases the same basic plan in 2017 would pay $965 per year for a plan with a $100,000 lifetime maximum benefit. This method provides for automatic premium increases for the company without having to file new certificates with the Office of the Commissioner of Insurance (OCI) or present rate increase proposals to the GIB. Prudential could request an adjustment in the rate tables if the cost/benefit ratio became unbalanced in the future.

Actuarial Review: The GIB's consulting actuary, Deloitte Consulting, LLP (Deloitte), has reviewed the proposal. The Deloitte review specifically examined the alternate benefit design offered by the Prudential policy. According to Deloitte, the Prudential policy is "a reasonable method for providing protection against long-term care risk". By paying 80% of qualified long-term care expenses up to a selected lifetime maximum, the policy meets the inflation protection option under Wis. Admin. Code ETF 41.02(5)(a).

Furthermore, the GIF meets inflation protection standards, according to Deloitte. Finally, Deloitte found the system of increased costs for new coverage to be reasonable, noting that if the costs of providing care increase faster than predicted, there may need to be an adjustment to premiums for in-force contracts in the future. This would be true of any plan.

Wisconsin Agent: SeniorCare was the marketing arm for John Hancock from 1999 to June 2011. The agency used licensed insurance agents to sell the GIB-approved John Hancock long-term care policies to State employees, annuitants, and eligible family members. After the most recent John Hancock proposal was refused by the GIB in June 2011, Health Choice, the marketing agency for United of Omaha, became the only agency and long-term care plan available to be marketed through provisions of the WRS.

Insurance Commission Approvals: The Prudential policy has been approved by the OCI.

The policy has also met Partnership Program requirements, as approved by the OCI. A Partnership policy is designed to allow participants in claim status to disregard assets from their estate in an amount equal to the benefits paid by the policy should Medical Assistance (Medicaid) be needed. The Partnership Program requires all policies to be sold with a minimum 3% annual compound inflation, which differs from the inflation protection standards required under Wis. Admin. Code ETF 41.02 (5)(a). The Prudential policy is also available with an optional 5% compound inflation rider that would replace the GIF if chosen by the member.

Effective Date: Approval of this plan would authorize SeniorCare and its agents to market the Prudential policy to State employees and their families on the date following approval by the GIB. Members could request payroll deduction after January 1, 2013, as outlined in provision 1.5.a of the Optional Plan Guideline.

CONCLUSION

Based on staff review and the attached Deloitte evaluation, we recommend the GIB approve the Prudential Evolution long-term care policy. It meets the standards in Wis. Admin. Code Ch. ETF 41 and the standards outlined in the Guidelines for Optional Group Insurance Plans. The plan includes inflation protection, both through its benefit payment rate of 80% of costs and its GIF. Its benefit structure is not readily available through other plans, and both its parent company, Prudential, and the general agent, SeniorCare Insurance Services, Inc., demonstrate financial stability.

Staff from ETF, Prudential Insurance, and SeniorCare will be available at the meeting to answer any questions you may have regarding this proposal.

Attachments: Deloitte Consulting Actuarial Memorandum
Prudential Cover Letter
Prudential Actuarial Memorandum
Prudential Response to Guidelines for Optional Group Insurance Plans
Seeking GIB Approval for Payroll Deduction Authorization

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January 9, 2012

Roni Harper
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Division of Insurance Services
Department of Employee Trust Funds
801 West Badger Road
Madison, WI 53702

Re: Assessment of Request for Prudential's Long-Term Care Insurance policy Evolution.

Dear Roni:

We have reviewed the proposal materials submitted by The Prudential Insurance Company of America (Prudential) related to the Long-Term Care (LTC) Insurance plan Evolution ("the proposed policy"). The proposal materials we reviewed included a sample policy form, the actuarial memorandum, premium rate schedules, marketing materials, and various correspondence between Prudential and ETF staff.

Based on our review, we believe the proposed policy and premium rates are reasonable and satisfy the Group Insurance Board's requirements.

The remainder of this document summarizes specific issues examined during our review.

Alternative Benefit Design

The proposed policy pays 80% of qualified long-term care expenses until a lifetime benefit maximum is reached. As such, the proposed policy would offer State of Wisconsin employees an alternative plan design compared to the products currently available, which typically reimburse qualified long-term care expenses for each day in which the insured satisfies the benefit eligibility criteria, subject to a daily benefit limit as specified in the contract. The alternative design of the proposed policy, while different from what typically seen in the marketplace, is nevertheless a reasonable method for providing protection against long-term care risk.

Adherence to Inflation Protection Standards in "Guidelines for Optional Insurance Programs: Chapter ETF 41 – Long-Term Care Insurance"

We considered the proposed policy in light of the inflation protection standards outlined in section 41.02(5) of the ETF long-term care insurance guidelines. Section 41.02(5) allows the insurer four options for providing insureds with protection against the increasing cost of care:

1. Offering annual increases of $10 per day
2. Automatic increases of 10% per year
3. Benefits payable as a constant percentage of the cost of care

4. Benefits increase by at least 5% annually, and the insured must have the right to, without evidence of insurability, periodically increase daily and remaining lifetime maximum benefit levels by an amount not less than the amount by which the inflation index specified in the policy and approved by DETF exceeds the annually compounded 5%.

As the proposed policy pays 80% of the cost of care, criteria number three is satisfied. We note that because the proposed policy pays benefits as a constant percentage of the cost of care, regardless of the level of cost inflation experienced, it offers an additional level of assurance of inflation protection in the event that long-term care costs increase at a faster rate than would be covered by the other three criteria.

