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Report on the Cost & Availability of Long-Term Care Insurance

Prescribed by the 2017 Joint Chairmen's Report
Budget Code: D80Z01

Submitted to the
Maryland General Assembly
by the
Maryland Insurance Administration

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October 01, 2017

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Committee Narrative

Long-term Care Insurance: The committees are concerned about the cost and availability of long-term care insurance and request that the Maryland Insurance Administration (MIA) report on potential inflation protection options for long-term care insurance consumers and the possible effect that the protections would have on the current market. The report should also include the feasibility of a two- or five-year moratorium on rate increases and the effect a moratorium would have on the current market.

Information Request: Long-term care insurance
Authors: MIA
Budget Code: D80Z01
2017 Joint Charimen's Report Page #: 34
Due Date: October 1, 2017

I. Consumer Inflation Protection Options & Potential Effect on the Current Market

The 2017 Joint Chairmen's Report requests that the Maryland Insurance Administration ("MIA") report on potential inflation protection options for long-term care ("LTC") insurance consumers and the possible effect that the protections would have on the current LTC market.

In general, an inflation protection benefit ensures that the daily benefit amount of an LTC insurance policy increases annually at a guaranteed inflation rate. The benefits can be tailored to a consumer's needs based on a company's product offerings, and the benefit can pay on either a compound or simple inflation basis. When inflation is compound it accrues based on the daily benefit amount at the end of the year. As an example, assuming a 5% inflation rate and a $100 original daily benefit, under compound inflation, the daily benefit would increase $5 ($100*5%) in year one, $5.25 (105*5%) in year two, etc. When inflation is simple, the daily benefit accrual rate is based on the original daily benefit amount. As an example, assuming a 5% inflation rate and a $100 original daily benefit, under simple inflation, the daily benefit amount would increase by $5, annually. Consumers find this benefit valuable because it allows for their policies to accrue benefits and helps keep pace with increasing LTC costs.

COMAR 31.14.01.12(A) currently requires that an insurer issuing a LTC insurance policy shall offer the applicant for the policy the option to purchase a policy that provides for benefit levels to increase at a rate not less than 5% annually. In addition to the mandated offering of 5% compound inflation, many companies offer lower inflation protection options, such as 2% or 3%. The chart below outlines the overall impact on the daily benefit amount, under compound inflation, as compared at three inflationary levels (2%, 3% and 5%) and assuming an initial daily benefit amount of $100.

Inflationary Level	Daily Benefit Amount After 5 Years	Daily Benefit Amount After 10 Years	Daily Benefit Amount After 20 Years
2%	$110.41	$121.90	$148.59
3%	$115.93	$134.39	$180.61
5%	$127.63	$162.89	$265.33

The daily benefit amount represents the amount of money that the LTC carrier must pay per day should a policyholder utilize their LTC benefits. As you can see, the difference between the daily benefit after twenty years between the 5% and 3% and 2% inflation levels is $84.72 and $116.74, respectively. Assuming a policyholder has a three year benefit period and files a claim after holding their policy for twenty years, the maximum liability for the LTC carrier under the 5%, 3% and 2% inflation levels is $290,536, $197,768 and $162,706, respectively.

The MIA has observed that 5% compound inflation protection accounts for a significant portion of claims paid by companies, and is a driver of the rate increases, as the annual LTC

inflation rates are usually less than 5%. As such, large rate requests are frequently sought on policies that contain the 5% compound inflation protection benefit.

