In the Matter Of:

LONG-TERM CARE PUBLIC INFORMATIONAL HEARING

HEARING

February 11, 2019

BEFORE THE

MARYLAND INSURANCE ADMINISTRATION

LONG-TERM CARE PUBLIC INFORMATIONAL HEARING

200 Saint Paul Place, Suite 2700

Baltimore, Maryland 21202

Monday, February 11, 2019

9:00 a.m.

Job No. WDC-204018

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P R O C E E D I N G S

COMMISSIONER REDMER: All right, I've got 9:00 so we will go ahead and get started. Welcome to everybody that's here and on the phones. I'm Al Redmer of the Maryland Insurance Administration and this is our first public hearing on specific carrier rate increases for long-term care insurance market for 2019, and I appreciate you being here especially with such challenging weather conditions.

Today's hearing will focus of several rate increase requests now before the insurance administration in the individual long-term care market, these include requests from: Transamerica Life Insurance Company, proposing increases of 32.25 percent to 42.33 percent dependent upon the policy form, Genworth Life Insurance, Company proposing increases of 15 percent, and Physician Mutual Insurance Company, proposing increases of between 0 and 15 percent, again, depending on the policy form.

In the group long-term care market, these include requests from Continental Casualty Company, proposing increases of 15 percent, and Transamerica Life

Insurance Company, proposing increases of 32.25 percent.

These requests affect about 9,500 Maryland policyholders, and the goal of today's hearing is for insurance company representatives to explain their reasons for the rate increases. We will also listen to comments from consumers or other interested parties, and we're here to listen, ask questions of the carriers and consumers regarding the specific rate increase requests.

I'd like to first introduce the folks that are with me from the Insurance Administration. To my immediate left is Jeff Ji, one of our actuaries. To my immediate right is Bob Morrow, associate commissioner of Life and Health. To his right is Todd Switzer, our chief actuary, and all the way down at the end there is Adam Zimmerman, our actuary. Also from the MIA in attendance today is Michelle McCoy, assistant chief of Life and Health complaints, in the event we ever get Life and Health complaints, and the chief of Life and Health complaints, Mary Gwen. Also Tracy Imm and Joe Svodka from our communications team, as well as Nancy Muehlberger from the Office of Chief Actuary.

Before we get started, I'm just going to go over a few procedures for today. First of all, out in the little hallway there is a handout that has all of our contact information on it, please make sure to pick one up. If you'd like to speak today please sign up on the sheet and include your name and contact information.

Secondly, with the exception of the MIA team this hearing's not a Q and A session. We're going to hear comments from interested parties. We have some that have been received and reviewed in advance of the meeting, and please continue to submit any comments until next Tuesday, February the 19th. Again, the MIA will continue to keep the record open until the 19th for additional written testimony. The transcript of today's meeting as well as all written testimony submitted will be posted on the MIA's website on the long-term care page, as well as the quasi-legislation hearings page. The long-term care page can be found on the MIA website by clicking on the "long-term care" tab located under "Quick Links" section the left hand side of the home page.

As a reminder, we do have a court reporter here today to document the hearing, so when you're called to speak please state your name and affiliation clearly for the record. If you are dialing into the hearing through the conference call line please mute your phones unless you're going to speak. Obviously, please do not place us on hold, use the mute function instead. And then finally, we'll be asking the carriers to come up individually to speak regarding their rate requests.

We'll do it in alphabetical order. Afterwards any interested stakeholders or policyholders, and folks dialing in will be invited to speak. So, with that, again, I appreciate you being here, and if you don't mind, let's start with Continental Casualty company. Todd's got a few remarks. Todd, open your remarks.

MR. SWITZER: Good morning. I appreciate all of your time and look forward to benefiting from an open dialogue. I encourage everyone to voice everything on their mind. I went through a number of inquires from long-term care Maryland members. There was a good number, more than average this time. I want to bring out a few that stood out that kind of had themes to them and build on those. Last time as opening remarks I wanted to facilitate the dialogue, encourage people to talk and say everything that is going on in this market towards solutions.

I mentioned for some context that the average cost of assisted living in 2018 was $56,000 a year, just to get some tangible facts around everything that we talked about. On the customer side you can see the benefit of the benefit, the very valuable benefit to have. On the insurer's side you can see that if the estimate of how many people who require that type of care, that variance is very sensitive there, or the assumptions are, so you need coverage.

So, I'd like to also, while not giving a full view as it is, as you well know our charge is to make sure that rates are not excessive, not inadequate, not discriminatory, but to build perhaps at that each of these quarterly meetings a little window into how we implement that charge and some of the dialogue we have with carriers. So, here's a quote from one of our seniors in Maryland. I hope they are on the line. It goes like this, it was several pages.

Here's one line: What can an insurer do to prevent the rates from becoming unaffordable? Remember that an insured must pay premiums for years, is almost blocked into the policy in spite of rate increases, because we don't want to lose the investment, for which they've been paying premiums for many years. They go on to say, does the MIA consider this, what is our role and several other good points.

Another excerpt about a 12-page comment is are aggregate premiums paid by the policyholder, how are those considered? Could you please give us accurate, understandable and adequate information as to how the filings are reviewed, how are assets looked at, what are key economic assumptions? Please make it understandable in plain English, how capital investments are considered, what kind of rate of return is considered, et cetera.