In addition to the inflation protection contained in the 80% benefit design itself, the proposed policy also establishes that the lifetime maximum be automatically increased, without needing to establish proof of good health, by 25% every five years, with a corresponding increase in premium based on the most current premium rate table at the insured's then attained age. The insured must notify Prudential in writing if the automatic increase is not desired.

> *[Drafting Note: To the extent that some policyholders may experience benefit increases that they did not expect or need, the automatic increase feature may be deemed undesirable.]*

Also, because the policy pays benefits as a constant percentage of the continually increasing cost of care, Prudential has established that premium levels <u>for new coverage issues</u> will be increased by approximately 3% annually. We find this reasonable, however to the extent that long-term care costs increase at a higher rate than that assumed in the development of the premium increase schedule, the proposed policy's premiums may not be sufficient to cover costs, thus requiring an unanticipated rate increase on all inforce contracts as well as new coverage issues.

<u>Analysis of Premium Levels & Assumptions</u>

We reviewed the premium rates for the proposed policy for reasonableness compared to similar products in the industry. Overall, we find the premium rates to be reasonable and in-line with what other insurers are charging. We also reviewed the pricing assumptions disclosed in the proposed policy's actuarial memorandum and found them to be reasonable compared to industry norms.

<u>Summary</u>

In summary, we believe the proposed policy and premiums are reasonable and satisfy the Group Insurance Board's requirements.

Timothy D. Gustafson

Timothy D. Gustafson, FSA, MAAA
Principal

Michael D. Klein, CLTC, LTCP
Director, Marketing and Sales Support

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February 8, 2012

Dear Ms. Harper:

Enclosed in this email please find all of the documents requested, as well as the completed GIB in our bid to seek Group Insurance Board approval to offer Prudential's Evolution^{SM} long-term care insurance product to members of the Wisconsin Employees' Insurance Trust.

Prudential LTC Evolution was developed in response to the consumer's need for an easy-to-understand, affordable alternative to traditional long-term care insurance products. This policy is an appropriate consideration for anyone who is concerned about his or her ability to remain financially secure while paying out of pocket expenses for ongoing care related to a chronic illness or disability. With just one primary policy decision, choosing a Lifetime Maximum Benefit between $100,000 and $1,000,000, Evolution makes it easy to understand the value of the product. The combination of a $1,500 per month Starter Benefit, 80% reimbursement benefit, and Home Support Services benefit of up to $10,000 gives clients the potential to receive substantial benefits in the first year after a chronic illness or disability is certified. It also provides policyholders with a measure of built-in inflation protection—since the policy always covers 80% of Actual Eligible Charges, up to the Policy Lifetime Maximum, regardless of how much costs may increase in the future.

It is precisely the aforementioned policy design feature – payment of 80% of actual eligible charges, now and in the future – that meets ETF 41.04 (5) #3, namely, that benefits are payable as a constant percentage of the cost of care. It is also this policy design feature, together with the built-in Guaranteed Increase Feature, which offers the policyholder the right to increase their original pool of money by 25% every five (5) years, that resulted in the State of Wisconsin qualifying the Evolution policy to meet state partnership guidelines.

Thank you for your consideration and I look forward to hearing from you.

Should you have any questions or need any additional information, please don't hesitate to contact me at (973) 548-6676 or Bill Kumpf from Senior Care Insurance at (608) 273-3443.

Sincerely,

Michael D. Klein
Director, Marketing and Sales Support

Actuarial Memorandum Supporting Rates
for The Prudential Insurance Company of America
Individual Long Term Care Insurance

Policy Form GRP 114200

I. Purpose of Memorandum

The purpose of this memorandum is to provide actuarial information supporting rates for The Prudential Insurance Company of America Individual Long Term Care Insurance Policy and to demonstrate the reasonableness of benefits in relationship to premiums. This rate filing is not intended to be used for other purposes. This form does not replace any existing Long Term Care policy form sold by Prudential.

II. Policy Information

This policy is intended to be a Tax Qualified Long Term Care Insurance Contract as defined by the Internal Revenue Code Section 7702B(b). This plan is a Guaranteed Renewable Individual Long Term Care Insurance policy. Premiums are issue age based.

III. Description of Benefits

Prudential will pay benefits if the conditions described in The Claims Process of the policy have been met. This requires the claimant to undergo an Assessment and be certified by a Licensed Health Care Practitioner as having a Chronic Illness or Disability. Only charges related to services included in a Plan of Care prepared by a licensed health care practitioner will be considered Eligible Charges. Benefits for Eligible Charges are provided if the Calendar Day Elimination Period, if applicable, has been satisfied. All benefits are subject to the Calendar Day Elimination Period except Hospice Care, Starter Benefit and Home Support Services. All benefits paid reduce your Policy Lifetime Maximum. Benefits will not be paid for Facility Care or Home Care and the Starter Benefit on the same day. Benefits include:

A. Facility Care – This policy pays 80% of the Eligible Charges for each day the insured is a resident of a Nursing Home, an Adult Foster Home or Board and Care Facility, Assisted Living Facility or Residential Health Care Facility. This includes covered services the insured receives as Respite Care.

This policy pays 80% of the Eligible Charges to reserve the insured’s bed at a Nursing Home if the insured is a resident in such a facility and the insured is absent for any reason for 24 hours or more.

This policy pays 80% of the Eligible Charges for each day the insured receives Hospice Care as a resident in a facility or in the insured’s Home. To receive hospice care benefits the insured must be Terminally Ill. The Calendar Day Elimination Period does not need to be satisfied to receive benefits for Hospice Care.