The MIA encourages LTC companies to develop innovative alternatives to rate increases for consumers. As a result, some companies have developed inflation benefit reduction options (also called, "landing spots") through which consumers agree to lower or eliminate their current inflation protection benefit in exchange for totally offsetting the rate increase being sought. For example, on August 1, 2017, the MIA approved an LTC rate increase for three of John Hancock's policy forms. The MIA approved a 32.25% increase (phased-in at 15% over two years), for the Advantage and Custom Care series, and a 40.5% increase (phased-in at 12% annually over three years) for the Gold series. For those policyholders with 5% inflation protection benefit, these approved rate increases can be totally offset by reducing the inflation protection to 3.9% (Advantage), 4.3% (Custom Care) and 4.1% (Gold) on a go forward basis. This means that these consumers will keep their current premium rates with a modified inflation protection benefit. In this way, the option to modify existing inflation protection benefits has evolved into a tool for consumers to obtain alternatives to rate increases through benefit reductions.

II. Feasibility of a Two or Five Year Moratorium on Long-Term Care Rate Increases & Potential Effect on the Current Market

Although a rate moratorium of any duration would create short-term rate relief for consumers, it could inadvertently create longer-term problems for Maryland consumers.

First, a two or five year moratorium on rate increases for LTC insurance products may adversely affect a carrier's solvency (i.e., its ability to remain adequately funded to pay future consumer claims), thereby putting future consumer benefits at risk. This is particularly true for guaranteed renewable policies, which rely on premium rate increases to remain financially solvent. One recent example illustrating this concern is the case of Penn Treaty American Network Insurance Company ("Penn Treaty" and its wholly owned subsidiary, American Network Insurance Company), which was placed in rehabilitation by the Pennsylvania Insurance Commissioner in January of 2009 due to insufficiency of capital and surplus supporting LTC policies. On March 1, 2017, the Commonwealth Court of Pennsylvania issued orders placing these companies into liquidation. As a result of this insolvency, state guaranty associations have inherited a net-present value obligation to consumers of approximately $2.4 billion. Maryland's life and health guaranty association and statutory entity, the Life & Health Guaranty Corporation, has assumed the liability for approximately 900 Maryland policies. Like most states, Maryland's guaranty fund limits its liability to $300,000 per policy. Importantly, the fund generates its assets for these liabilities through assessments on specified insurance carriers. Thus, in the event of a carrier's insolvency, a rate moratorium for LTC products could result in significant assessments on other life and health carriers, some of whom don't even write LTC business.

Second, carriers subject to a rate moratorium could try to mitigate inadequate premiums during the rate moratorium by proposing larger annual rate increases after the moratorium ends. To provide an example, there is a currently pending LTC file with the MIA in which the company is requesting a 175.4% rate increase. This increase does not include any factors for profit—that is, approval of this rate request would allow the company to "break even" by bringing the projected lifetime loss ratio of this block to 100%. If a rate moratorium were placed on the LTC market, the following rate increases would have to be requested in order to obtain the same projected lifetime loss ratio in subsequent years:

Impact of Rate Increase Delay	
Years Delayed	**Required Increase**
None	175.4%
1	192.4%
2	214.5%
3	245.1%
4	287.6%
5	342.0%

As shown, the cost of delay associated with a two year rate moratorium would increase the rate request sought by approximately 39% and a five year rate moratorium would nearly double the rate request being sought. Not only would this have a negative impact on the future solvency of the carrier (as the particular rate request is being sought to ensure the carrier can afford to pay future claims, absent any profit), but this would also have a negative impact on the premiums being paid by the policyholders. Any cost of delay in implementing actuarially justified rate increases will result in higher premiums being paid by policyholders, making these policies even more cost-prohibitive in the future.

Finally, a rate moratorium of any duration could discourage carrier participation in the Maryland LTC insurance market, for fear that doing so would put the company's solvency at risk. There are approximately 23 carriers offering LTC coverage in Maryland, but only two appear to be accepting new business: Genworth and Northwestern. Should carriers determine that LTC products are not financially sustainable in Maryland due to the rate moratorium, carriers may withdraw from the Maryland market, providing fewer options for consumers seeking LTC insurance coverage in the future. This is already happening as a result of the LTC rating crisis. For example, on November 10, 2016, John Hancock announced that effective February 10, 2017, the company would discontinue sales of individual LTC insurance policies in all states.