So, on the one hand, as you know, we have Maryland seniors who, at one time, for example, in the '80s or so, paid $1,500 representative. In some cases it's 300 percent higher, $4,500. On the other end, you have prominent insurers that have seen financial strength ratings such as standard in cores, where the strongest rating's extremely strong. Best, where the highest rating's superior, Moody's, where the highest rating is exceptional drop three.

One -- four steps to weak, to poor, to poor and not positioned where you want a carrier to be. So, we're trying to find the balance and along those lines I have a few slides that I'd just like to try to speak to these questions or start to. Again, not an exhaustive look at what the MIA and my team intend. Adam helped a lot with these slides, we worked together, and Jeff, but to give some facts to hopefully encourage a good dialogue here. This slide up here is from a filing currently under review.

I'm going to try to use this pointer that we got for our cat, it's not working. This is kind of the life cycle of a long-term care policy or one view of it. The blue bars are enrollment and this goes from kind of the life of the policy. Their carriers are projecting out 50, 75 years, a difficult task, and you have enrollment that actually starts at 0 and it goes from the year 2002 to 2065, a long time. But there's enrollment, it starts at 0, climbs up, drops down.

But along with, obviously when the membership goes up that's when the premiums come in. So there's a build up of premium you need from other, again, other policies like health insurance where you're going year to year. But the other one I'll ask you to look at is the curve and that's the loss ratio and it's a bit technical but it's basically -- it is the percentage of the premium dollar paying claims. So, in this example the red is what was intended at the start in 2002, hit about -- the loss is 60 cents on the dollar.

This particular example has 70, but the point is in the early years the claims, as you'd expect, are very low, in some cases 0. By the policy I'd say 55 don't need claims till hopefully 60, 70, 80 and what I'm getting to -- one point of this, there's lots of points, but is when the premium builds up you can earn interest on that premium and that's something that was -- a lot of talk is made about the loss ratio, the claims and income.

But unlike, in my opinion, lots of other products this is a really important one you need to mention. So, Adam, if you would. This is bond rates, corporate bond rates, high grade, AA, AAA, and you can see that in the '80s times were good. It had 14 percent bonds rates. Today they're closer to 25-year and 5-year, we could do 10-year, others, but you get the idea. They're down around 4 or 5, and one of our commentators said do you consider this. We do, and how.

Well, one, back when claims were low, when things were building up and we know the company has to front capital to fund the program, but focusing on the premium what was earned back then, because it affects the future very much. That's one question, that, how do we consider that and I'm -- one company said, well, in the '80s we asked what did you make in 19 -- I forget the year, 10 years ago, it was about 7 percent. The other question is where are they going and this seems to indicate, I mean, you draw your own opinion, that maybe they're coming up.

I know there were some articles in the Wall Street Journal last week, two of them about bonds rallying. Don't want to be too foolish and too -- there's a lot of risk, who knows what the future will do, but are they coming up. Because just a couple of basis points increasing bonds rates, that means something. It's not the whole story but it's part of it. So, what is this translated into, again, this is abbreviated but in 2018 my team looked at 49 long-term care filings.

The average requested increase looked at two-year period, about 42 percent, and what we approved, again, two-year was 65. Yes, a lot of that was the cap, the legal 15 percent per year, but over two years 15 percent twice is about 32 percent and it could of been more, again, we're trying to find the balance. But that tries to put some numbers to a lot of the questions that more than one Maryland senior asked. To try, again, to make it a little more tangible. An average premium is $2,700.

What was requested was 38, that's 42 percent or $1,100 a year increase. What was approved was $3,100, so that's 446 increase, so $689 less. There's lots of protections in place. We're talking about trying to find more solutions. Past losses can't be recouped, but we're trying to find a proper pace of correction, we're trying to consider the financial stability of the company as part of our charge, and this is a little bit

-- had more details down there at the ranges of how those actually played out to try to, again, speak to the questions.

This tries to look -- well, it does, looks at enrollment in long-term care insurance over time and what it says is membership back in 2004, how many Marylanders had long-term care insurance, and to me it speaks to affordability. That we reached a peak in about 2012, 154,000, and it started to decline. It's just they're either letting their coverage go, they're not buying it anymore, they can't afford it, and I don't think -- I don't want to interject too much opinion, but it doesn't seem to be good for anyone.

And 21 percent of Marylanders over 65 had long-term care coverage back in 2010, today it's down to 15 percent and it seems to be headed in that kind of direction. So, again, trying to benefit for all the smart people in the room and on the phone to think about these things and to work at it. Next slide, please. Another protection for consumers, new business rates versus renewal rates. The zigzag line is for the same coverage today and the protection is you can't have your renewal rates higher than your new business rates for comparable benefits.

Through your benefit period, 5 percent compound inflation, 90-day elimination period, same age, 55. Today if you bought it new, perhaps this is a little comfort for consumers, but it does speak to value. You paid $5,600 for it but what you're actually paying as a renewing member, who bought it a long time ago, anywhere from $1,900 to $3,900 to $2,500, there's some value there. That's just one dimension but a real dimension. And on average the renewal rates or the new business rates, rather, are 111 percent higher than the renewal rates.

