COLORADO
Department of Regulatory Agencies
Division of Insurance

Bulletin No. B-4.144

Concerning Long-Term Care Reduced Benefit Options

I. Background and Purpose

Reduced benefit options (RBOs) are choices provided to long-term care policyholders regarding modifications to long-term care insurance contract at the time a policyholder is notified of a premium rate increase. The purpose of this bulletin is to provide carriers with guidance on minimum standards for Reduced Benefit Options.

Bulletins are the Division of Insurance's (Division) interpretations of existing insurance law or general statements of Division policy. Bulletins themselves establish neither binding norms nor finally determine issues or rights.

II. Applicability and Scope

This bulletin is intended for all carriers with long-term care insurance blocks of business in the state of Colorado.

III. Division Position

Long-term care insurance carriers are strongly encouraged to offer a variety of RBOs to long-term care policyholders facing premium rate increases. These options allow policyholders to offset or reduce the rate increase by reducing coverage levels.

The Division encourages insurance carriers to make available RBOs for all policy characteristics that affect a policyholder's premium level. Examples of these policy characteristics include elimination period, benefit period, inflation protection options, and daily or monthly benefit amounts. For policyholders with the minimum level of a policy characteristic, no additional RBOs for that policy characteristic are necessary.

Innovative RBOs:

In addition to the typical RBOs that reduce the policyholder's policy characteristics, any innovative RBOs are encouraged to be offered. Examples (not exclusive) of unique approaches include:

a) Converting policy to non-cancellable at the time of rate increase, thus guaranteeing in the policy that there will be no future rate increases.

b) Non-forfeiture amounts greater than minimum required amounts payable at lapse.
c) New inflation options in addition to the original inflation options offered at policy issuance. As an example, a policy with a 5% compound inflation policy could have a 4% compound inflation offer which would result in a smaller policy premium increase.
d) Landing spots. A landing spot is a lower interest rate for future coverage which offsets the entire rate increase. As an example, a landing spot for a 5% compound inflation policy could be calculated as a 3.72% compound inflation which would result in no rate increase.

SERFF Rate Filing Guidelines for offering RBOs:

- Long-term care insurance carriers should explain the proposed RBOs offered to the policyholder in the policyholder letter, actuarial memorandum and company cover letter.
- If the insurance carrier would like to offer an innovative RBO, the carrier should provide a detailed explanation of the innovative RBOs available to the policyholder in the rate filing.
- If an RBO for a particular policy characteristic cannot be offered, the carrier should indicate in the SERFF rate filing why it is not feasible.

IV. History

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