

# LTC Debate

Phantom menace or false concern: Will “phantom premium” affect long-term care insurance economics?

It seems almost passé to speak about long-term care insurers experiencing economic challenges. Most national media outlets have already covered that story. And premium rate increases—meaning the process by which long-term care insurers seek permission from state insurance departments to raise premium rates—have lost a modicum of their former shock value. That is not to suggest that rate increases are not a serious and impactful matter for insurers, policyholders and state insurance departments alike; but most long-term care insurers have experienced at least one rate increase in the past decade and the process is no longer a novelty. What remains unclear, however, is how variations in the actuarial methodology used by state insurance departments to determine the frequency and size of rate increases could affect long-term care insurance economics. The so-called “phantom premium” methodology has been one such focal point of recent debate.

The frequency and size of rate increases is tied to the relative strength or weakness of an insurer's loss ratios—meaning the ratio of claims paid by the insurer to the premium earned. Many states prescribe maximum loss ratios above which a premium rate increase must be granted by the state insurance department. Unanimity is, however, lacking as to how loss ratios should be calculated. While most states follow a lifetime loss ratio methodology—meaning an approach that considers the actual premium earned by a company—a minority of states use a future loss ratio, or phantom premium, methodology to evaluate rate increase requests. A phantom premium methodology assumes that, if a rate increase is



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granted, policyholders have been paying the increased premium rate from the inception of coverage rather than the date, often years later, on which the rate increase is actually implemented.

Insurers are quick to note that, like the apparition from which the methodology's name is derived, the phantom premium tallied by these state departments simply does not exist. As a result, insurers are assumed to have received many millions of dollars in premium they never actually received. This, they contend, gives the false impression that their loss ratios are stronger than they really are, which some insurance departments consider a justification to approve rate increases smaller than would be supported by a lifetime loss ratio methodology and far smaller than actually needed.

Insurance departments that favor the approach, by contrast, appear to embrace the notion that there is more than one way to skin a cat—meaning the lifetime loss ratio methodology favored by insurers is not the only

appropriate way to calculate loss ratios. Moreover, these states appear to believe that the phantom premium methodology is the best way to ensure that insurers are not using present rate increases to recoup past losses—a practice, they would contend, that hurts policyholders.

It is premature to draw conclusions regarding the impact of the phantom premium methodology. As discussed, the methodology is confined to a minority of states and is presently the subject of at least one noteworthy administrative challenge. Although the most recent iteration of the NAIC models appears to favor the lifetime loss ratio methodology over a phantom premium approach, most states have yet to adopt those models. And, at bottom, state departments typically have broad latitude to regulate as they deem appropriate. So, for now, the debate continues. **BR**

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