Bear with me on this one, but another one talked about assumptions and again, this is a filing that we are working on for the carrier, and we asked when you, on day one, price this policy what were you shooting for. If everything played out exactly the way you wanted what would have happened. And they said, well, over 75 years we're taking out a good amount of risk, our internal rate of return would of been 20 percent. We would of made 20 percent on our investment. But here we are today and the three yellow numbers are the three different -- and a question I didn't highlight but it was asked about, sensitivity tested bond rates, but if they stay where they are today at 4 and a half percent.

Well, if you, MIA, don't approve anything we will lose 10 percent, this is for 1,200 members that's what the dollars are, but I'm going to focus on the percent because the theory is more of what I'm at. The request was for a double-digit increase, the law doesn't allow that in one year but just considering that, what would that do. That would have them make 5 percent instead of 20, and what about what the 15 cap, they make -- they break even, 0.2.

So, the companies, a lot, have stepped up, taken accountability and said we're not earning -- paying to make the 20 anymore but what is the rate balance and we're having a dialogue to try to bring in everything; claims income, investment expenses. And the other thing I'll try to bring out -- I'll bring out here, if bonds are 5 percent and we approve 15 percent, the projected gain will be 4.6, positive 4.6. 5.5 would be positive 8.8. Those are pretty aggressive but just to get an idea of how much a half of point can mean.

So, my last one, I think is -- well, two more. Another aspect we look at is, you know, a lot of insurers get compound inflation protection. As the consumer price index goes up they hold steady with that to make sure their benefit doesn't lose value. The green line is 5 percent, a fair number of Marylanders have. Another thing we try to discuss with the carriers is you see the red and blue, one is for the nation, one is for Maryland, what CPI has actually been. It's been below 5 percent.

In some cases there's a little bit of over insurance, that when they go they've indexed up higher than CPI is indexed up and what does that mean when a claim is filed and, more importantly, if it isn't the 2.2 percent that it is today, at one time it was 15.9 in the '80s, what will it do in the future. But what has happened in the past is another conversation that is on the list. So, to build on what the Commissioner said, the last one before we ask Continental Casualty to come up, is yes.

In the yellow for the four carriers in here today, and two of them are among the top five in terms of volume covering Maryland seniors in the market, 9500 members are affected by today's discussion. To put that in context, the four carriers represented here today have 48,000 total long-term care, so that's about 20 percent. For Physicians Mutual it's all of them. Nationally would be 1.8 million, so Maryland, the whole picture, is kind of the scope.

In terms of column 13, the cumulative lifetime rate increase, you have anywhere from carriers having one prior rate increase to some having six prior rate increases, such that before these filings are decided upon the cumulative increases have been anywhere from 15 percent to 163 percent, and what it will be -- what it would be as filed in column 15. To my last point, column 20, even with the increase, again, just looking at claims and income, the claims page is over a dollar, you got $1 premium and paying more than $1 in claims for the lifetime of the policy. So, I hope that gives a little background and gives us a platform to the first carrier talking about the filings, thanks.

COMMISSIONER REDMER: Thank you, Todd. So, let's -- anybody have any questions for Todd?

MR. GUGIG: Just one question. I'm Michael Gugig, G-U-G-I-G for Transamerica. Todd, will these slides be available online on the Agency's page?

MR. SWITZER: Yes.

MR. GUGIG: That would be great, thank you very much.

MR. ZIMMERMAN: Is any carrier going to need this screen for their presentation?

MR. LAMONT: Good morning. Seth Lamont, CNA. My name's Seth Lamont. I currently serve as assistant vice president of government relations for CNA. I appear before you today regarding the long-term care rate filing of Continental Casualty Company, which is a principle underwriting subsidiary of CNA Financial. We are grateful for the opportunity to explain our rate need in greater detail.

As I appear before you today, CNA's rate need is not owing to factors unique to CNA, but rather erroneous assumptions that were made at the outset by the industry as a whole in our originally filed and approved rates. As most are aware, both macro-oriented assumptions as well as more micro-oriented assumptions put into place at the outset with respect to long-term care rate have proved erroneous. Actual persistency versus original expectations remains a key driver of our collective rate need going forward.

Long-term care insurance was originally priced as a lapse-supported product, which means that original premiums could be lower for the block if a portion of insured were assumed to voluntarily lapse their policies at some point in the future without every claiming benefits. In rough terms, the originally filed and approved rates across the industry in some instances assumed greater than 10 percent lapse rate, and experience has shown that lapse rates to be less than 1 percent.

This greater than expected persistency has led to dramatically increased anticipated claim costs as significantly more insureds have chosen to retain their policies than was originally contemplated and those policyholders will be around to make claims in the future. This persistency impact driver -- excuse me, this persistency impact is driven not only by fewer insured lapses, but lower than expected mortality. While this is a positive from a societal perspective, this leads to a greater rate need to support the additional future claims.

As MIA is aware, long-term care represents a substantial portion of CNA's overall business. As of 2017, the LTC book accounted for approximately 40 percent of the company's total reserves. The fact that LTC reserves comprise such a substantial portion of the company's total reserves is reflective of the long-tailed nature of this business and serves to highlight the fact that rate increases are vital to meeting future insured obligations. While the reasons for our rate need are not necessarily unique, we respectfully request that MIA and insured alike recognize that these increases are vital to ensuring that adequate reserves are available in order to pay for future benefits.