B. Home Care – This policy pays 80% of the Eligible Charges for each day the insured receives Adult Day Care, Home Health Care, Homemaker Services or Personal Care Services from a Caregiver, as defined in the policy.

C. Starter Benefit – This policy provides the insured an option to receive $1,500 per month in lieu of reimbursement for Eligible Charges for Facility Care or Home Care. The Calendar Day Elimination Period does not need to be satisfied to receive the Starter Benefit. It will only be paid for the first 12 months of claim eligibility, as defined in the policy.

D. **Home Support Services –** This policy pays 100% of Eligible Charges for goods or services that help the insured remain in their Home and are related to your Qualified Long-Term Care Service needs. Eligible Charges include assistive devices or technology, caregiver training, durable medical equipment, emergency medical response system, home modifications, private care manager and transportation services. This benefit has a maximum benefit of $10,000 over the life of the insured's policy. The Calendar Day Elimination Period does not need to be satisfied to receive benefits for Home Support Services.

E. **Alternate Plan of Care Benefit –** This policy pays 80% of the Eligible Charges for care received in either an alternative setting (facility) or for services designed to help the insured remain independent in their home. Benefit eligibility and amount will be determined on an individual basis by Prudential. The care must be a Qualified Long Term Care Service that is cost effective.

F. **Waiver of Premium -** Premiums will be waived beginning the day following the date the insured is determined to be eligible for benefits and has satisfied the Elimination Period.

G. **Calendar Day Elimination Period -** An insured must meet conditions described in The Claims Process of the policy and satisfy the Elimination Period before benefits are payable. The Calendar Day Elimination Period is counted in calendar days. The Calendar Day Elimination Period needs to be fulfilled only once per the insured's policy lifetime. All benefits are subject to the Calendar Day Elimination Period except Hospice Care, Starter Benefit and Home Support Services.

Available Elimination Periods are 30, 60 and 90 days.

H. **Policy Lifetime Maximum** - The plan will pay benefits until the total of all types of benefits paid reaches the Policy Lifetime Maximum. Once the Policy Lifetime Maximum has been reached, all coverage under the plan will terminate unless the insured has benefits remaining under the Starter Benefit.

The Policy Lifetime Maximum available at issue can be between $100,000 and $2,000,000 available in $100,000 increments. The Policy Lifetime Maximum can increase due to increases accepted under the Guaranteed Increase Feature. It will also be increased if a Automatic 3% Compound Increase Option Rider or the Automatic 5% Compound Increase Option Rider is chosen.

I. **Guaranteed Increase Feature (GIF) –** Every five years up to the insured's 76th birthday, the insured will have the opportunity to purchase additional coverage without evidence of insurability. Each increase is for 25% of the Policy Lifetime Maximum in effect on the original effective date. Increases can be elected even if the insured has met the benefit eligibility criteria or is in claim. No evidence of insurability is required. The premium for the additional benefit will be based on the insured's attained age at the time any additional coverage is purchased and the current premium schedule in effect for that calendar year. There is a premium load to reflect the adverse selection with these voluntary increase options. Increases are presumed to have been accepted unless written notice is received declining the increase.

J. **Issue Ages –** 18-79.

K. **Optional Benefits**

***Shortened Benefit Period Non-forfeiture Rider* –** This optional rider provides for a lower lifetime maximum benefit if the policy terminates after three years of continuous premium payments and the insured has not received benefits that equal or exceed the total amount of premiums paid for the policy. The Shortened Benefit Period (SBP) benefit will be equal to the sum of premiums paid to date reduced by any benefits paid or 3% of the initial Policy Lifetime Maximum (but no more than the remaining Policy Lifetime Maximum available when the policy terminates), whichever is greater.

Non-forfeiture regulations in your State require that the SBP benefit be equal to the sum of premiums paid to date reduced by any benefits paid or 30 times the daily nursing home maximum. Given this policy does not have a daily nursing home maximum, we have substituted 3% of the initial Policy Lifetime Maximum. This will insure that the benefit will be no less than $3,000, which is equal to 3% times $100,000 (our lowest Policy Lifetime Maximum offered). This would be equivalent to a minimum SBP benefit of 30 times a daily nursing home maximum of $100.

Shared Care Rider -- Two married insureds or two domestic partners who purchase this policy can opt for this Rider. If one spouse/partner exhausts benefits under his/her own policy, he/she can access benefits under the other spouse's or partner's policy.

If one spouse or partner dies before exhausting his/her Policy Lifetime Maximum, the remaining dollars (which do not continue to inflate, if applicable) are available to the surviving spouse or partner once he/she has exhausted his/her own Policy Lifetime Maximum.

Upon exhaustion of an insured's policy benefits by his/her spouse/partner, if the insured's age is 90 or under the insured has the option to purchase, on a guaranteed issue basis, a policy with a Policy Lifetime Maximum equal to 50% of the original Policy Lifetime Maximum (minimum of $100,000, maximum of $300,000). The premium for this policy will be based on the insured's attained age at the time of purchase and the current premium schedule in effect for that calendar year.

Inflation Riders (the insured can choose only one inflation option – the default is the Guaranteed Increase Feature in the policy)

Automatic 3% Compound Increase Option – Policy maximums will automatically increase annually by 3%. Increases will occur even if the insured is receiving benefits. The increases will be based on the remaining benefits as of the prior policy anniversary. The premium for this rider is issue age based.