Nationally, CNA has approximately 185,000 group insureds who remit roughly 200 million in aggregate premium on an annualized basis. In Maryland, we have approximately 1,800 insureds in our GLTC block for a premium, an aggregate premium of approximately 2 million. Following the initiation of our group rate action in 2015, which requested a 95.5 percent increase nationwide, we have attained a national average increase of 65 percent. Which has resulted in an average annual premium of approximately $1,100.

As a part of this rate increase program, we have received 15 percent of rate relief from MIA to date, ranking Maryland 39th nationwide. As a part of the filing process and at the request of the Maryland Insurance Administration, we have reduced our rate request from the original nationwide 95.5 percent, downward of 15 percent to comply with state statues, which would result in an aggregate average increase of $17 per month for Maryland insureds. This amount is far less than achieved nationwide to date.

Given the substantial difference between rate indications in the 100 percent range and the current MIA offer of 5 percent, Maryland insureds will ultimately pay more for their coverage in subsequent rate requests due to the cost of waiting over time. Compared with nationwide, Maryland insureds have substantially richer benefits largely attributable to the concentration of insureds with automatic inflation protection, which increases benefits at 5 percent per year. Approximately one-third of Marylanders in the group long-term care block enjoy this benefit compared with just 13 percent of insureds nationwide.

Based on this, although not fully credible, if the rate indication were based on Maryland experience and projections alone, the rate indication would be greater than the nationwide rate indication. Given the substantially richer benefits enjoyed by a number a Maryland insureds, it is reasonable to conclude that Maryland insureds enjoy substantially greater benefits for a relatively modest amount of additional premium. Lastly, it's noted that any reserves -- any reserves releases associated with an insured lapse are put back into the overall reserve for the benefit of remaining insureds.

We have said on a number of occasions, CNA is committed to meeting insured obligations. Our primary focus in this regard is maintaining adequate reserving levels in order to meet insured obligations. We have also made significant investments in our long-term care claim operations to manage this significant risk and improve the overall customer experience.

Despite the fact that CNA's long-term care business is comprised solely of closed blocks, we continue to actively manage the business to ensure that claims are processed in an appropriate and timely manner. To reiterate, the Company's goal with respect to this rate request is to ensure that we have adequate premium to fund reserves, which are ultimately used to pay future claims.

The relatively lower attained age in CNA's group long-term care block represents a significant opportunity for the company to amass additional reserves for the purpose of meeting future claim obligations. By contrast, with older blocks of business it should be noted that with an average attained age of 64, compared with 79 for our individual long-term care block, many group long-term care insureds are in the workforce and in a position to pay the additional $17 per month with a 15 percent increase for the significant benefits associated with their certificates.

Given that we're in the life cycle of the group business we -- given where we are in the life cycle of the group business we desire to partner with regulators, including the Maryland Insurance Administration, in taking corrective action now allow the future time horizon to compound the reserves, which necessarily allows the company to request lower rate increases in the future versus what we would require otherwise if rate relief were deferred. The later in time insureds pay these increases the greater the magnitude of the overall increase. Simply put, if the MIA offers less now Maryland insureds may ultimately end up paying more nationwide -- more than nationwide due to the cost of waiting associated with deferring corrective action.

Benefit reduction options available to our insureds -- excuse me. Benefit reduction options are available to our insureds to mitigate the impact of the proposed rate increase. Those include reducing the maximum benefit period, reducing the daily benefit, increasing the elimination period, and/or dropping any other optional rider, such as automatic inflation.

For instance, insureds should be aware that under the automatic inflation rider, their benefits inflated at 5 percent per annum for the life of the policy. They may find, in their judgement, that their benefits are currently sufficiently inflated. If insureds with automatic inflation riders were to elect to drop their riders, the insured would enjoy substantial decrease in premium from their current premium levels and maintain -- all the while maintaining their currently inflated benefits.

In addition to the aforementioned options, CNA also offers our insureds the opportunity to discontinue paying premiums while maintaining a lifetime benefit amount equivalent to the nominal sum of their lifetime premiums paid to date. Known to the experts in the room as the contingent non-forfeiture option, this is being offered to all insureds regardless of issue age or rate increase amount. Thereby, going above and beyond what was outlined in the NAIC model bulletin.

As noted, long-term care is significant to CNA from an enterprise perspective with 40 of our total reserves being devoted to these anticipated liabilities. The company remains committed to meeting insured obligations from both a financial and operational perspective. Our group long-term care block is significantly younger than most individual blocks with an average age in the mid-60s. By correcting this mispricing of the business earlier in the product life cycle, the rate indications are less than they would be if the rate increase were delayed.

The compounding effect of taking corrective action now can help position the business for financial sustainability. Insureds are being offered a number of options to reduce their benefits in order to mitigate the impact of the proposed premium increase. CNA's current experience is not unique, but rather on par with that of our peers in terms of the challenges resulting especially from the originally filed and approved rates and lapse assumptions. Despite significant upward adjustments in long-term care premiums in recent years the rate of terminations remains extraordinarily low, which indicates that insureds recognize the substantial value inherent in retaining their coverage. Thank you for your time today.