Automatic 5% Compound Increase Option **–** Policy maximums will automatically increase annually by 5%. Increases will occur even if the insured is receiving benefits. The increases will be based on the remaining benefits as of the prior policy anniversary. The premium for this rider is issue age based.

IV. Gross Premiums

Gross premiums are level and payable for the life of the policy, but are dependent on the calendar year the policy is issued.

Gross premiums for the base plan are included in Exhibit 1. There is one gross premium table for each inflation option. These gross premium rates are the rates that will be charged to policyholders that are issued in 2008. Once issued the gross premium rates for the policyholder will not change unless the benefits change or unless future premium adjustments are needed due to adverse experience.

Calendar year of purchase inflation adjustments, found in Exhibit 2, are needed to determine the gross premiums for new business, as well as future benefit increases elected by the policyholders in future calendar years. There is one calendar year inflation adjustment table for each inflation option. These adjustments will be applied to the gross premium schedule from the preceding calendar year. Without a daily (or monthly) benefit limit, these inflation adjustments need to be applied to the premium rates to keep pace with the anticipated increases to the Eligible Charges. These new gross premium schedules will not be applied to business already inforce, unless the policyholder elects to increase their benefits after the calendar year of issue.

Adverse selection loads that vary by policy duration will be applied to gross premiums that will be used for individuals selecting benefit increases as part of the Guaranteed Increase Feature in their policy. These loads can be found in Exhibit 3.

Rating factors are provided to adjust gross premiums for the particular elimination period, optional benefit riders, underwriting class, discounts, and premium payment mode. These factors can be found in Exhibit 4. The rating factors for the optional Shared Care Rider have different tables for each inflation option.

An example of how gross premium rates are determined for new business and benefit increases under the Guaranteed Increase Feature can be found in Exhibit 5.

A. Underwriting – This policy is underwritten using a long form medical questionnaire, telephonic interviews, face-to-face assessments, attending physician's statements and other tools that are needed to properly evaluate the underwriting risks. Insureds will be categorized into one of four underwriting classifications – Preferred, Standard I, Standard II and Standard III.

Modified underwriting requirements may be available for some Employer-Sponsored Groups that have been approved by Prudential.

B. Discounts

Partner Discount – Two married individuals or two domestic partners may qualify for one of two discounts depending upon whether one (single) or both (joint) are issued Prudential Individual long-term care insurance policies.

Employer-Sponsored Program or Affiliation Group – A premium discount will apply when an insured purchases coverage through the Employer-Sponsored Program or an Affiliation Group. The premium discount will be offset by reductions in acquisition, marketing and administrative expenses, which may include a reduction in commissions. The expected expense savings, including any reduction in commissions, will be used to determine the appropriate premium discount, which could be between 1% – 15%. This premium discount will be predetermined by Prudential and the sales representative will not have an option as to what the premium discount or commission reduction will be.

A group can be considered for our Affiliation Group discounts when a relationship exists among a group of insureds, such as partners in a limited partnership, members or clients of an association or organization, etc.

C. Premium Payment Modes – The following premium payment modes will be available: annual, semi-annual, quarterly, monthly and auto-monthly (Electronic Funds Transfer).

D. **Average Annual Premium –** The anticipated average annual premium is $2,746.

V. Actuarial Assumptions

A. Method of Calculation – Associates of Milliman Inc. calculated the gross premiums for this product using their MG-ALFA pricing model and non-morbidity assumptions provided by Prudential. This model was used to calculate and test the adequacy of gross premiums to provide for claims, expenses and profit. The various assumptions are listed below.

B. Morbidity Basis -- Morbidity estimates are based on the Milliman USA 2002 Long Term Care Guidelines. These Guidelines, the cooperative effort of Milliman Health actuaries, reflect over $1.8 billion of insured data and the experience and judgment of Milliman actuaries. It is assumed that the cost of care will increase on average by 5.5% each year.

C. Net Investment Earnings Rate – 6.0%

D. Expense Assumptions

Expense Assumptions as a Percentage of Premium or of Incurred Claims			
Policy Year	**Commissions**	**Other Percentage of Premium Expenses**	**Claim Administration as a Percentage of Incurred Claims**
1	72%	19.5%	6%
2-10	18%	7.5%	6%
11+	4.5%	7.5%	6%

Actual commissions paid may vary, but are intended to be actuarially equivalent or lower.

Per Policy Expense		
	First Year	All Years
Issue Age	Underwriting / Issue Expense	Maintenance Expense
Under 55	$100	$64
55 - 59	$155	$64
60 - 71	$200	$64
72+	$270	$64

E. Policy Reserve Basis -- Policy reserves are based on the claim costs developed for this plan assuming a one-year preliminary term method with 1994 GAM mortality and 4.0% interest. Lapse rates are included in the reserve calculations using the following formula for total termination rates (TTRs)

TTR = 1994 GAM plus lesser of:

Duration 1: 80% of pricing lapse rate or 6%
Durations 2-4: 80% of pricing lapse rate or 4%
Durations 5+: 100% of pricing lapse rate or 2%

F. Mortality Rates -- 1994 GAM Static, with selection factors applied.

G. Voluntary Lapse Rates

Lifetime Pay Plans							
	Issue Age						
Policy Duration	30	40	50	60	65	70	75+
1	8.5%	7.5%	6.0%	5.5%	5.5%	6.0%	6.5%
2	7.5%	6.5%	4.5%	4.0%	4.0%	4.0%	4.5%
3	6.5%	5.0%	3.5%	3.0%	3.0%	3.0%	3.5%
4	5.5%	4.0%	2.5%	2.0%	2.0%	2.0%	2.0%
5	4.0%	3.0%	2.0%	2.0%	1.5%	1.5%	1.5%
6	2.5%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%
7	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
8	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
9+	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

H. Expected Distribution of Business by Issue Age

Issue Age	Distribution
30	10.0%
40	15.0%
50	25.0%
60	25.0%
65	10.0%
70	7.5%
75+	7.5%

I. Expected Distribution of Business by Gender and Partner Status

	Distribution	
Partner Status	Male	Female
Single Partner	5%	12%
Joint Partner	32%	32%
Single (No Partner)	7%	12%

J. Expected Distribution by Policy Lifetime Maximum

Benefit Pool	Distribution
$100,000	5%
$200,000	15%
$300,000	20%
$400,000	15%
$500,000	10%
$600,000	9%
$700,000	8%
$800,000	7%
$900,000	6%
$1,000,000+	5%

K. Distribution of Business by Benefit Increase Option

Inflation Type	Distribution
Guaranteed Increase Feature	85%
Automatic 3% Compound Increase	10%
Automatic 5% Compound Increase	5%

VI. Actuarial Certification – Initial Premium Schedule

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.

Attached are the premium rate schedules to be used for new sales of the policy forms and riders as specified therein.

In my opinion the initial premium rate schedules which vary by calendar year of issue are sufficient to cover anticipated costs under moderately adverse experience and the premium rate schedules are reasonably expected to be sustainable over the life the forms with no future premium increases anticipated.

I have reviewed and taken into consideration the policy design and coverage provided.

I have reviewed and taken into consideration the planned underwriting and claims adjudication processes.

In forming my opinion, I have used actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary.

Details regarding the contract reserve calculation can be found in the Actuarial Memorandum.

i. Contract reserves contain reasonable margins for adverse experience.

ii. The net valuation premium for renewal years does not increase.

In aggregate, the gross premium rate schedules are in excess of the sum of the net valuation premium for renewal years and the average renewal expenses assumed in the pricing. Gross premiums not in excess are typically for issue ages 65 and below, and in some situations up to issue age 70. This primarily occurs due to the significant difference between the statutory discount rate and assumed investment earnings rate. The impact of this is greater at the younger issue ages and for products like this where the claim cost slopes are significantly steeper than traditional Long Term Care. These results are roughly similar to what happens when an Automatic 5% Compound Increase Rider is added to a traditional Long Term Care policy.

The premium schedules for this form are not less than the premium rate schedules for existing Prudential policy forms with similar benefits also available.

Keith Burns, A.S.A., M.A.A.A.
Director, Actuarial
March 4, 2008

Prudential Insurance Company of America
15750 West Dodge Road, Suite 302
Omaha, NE 68118
(402) 496-1091 ext. 7325

Prudential response to

GUIDELINES FOR OPTION GROUP INSURANCE PLANS

SEEKING GROUP INSURANCE BOARD APPROVAL

FOR PAYROLL DEDUCTION AUTHORIZATION

Department of Employee Trust Funds
Group Insurance Board

801 West Badger Road
Madison, Wisconsin 53702

July, 1999

Unless specifically provided for under a collective bargaining agreement under Subchapter V of Chapter III, Stats., The Group Insurance Board is charged by s. 40.03 (6), and s. 20.921 (1) (a) 3., Stats., with approving any optional, employee-pay-all group insurance plan that requires premium deduction from state payroll. The Board has established the policy under which it will review each plan in ETF 10.20, Wis. Adm. Code.

The guidelines describe the requirements of the Board, the procedure followed in reviewing a proposal for state payroll deduction authorization, and the requirements for plans that are approved in their on-going relationship with the Board. Plans that fail to meet these requirements may have their payroll deduction request denied or authorization suspended.

Consistent with the Administrative Code, the Board's intent is to approve only those plans that can demonstrate financial stability and broad based community support, and provide coverage that is not readily available through other plans already provided state employees. The Board may approve a plan which provides coverage similar to one already available to state employees if the Board determines that by so doing, the new plan will provide competition resulting in better benefits and/or lower cost.

I. Application Procedure

1. Plans that wish to be considered for payroll deductions must submit a proposal to the Board in the format described in these guidelines under section II "General Requirement."

2. Applicants must provide twenty (20) copies of the proposal.

3. Section 10 of the guidelines requires that statistical information be provided as an exhibit. This exhibit must be complete and the information provided may not be deviate from the format of the addendum to these guidelines. The Board reserves the right to request additional information as necessary.

4. The rest of the guidelines allow responses in text to be free form, but each applicant should be as concise and topical as is possible.

5. Proposals that are received 45 days prior to the next scheduled meeting of the Board shall have their proposal considered at that meeting. Proposals received less than 45 days prior to the next meeting shall be considered at the next following meeting of the Board.

    5a. Effective June 29, 1999, the Group Insurance Board will accept Long-Term Care Insurance proposals once each calendar year at the June Board meeting. Proposals must be submitted at least 45 days prior to the Board meeting. If the proposal is approved, the insurer may offer coverage to state eligible on the following January 1.

6. The staff of the Department of Employe Trust Funds, in consultation with the Board's actuary shall prepare a report on the proposal and a recommendation for the Board. A copy of this report will be available to the applicant no later than seven calendar days prior to the meeting at which the Board will consider the proposal.

7. At the meeting, the Board may wish to ask questions about the proposal. Plans which are being considered should have knowledgeable representatives available at the meeting to respond to these questions.