COMMISSIONER REDMER: Seth, thank you. I

appreciate that. I know that you have addressed this but for the other carriers that are going to speak, I'd like you to mention whether you are still accepting new business and if you're accepting new business in Maryland as well. The only question I have for you, Seth, is you are offering these, I'll call them landing spots for folks to reduce or change coverage to avoid increases. To what extent do folks exercise those options?

MR. LAMONT: It varies from book to book. I'd say it's probably in the 5 to 10 percent range.

COMMISSIONER REDMER: Okay.

MR. LAMONT: Generally. I'm not prepared to comment on exactly what it would be for each individual line, but in the 5 to 10 percent range.

COMMISSIONER REDMER: Sure. Thank you. Any questions for Seth?

MR. SWITZER: Also thank you. So, you mentioned that the company is pursing 95.5 percent increase nationwide, 65 percent so far outside of Maryland, 15 percent Maryland. On the investment side of things, going back to some things that I was thinking about and bringing up, even if evidence was convincing that investment vehicles were yielding a better return in the next 5, 10, 20 years, would the company consider all other factors being equal reducing that 95.5, again, in light of investment returns if there is -- the company was convinced that those could be better than expected?

MR. LAMONT: To the extent that, you know, the assumptions were changed I think that might be a reasonable tact for us to take, you know, to compare our investment mix. I don't want to get too heavily into details with, you know, what you presented in terms of corporate bonds. My understanding is that we're fairly heavily invested in municipal bonds, which I imagine are a bit safer. You know, just my opinion, not particularly a statement on behalf of the company, so I think the Maryland Insurance Administration should consider the, you know, the company's present investment mix rather than just general returns in the market, because, you know, these are long-term commitments.

MR. SWITZER: Right, I didn't mean to suggest -- this was one example, a case study, so it's not an exhaustive presentation of our considerations. Thank you.

MR. LAMONT: Thanks.

MR. JI: My question is without the future assumption change, you disclose a schedule of the future rate increase and then how do you determine that schedule?

MR. LAMONT: The schedule of future rate increase?

MR. JI: Yes.

MR. LAMONT: I wouldn't say that that's top of mind for me but, I mean, in terms of the schedule of future rates increases, I think it's offset by, you know, the relief we've been given to date. That's about as deeply as I can go into that.

MR. JI: Okay. Thank you.

MR. MORROW: You mentioned there's an assumption for a 10 percent lapse on these policies and we typically have companies mention they've got a 5 percent lapse that's been assumed. Just wondering what's different about these policies that there was a 10 percent lapse assumed?

MR. LAMONT: Yeah, the 10 percent figure is just a general comment for the industry, not for this particular product. I think, you know, the ratio by and large is more like 4 or 5 percent assumption to 1, but some were as high as 10 percent, is my understanding. It's more of a general comment.

MR. MORROW: Okay. So, the assumption on these policies was not 10 percent?

MR. LAMONT: Correct.

MR. MORROW: Closer to 5?

MR. LAMONT: Yes.

MR. MARROW: Okay. Thank you.

COMMISSIONER REDMER: Anybody else? All right, Seth, thank you.

MR. LAMONT: Thanks.

COMMISSIONER REDMER: Let's go to Genworth.

MR. SCARPA: Morning, my name is Joe Scarpa. I'm a vice president in. Genworth's long-term care closed block business unit. I'm joined by Jamala Arland, I'll introduce further in a few minutes. But, first, Commissioner Redmer, I want to thank you and the Maryland Insurance Administration for holding today's hearing and providing Genworth and our policyholders a forum to discuss our long-term care insurance policies. I'd also like to thank all the policyholders who are either present or on the phone this morning for your interest and participation today.

As some background, Genworth has been selling long-term care insurance to the State of Maryland since 1978. We currently provide coverage for more than 30,000 Maryland residents and approximately 1.1 million policyholders nationwide. Commissioner Redmer, to answer your question, we're currently accepting new business in Maryland and most other states. We are here today to speak specifically about our current long-term care premium rate increase filing which is pending with the Maryland Insurance Administration.

We understand how difficult premium increases are for our policyholders so we welcome this opportunity to provide information that explains why rate increases are needed. We also want to discuss the various options we offer our policyholders, including our staple premium option, and the ways we assist them to make informed choices about their specific long-term care insurance needs. As I mentioned, I'm joined today by Jamala

Arland, the actuary leader for Genworth's long-term care closed block enforced pricing who will provide some basic information about our current premium rate filing. Jamala.

MS. ARLAND: Thank you, Joe. Good morning to the Maryland Insurance Administration and policyholders present and on the phone. My name is Jamala Arland and I'm a vice president responsible for Genworth's long-term care closed block enforced pricing. I'm also an actuary in good standing with the Society of Actuaries and the American Academy of Actuaries. Genworth is currently seeking a rate increase of 15 percent, the maximum annual increases permitted in the State of Maryland, for one of our policy forms in the Privileged Choice Select series.