II. General Requirements

1. Statutory authority to conduct business of insurance.

The Board will only consider those plans which have received State of Wisconsin Insurance Commissioner approval to conduct the business of insurance in this state. Plans should indicate when this authority was received and under which section of state statute the insurer is licensed.

Prudential is licensed to do business in Wisconsin. The Certificate of Authority was issued April 11, 1996 under Wisconsin Statute 618.

Attached you'll find documentation outlining the approval of or LTC Evolution product in the state of Wisconsin.

2. Operating experience.

The Board will consider only plans that have at least one year of operating experience. The Board may waive this requirement, providing the plan can demonstrate that it was designed specifically for the state employe group to fill a need for coverage that is not already available (or adaptable) to state employees.

Prudential has been selling Long-Term Care Insurance since 1986. LTC Evolution, the plan being offered to the State of Wisconsin Department of Employee Trust Funds, has been offered since March 2009 and available in the State of Wisconsin since April 2011.

Attached you'll find documentation outlining the approval of or LTC Evolution product in the state of Wisconsin.

3. Broad-based community support.

Unless a plan has successfully demonstrated under #2 above that it was designed specifically for the state group, each proposal must include a list of current corporate (or public employer) clients and the total number of subscribers.

Although it is our policy not to provide specific names of covered employer groups or affiliations, we can disclose that year-to-date 49% of our business, based on premium, is from employer sponsored plans and affiliations.

Prudential has over 25 years of experience in the group Long Term Care Insurance market. The American Association of Retired Persons (AARP) was our first client in 1986 and since then our business has grown to include many groups and associations of significant size including the American Institute of Certified Public Accountants (AICPA), which has been a client since 1993, and the American Psychological Association (APA), which selected Prudential as its Long Term Care Insurance carrier in early 2001. During this period, we have gained a great deal of insight into the mindset and issues of working age and senior populations. The experience we have garnered has helped us market innovative voluntary products through direct mail and worksite promotions, and has helped us meet customer expectations for successful programs and world class service.

Overall, we have strong experience in underwriting, marketing, and administering successful Long Term Care Insurance programs. We offer marketing and distribution capabilities necessary to encourage association members and their families to participate in the plan. However, marketing and product support are only part of the equation for success. The Long Term Care Insurance plan that Prudential offers its customers is a product that is economically within the reach of most families and a very desirable association benefit.

4. Types of plans that are eligible.

   ~~**a. The plan must be true group insurance. A plan which consists of individual policies marketed on a group basis is not eligible. This provision does not apply to Long-Term Care Insurance.**~~

   b. The plan must offer coverage that is not adequately provided through other plans currently available to state employes. The Board may waive this restriction in those instances where it is deemed appropriate to have competing plans, when such competition may result in higher quality benefits and/or lower price.

   Prudential LTC Evolution is a unique LTC insurance product that provides coverage for those unable to perform two out of six Activities of Daily Living, including Eating, Bathing, Dressing, Transferring, Toileting and Continence. LTC insurance is not health insurance in that it provides benefits for covered services related to custodial care, and, unlike Medicaid, does not require a spend down of assets to qualify. The plan is fully underwritten and provides a 5% discount in addition to other discounts and premium reductions, such as married/partner and good health.

   c. Plan must provide a high premium to payment ratio. Plans that retain more than 25 percent of premium income for purposes other than claim payments will not normally be eligible for consideration unless the high retention ratio is justified.

   Our expected loss ratio for the pool that will include the State of Wisconsin is 80%, assuming a discount rate of 4.0%. The expected loss ratio reflects an appropriate retention for marketing, enrollment, administration expenses, premium taxes, and profit. Our target loss ratio meets all state mandated loss ratio requirements..

5. Financial requirements.

Any organization desiring approval must demonstrate that it has adequate financial resources necessary to carry out its obligations to state employes and dependents who choose to be covered under the plan.

In determining financial stability, the Board will consider:

a. Financial soundness of the sponsoring organization. Each organization will be required to submit the initial proposal, information on its current financial condition. Documentation required includes a balance sheet, statement of

operations, an audited financial statement by a certified public accountant in accordance with generally accepted accounting principles, and utilization statistics. (This information shall remain confidential insofar as permitted by Wisconsin law.)

Prudential has a strong balance sheet, capital consistent with our "AA" financial strength ratings objectives for our insurance companies as of December 31, 2010, a strong liquidity position, and we are comfortable with our risk and investment profile. We will remain focused on executing our strategy of growing our U.S. and International businesses while continuing to look at new opportunities around the world. The company has a record $883 billion in assets under management as of June 30, 2011—compared with $690 billion on June 30, 2010. This represents an increase of 28% from a year ago.

Please see the Prudential Financial 2010 Annual Report for our most recent audited financial statements at http://www.investor.prudential.com. PricewaterhouseCoopers LLP audits Prudential's financial statements.

b. Incorporation and regulation under the provisions of Chapter 185 and/or 600 through 646, Wis. Stats., pertaining to insurance plans.

Prudential is licensed to do business in Wisconsin. The Certificate of Authority was issued April 11, 1996 under Wisconsin Statute 618.

c. Insolvency protection for subscribers consisting of, for example; financial bonds, third party guarantees, reinsurance deposits, automatic conversion rights, or other arrangements which are adequate to the satisfaction of the Board to provide for continuation of benefits until the end of the third month following the month in which insolvency is declared.