The policy form number is 7035. This policy form was available for purchase in Maryland between April 2002 and October 2005. This rate increase will impact approximately 5,400 policies in Maryland. This policy form has received four prior rate increases of similar magnitude. When Genworth priced this long-term care insurance policy form we utilized professional actuarial judgement in developing assumptions that looked as long into the future as 60 years. Genworth employs our best efforts to complete a thorough professional assessment at the time of original pricing and as we evaluate the blocks on an ongoing basis.

As experience emerges over time we continue to refine our experience data analysis to inform our assumption setting. The need for rate increases is primarily driven by claims that are projected to be higher than expected based on our current experience and assumptions compounded by policy persistency rates that have been higher than expected. The first assumption where we see experience emerge after policy pricing is persistency and you can think of this as how many policyholders will keep their policy in force. Persistency includes consideration for mortality, so how long policyholders will live, and last, which is how many policyholders will decide to terminate their coverage before they use or exhaust their benefits.

We see persistency begin to emerge in the first year of the policy and voluntary lapse rates generally reach an ultimate level by duration 10. As the block ages the second assumption where we see experience emerge is morbidity, and you can think of this as how people age and the condition of their health as their age. There are two components of morbidity, the incidents, which is the likelihood of a policyholder having an eligible long-term care event and going on claim and severity, which is how much the claim will cost and how long it will last.

The incidents experience begins to emerge when policy claims start which generally takes 10 to 20 policy durations from issue. Severity assumptions -- severity experience begins to emerge as policy claims terminate, which make experience on claim termination rates take longer to emerge than any other of the actuarial assumptions. It should be noted that in addition to conducting regular experience reviews Genworth developed a multi-year rate action plan in 2014 which continues to be the supportable basis of prior approved rate actions, this current pending rate action, and future expected rate actions on this policy form.

This objective of this multi-year rate action plan is to get closer to a break even point. Genworth will not make money on these policies. As such we are taking a significant share in the cost of the deteriorating claim experience. We believe that achievement of this multi-year rate action plan will allow us to continue to serve our policyholders well into the future. While we are currently seeking a premium rate increase of 15 percent on this block of insurance, which is the maximum annual increase permitted in Maryland, our current projected claims experience actually justifies a greater increase. As a result we expect that we will be requesting additional rate increases on these policies in the future.

MR. SCARPA: Thank you, Jamala. We understand that premium increases are a tremendous burden for our policyholders. We know this because we talk to our customers every day. In fact, more than 230,000 policyholders have called us to discuss their rate increases over the last 2 years. At Genworth, we have a dedicated team of over 45 specially trained customer service representatives whose sole purpose is to take calls related to rate premium increases. In fact, our customer service center was recently awarded the Contact

Center of the Year in 2018 and has received world class customer experience certifications for the last several years from SQM, a leading customer experience benchmarking firm.

Our customer service representatives are ready and willing to help each policyholder understand their options so he or she can determine the best course of action for their individual situation. The vast majority of those conversations lead to options where the long-term care policy remains in place. We also have a website that permits policyholders to learn more about their options and we have a web-based tool that financial advisors can utilize to access information and to help them explain options to their clients, our policyholders.

When faced with a premium increase we continue to offer policyholders a variety of options. Our policyholders can choose to pay the full amount of the premium increase and maintain their current level of protection or they can make custom benefit adjustments in lieu of paying higher premiums to find the right balance of affordability and protection for their individual situation.

Mr. Switzer, you read into comments, a comment from a policyholder along the lines of, what can insurers do to help balance affordability and protection. Well, one of the ways we try to do that is by allowing these -- offering these custom benefit adjustments, but in addition to that one of the things policyholders can do is elect our Stable Premium option, which was previously approved by the Maryland Insurance Administration.

This option is designed to have a reduced but still meaningful set of benefits that mitigates the impact of current planned and future premium increases, and provides the stability of a premium rate guarantee until at least 2028. We spent a lot of time and effort in designing and developing this alternative. Conducted a lot of research to try and understand what's a meaningful set of benefits in terms of cost of care that would help mitigate the impact of rate increases and also provide a, you know, a meaningful option for policyholders.

So, we do understand the challenges of

affordability and protection, trying to balance that from a policyholder perspective. We also understand full well the financial challenge that you referred to as a carrier on our long-term care insurance policies and we're really working hard to try and find the right balance alternatives, and as Jamala mentioned, sharing in the cost of deteriorating claim experience. Finally, for policyholders who can no longer afford or want to pay any future premiums at all, in addition to the regulatory required contingent non-forfeiture option, we also voluntarily offer a non-forfeiture option called the Optional Limited Benefit that equals a paid-up policy.

With this option if the policyholder becomes claim eligible Genworth will reimburse eligible expenses up to the amount of premium paid by the policyholder minus any claims that we previously paid. In addition, he or she would still have access to the care coordination services that our company provides. From our overall nationwide experience on the rate increases that we have implemented since 2012 we have seen over 75 percent of our policyholders choose to pay higher premiums.

Which suggest that they recognize the value of the coverage of a long-term care insurance policy. So, as we conclude our remarks today we hope that our comments have demonstrated how we actively manage our business to try to ensure that we will be here for our policyholders when they need us most, to make sure that we're available to provide the answers that they need and to pay eligible claims if and when those needs should arise.

To date through 2018, Genworth has paid over 18 billion dollars on almost 280,000 claims to our policyholders for eligible long-term care benefits. We remain committed to working with the Maryland Insurance Administration to implement actuarially justified rate increases in a reasonable and responsible manner keeping in mind policyholder interests and concerns. Commissioner Redmer, we appreciate the opportunity to participate in today's hearing. We'd be happy to answer any questions from you or members of your staff.

COMMISSIONER REDMER: Joe, Jamala, thank you for being here, I appreciate it. I just have a couple of questions. Jamala, you mentioned that without the 15 percent cap you would of sought a much larger increase. What increase would you have sought do you think without the cap?

MS. ARLAND: So, in terms of our multi-year rate action plan for this policy series, 7035, we've broken it into three rounds. The first round starting in 2017, the second round in 2020, and a third round in 2023, and our objective there is to try to balance both the cost of waiting but also the impact to policyholders. The first round, the 2017 round, is a 72 percent rate increase for lifetime policyholders and a 55 percent rate increase to policyholders with limited benefit periods, and Maryland specifically, the original filing that we had submitted -- I'm sorry, the rate increase for lifetime policyholders was 57 percent and for policyholders with limited benefit periods 35 percent, but we adjusted that to 15 percent at the request of the Department consistent with the regulation.

COMMISSIONER REDMER: Thank you. I know that anecdotally most carriers do an excellent job working with clients once they go on claim and trying to manage the care and expenses. I'm interested in is Genworth doing anything proactive with folks that have not gone on claim? Do you try to anticipate or identify those folks whose health has deteriorated somewhat and try to manage it before they actually go on claim?

MR. SCARPA: So, we don't have direct access to individual policyholder health status or any of that kind of stuff, right. We are starting to look at ways to just try and provide opportunities that would provide better outcomes for both policyholders as well as Genworth. So, we are piloting a few things. I think it's probably premature for us to talk about those, but we're piloting a few things in that area but we're starting to think about that.

COMMISSIONER REDMER: All right, thank you. And, lastly, the voluntary options that you do offer, I appreciate you doing that for Maryland citizens and I'm curious, similar to my question to CNA, to what extent are these stable premium options taken advantage of?

MR. SCARPA: Yes, so the stable premium option specifically was filed in the filing right before the one that's currently pending and recently approved in the fall. We actually don't have any experience on that yet. We're just starting to implement that, that premium increase, because of some things that needed to get implemented on our sides and changes we had to make to the non-forfeiture endorsement that you guys requested, so we don't have any specific experience with that one yet at least in the State of Maryland.

We are -- and it's fairly early on in other states as well -- we are seeing people elect it but we don't have enough data yet, I don't think, to really quote election rates. I can say that overall, you know, probably about, you know, somewhere in the order of 12, 15ish percent and, again, it varies by policyholder form, choose to adjust their benefits in some shape or form. Mid to high single digits elect one of the non-forfeiture options and the remainder paid full rate increase.

COMMISSIONER REDMER: Okay. Thank you. Questions? Todd.

MR. SWITZER: I'd like to add my thanks and thank you for being open to new business in Maryland. You mentioned that Genworth will break even, not make any money on this business, is that inconclusive of investment income?

MS. ARLAND: So, when we think about investment income in the consideration of the rate increase options, one of the complications when we're looking at a particular policy form is that Genworth specifically, and I believe most insurance carriers managing investment portfolios usually at a legal entity level, sometimes there's individual portfolios for specific products, product series or product blocks, but not at a product level.

So, in terms of attributing particular assets or particular investment income to a particular block or a policy series of insurance is extremely difficult to do. We do use sensitivity analysis looking at different rate levels and we also consider the regulations in terms of the interest rates for discounting that are either required by rate stability and kind of how the rate stability provisions kind of are translated to abrachial blocks, which this block is with the 2014 NAC model regulation.

So, kind of considering what was the rate that we had assumed in the original pricing relative to the rate that we used for discounting in the request for rate increases, and even if we do an analysis, you know, with different levels of rate increases we haven't come across a scenario considering historical investment performance where investment yields would result in a break even scenario for this block. So, we do consider historical investment returns and also potential sensitivities for the future, but we do not expect interest rates to be a lever that would lead to this block being beyond break even.

MR. SWITZER: Thank you. One question about the China Oceanwide merger, I've tried to keep up with reading the articles and on the proceedings there, so I may not have covered everything I read in an article last week. But my question is in looking at the Securities and Exchange, you mentioned some of the forms, the form 10A back in November of '17. There was a statement that China Oceanwide has no future obligation and has expressed no intention to contribute additional capital to support our legacy long-term care benefits. I understand from the last article that the purchase price of 1.5 billion with the first installment of 500 million, I understand, on March 31st of this year. Is the statement that I just read, has anything changed with that, am I up to date?

MR. SCARPA: So, maybe just to try to explain a little further and clarify. So, the actual purchase price is, I believe it's $5.44 a share, which I think is a little over 2 billion dollars that China Oceanwide would pay to shareholders for buying the company. In addition to the purchase price, China Oceanwide has committed to provide an additional 1.5 billion of capital.