Prudential does not carry insolvency insurance. In the unlikely event of insolvency, the assets in the company's General Account would be subject to claims of creditors. If such a situation were to occur, policyholders will receive a higher priority than shareholders or general creditors, following payment of any administrative and legal fees.

The Prudential Insurance Company of America's (PICA) Separate Accounts are established in accordance with New Jersey state insurance laws, which provide that the money in those Separate Accounts "shall not be chargeable with liabilities arising out of any other business the company may conduct." This means that the assets of a Separate Account may only be used to satisfy the contractual liabilities of a particular Separate Account. Thus, General Account customers, as well as other creditors, have no claim on the assets of a Separate Account.

6. Marketing and enrollment.

a. Each plan shall submit a general description of its marketing plan. Any promotional material or literature that the plan proposes to distribute to state employes shall first be approved by the Board.

Solicitation and enrollment of state employees will be done by Senior Care Agency, a contracted Prudential General Agency using approved materials. Prudential will work with Senior Care Agency to determine the most effective use of approved materials, including letters, postcards, brochures, seminar presentations, etc. and will assist in the development of new materials as needed and with the approval of the Board.

Samples of approved materials are attached for your reference.

b. **Each plan will be required to supply all necessary application forms and reporting forms. State agency payroll representatives will accept applications from enrollees and transmit new applications to the plan. In addition, the payroll representatives will audit the membership lists and report any changes to the plan. The plan should submit a monthly membership list to each state agency to assist the payroll representatives in this task.**

Application forms are attached. Payroll deduction is at the discretion of the sponsor but Prudential would need the full premium by mode for each policy.

c. State agency payroll representatives will be responsible for entering premium deductions into the payroll system. Premium deductions shall take place once each month for coverage in the following month for those on a biweekly payroll, and the next following month for those on a monthly payroll. Each agency shall submit the total premium from that agency to the plan not later than the first calendar day of the coverage month for which that premium is due. Other premium collection schedules may be approved by the Board if there is a demonstrated need.

Payroll deduction is at the discretion of the sponsor but Prudential would need the full premium by mode for each policy.

d. **~~Approved plans will be required to hold an initial open enrollment period for a period of not less than one month nor longer than two months. During this period, any eligible employe shall be allowed to enroll in the plan. No plan will be allowed to apply underwriting standards or restrictions during this open enrollment period. Therefore, each new eligible employe shall be afforded the same opportunity to enroll provided application is made within 30 days of first becoming eligible.~~ (This provision does not apply to Long-Term Care Insurance.)**

e. Employes who do not enroll when initially eligible, may be afforded the opportunity to enroll in an open enrollment period specified by the plan or through the application of underwriting standards, provided those standards have been approved by the Board.

This is being marketed as a fully underwritten individual long-term care insurance. There is no open enrollment period with underwriting concessions.

f. **Approval by the Group Insurance Board under these guidelines authorizes a plan for premium collection through payroll deduction only; it does not**

guarantee access to all state agencies. Plans that have been approved by the Board will be expected to execute Group Master contracts with each state agency that wishes to offer the coverage to its employes. A state agency may, at its discretion, choose not to offer a plan even though that plan has received payroll deduction authorization from the Group Insurance Board.

This is being marketed as a fully underwritten individual long-term care insurance.

7. Reporting.

Each plan will be required to annually submit enrollment and utilization statistics and any other requested financial information to the Board in an agreed-upon format. This information will normally be required no later than May 1 of each year, and shall cover the previous coverage year. Failure to submit this information, may at the discretion of the Board, constitute grounds for termination of the plan's payroll deduction authorization.

We will comply.

8. Benefits.

a. **Each plan is required to submit a clear, complete, and understandable description of benefits.**

Please refer to the attached specimen policy and riders.

b. **The description of benefits must include a detailed listing of exclusions and limitations.**

Please refer to the attached specimen policy and riders.

c. **Benefits may not be changed or added to the plan during the coverage period, unless such change is necessary to comply with state or federal regulations.**

Prudential reserves the right to make changes to its product design and/or program offering on a go-forward basis. Sufficient notice of any such changes would be provided.

d. **Each plan will be required to file with the Board a detailed description of how member complaints will be resolved. In addition, each plan must specify the name and telephone number of the person who will initially receive member complaints.**

The process depends on the nature of the inquiry and its complexity. Some inquiries or complaints may be made to Senior Care Agency. If an inquiry or complaint is made to Prudential, then our objective is to acknowledge receipt of the complaint to the participant within 24 hours of receipt and to send a response addressing the complaint within five business days. If the inquiry relates to a claim, we send a letter to the participant acknowledging receipt of the claim when it is initially received, and our claims processing objective is 15 days (i.e., affirm or deny liability for the claim, or identify missing information). Both claims and complaints are monitored. All other written inquiries are acknowledged and responded to promptly.

9. Notification of significant events.

Each plan shall notify the Board of a "significant event" within thirty (30) calendar days after the plan becomes aware of it. (In the event of insolvency, the Board must be notified immediately.) As used in this provision, a "significant event" is any occurrence or anticipated occurrence which might reasonably be expected to have a material effect upon the plan's ability to meet its obligations, including, but not limited to, any of the following: disposal of major assets; lost of 15% or more of the plan's membership; termination or modification of any contract or subcontract if such termination or modification will have material effect on the plan's obligations; the imposition of, or notice of the intent to impose, a receivership, conservatorship or special regulatory monitoring; the withdrawal of, or notice of intent to withdraw, state licensing, HHS qualifications or any other status under state or federal law; default on a loan or other financial obligations; strikes, slow downs or substantial impairment of the plan's facilities used by the plan in the performance of its contract. The Board shall reserve the right, by contractual agreement, to institute action as it deems necessary to protect the interest of its employes and dependents, as the result of a "significant event."

As a publicly-traded company, state and federal securities laws prohibit, restrict, or impose certain requirements on Prudential regarding any forward-looking statements, or disclosing material non-public information, including statements regarding potential mergers or acquisitions.

10. Rate-making process.

Each plan must submit in its initial proposal, premium rates and a detailed description as to how premium rates are determined. The proposal should also include an explanation of how adverse or favorable experience will be reflected in future rates. The specific rate-making information requirements are listed as an addendum to these guidelines. This form must be completely filled out and the content may not deviate from the listed requirements. This information will be considered confidential by the Board insofar as is permitted by Wisconsin law.

The experience of this plan will be pooled with the experience of our entire book of Individual Long Term Care business for the purposes of rating/experience tracking. This plan will not be experience rated based solely on the experience of this one account since claim data and experience is not likely to be credible until many years/decades into the future.

Future premium rate adjustments shall be considered by the Board subject to the following conditions:

a. No rate change shall take effect without approval of the Board. See below

b. Rates should remain in effect a minimum of one year from date of effectiveness. See below

c. **Plans will be required to notify the Board in writing no later than 60 days prior to the meeting at which the rate change will be considered.** See below

d. **A completed rate-making information form shall accompany the notification.** See below

e. **The Board will not consider any request for rate change that does not arrive complete and within the time period specified above.** See below

f. **The Board will not approve a rate increase that it deems excessive or unreasonable.** See below

Premium rates on the Prudential LTC Evolution product have been designed, filed and approved to increase (2-3% on average) every calendar year on January 1st. This rate adjustment is for new business on a go-forward basis only.

Regarding in-force rates, policies are guaranteed renewable and Prudential reserves the right to increase rates but may do so on a class basis only and with state department of insurance authorization.

11. Fees.

Each initial proposal, will in addition to analysis by the staff of the Board, be reviewed by the Board's consulting actuary. Plans should expect that a fee will be charged for the staff and the actuary's time and expenses. <u>In addition, all actual costs of the staff and the Board's actuary in reviewing claims and premium and other relevant information concerning that plan on an on-going basis after Board authorization is granted may be charged to the insurer</u>. If the time required for this review is minimal, the Board may waive the fee.

It is not our practice to reimburse clients for their due diligence efforts. We will however provide our Actuarial Memorandum to aid in the review process.

State of Wisconsin Group Insurance Program

Information Required for

Preliminary Review of Proposal

Proposed Plan: Prudential LTC Evolution Date: September 26, 2011

Carrier: The Prudential Insurance Company of America

Summary description of proposed plan (100 words or less):

Prudential LTC Evolution was developed in response to the consumer's need for an easy-to-understand, affordable alternative to traditional long-term care insurance products. This policy is an appropriate consideration for any client who is concerned about his or her ability to remain financially secure while paying out of pocket expenses for ongoing care related to a chronic illness or disability. With just one primary policy decision, choosing a Lifetime Maximum Benefit between $100,000 and $1,000,000, Evolution makes it easy to understand the value of the product. The combination of a $1,500 per month Starter Benefit, 80% reimbursement benefit, and Home Support Services benefit of up to $10,000 gives clients the potential to receive substantial benefits in the first year after a chronic illness or disability is certified. It also provides policyholders with a measure of built-in inflation protection—since the policy always covers 80% of Actual Eligible Charges, up to the Policy Lifetime Maximum, regardless of how much costs may increase in the future.

Enrollment statistics for this plan as of 870 Evolution policies:

	Madison Area	Wisconsin	Nationwide
Number of participating groups	Although it is our policy not to provide specific names of covered employer groups or affiliations, we can disclose that year-to-date 49% of our business, based on premium, is from employer sponsored plans and affiliations.		
Employer supported			
Employe pay-all			
Number of individuals covered			
Two largest participating groups			
Group 1 - Name			
- No. of participants			
Group 2 - Name			
- No. of participants			

Five year claim experience for this plan (year 1 is most recent year): Shown below is our claim experience for our total Individual Long Term Care block of business.

	2010	2009	2008	2007	2006
Number of participants*	75,039	68,314	64,372	58,757	53,345
Annual premium income**	$173,529,409	$153,507,405	$140,809,096	$126,839,542	$112,811,084
Number of claims***	8,933	6,519	5,046	3,713	2,461
Amount of claims****	$28,008,157	$21,389,105	$15,607,968	$10,390,397	$6,644,073

* Total in-force policyholders for all products. ** Annualized premium. *** Each payment is one claim. **** Total benefits paid.

Required attachments:

- **Financial statement of carrier for last 2 years** Please see the Prudential Financial 2010 Annual Report for our most recent audited financial statements at http://www.investor.prudential.com.

- Sample adoption agreement

- Premium schedule - Attached

    - **When was it last revised?** Premium rates on the Prudential LTC Evolution product have been designed, filed and approved to increase (2-3% on average) every calendar year on January 1st. This rate adjustment is for new business on a go-forward basis only.
    - **For how long are rates guaranteed?** This policy is guaranteed renewable however there is no rate guarantee.

- **References – Name, address and telephone number of 3 largest groups in Wisconsin currently in this plan.**

  Although it is our policy not to provide specific names of covered employer groups or affiliations, We can disclose that year-to-date 49% of our business, based on premium, is from employer sponsored plans and affiliations.