So, that 1.5 billion that you mentioned is additional capital beyond the purchase price that they're going to provide over the next couple of years. But your statement is accurate in terms of we have committed to -- we've pledged 175 million of capital that would go directly into the Genworth Life Insurance Company upon completion of the Oceanwide transaction, but beyond we expect the -- our U.S. life insurance business to rely on its consolidated statutory capital as it exists today, prudent management of our enforce blocks, and actuarially justified rate increases to pay future claims. The other, probably, point I would raise is that we do have about 1.5 billion dollars of debt that will be maturing over the next three years.

MR. SWITZER: Thanks.

COMMISSIONER REDMER: I'm sorry, Joe. Can you go through that again? I heard 1.5 billion and then I heard 175 billion.

MR. SCARPA: Yeah, so China Oceanwide will be contributing 1.5 billion dollars of capital to Genworth. Genworth has about 1.5 billion dollars of debt that will be maturing over the next two to three years. Genworth has pledged 175 million of capital specifically into the Genworth Life Insurance Company.

COMMISSIONER REDMER: So the end result is we take care of the debt and we add 175 million?

MR. SCARPA: Yes.

COMMISSIONER REDMER: Got it. Any other questions? All right, thank you.

MR. SCARPA: Thank you.

COMMISSIONER REDMER: And if we go to Physicians Mutual.

MR. LEHMAN: My name is Mark Lehman, assistant vice president and actuary in charge of the management of Physicians Mutual Insurance Company's long-term care business. I want to start off by apologizing for not being able to make it there in person. It was my intention to be there and we ran into some flight cancellations yesterday that forced us to make a testimony through the phone, so I apologize for that.

COMMISSIONER REDMER: Understood.

MR. LEHMAN: I would like to thank Commissioner Redmer for the opportunity to discuss our long-term care filings currently pending with the Maryland Insurance Administration. I was extended the same offer a year ago and I was happy to attend and discuss the long-term care filings that were pending at that time. At last year's hearing I mentioned that without Maryland's 15 percent regulatory cap Physicians Mutual would have requested rate increases averaging 92 percent taken over multiple years.

I almost mentioned in an effort to achieve equitable rates nationwide Physicians Mutual would continue to request long-term care rate increases until

Maryland premium rates became equitable in relation to premium rates in other states. The currently pending filings represent Physicians Mutual continuing efforts to achieve equitable rates in Maryland. Physicians Mutual's sold long-term care insurance in the State of Maryland from 1999 to 2007 and currently provides coverage for just over 250 Maryland policyholders.

Physicians Mutual exceeded the long-term care sales nationally at the end of 2012 and currently provides coverage for over 24,000 policyholders. The need for the rate increase is continued to be driven by four key assumptions that despite being based on actual findings and data available at the time have not materialized commensurate with the policy forms as original pricing assumptions. The four key assumptions are morbidity, mortality, lapse rates, and interest rates.

Morbidity rates have been higher than what were originally priced into the products primarily as a result of policyholders remaining on claim status for a longer time period than what was originally assumed. Mortality rates have been lower than what were original priced into the products. The result for long-term care insurance is that more policyholders are living longer and filing more claims which in turn drives the aggregate claims expense even higher. As more and more policyholders have recognized the value that they have received with their long-term care policy lapse rates have continued to decline.

While it is a good thing that more people have more -- have long-term care coverage it has served to drive claims expense higher in the aggregate. Finally, the length and period of sustained low interest rate has played a role in the underperformance of the company's long-term care block of business. Physicians Mutual is requesting rate increases in Maryland that average between 0 and 15 percent across the company's three pending filings. These rate requests take into account Maryland's 15 percent cap on long-term care rate increase requests.

Without the regulated cap the rate increase request in Maryland would have averaged 83 percent taken over multiple years. Physicians Mutual believes it is important to be transparent with our policyholders and to inform them of the total rate increases needed to ensure that funds are available to pay claims. This is the approach we have taken in states that do not have a regulated cap on long-term care rate increase requests. This approach allows the company to provide clarity to the policyholders on the ultimate cost of their long-term care coverage giving them the information needed to make the best decisions going forward for their individuals situations.

Because Maryland has the 15 percent cap on long-term care rate increase filings Physicians Mutual anticipates filing for rate increases until the premium rates in Maryland are equitable relative to premium rates in other states. It is significant to note that the rate increases Physicians Mutual is targeting across the entire block of long-term care business are not as leveled that generate any profit to the company, but simply trying to move premium revenue to a level that allows the company to continue to pay policyholder claims.

All of the expenses associated with supporting our long-term care business are being absorbed by the company and no profits are expected to be generated from our long-term care block of business. We feel that even with this rate increase our long-term care policies provide a great benefit to our policyholders. Our experience shows that around 85 percent of our customers have chosen to pay the premium increases rather than altering their benefits. We do understand that rate increases may put a burden on some of our policyholders.

To assist with this Physicians Mutual has several benefit reduction options available to enable policyholders to maintain the premium expense at or near current levels. Benefit reduction options include reducing monthly benefit amounts, reducing the length of benefit periods, increasing the length of elimination periods, removing attached writers or in combination of any of these options. For policyholders who feel that they no longer are -- or no longer need or no longer can afford long-term care insurance a non-forfeiture option is provided.

This non-forfeiture option represents a paid-up policy with benefits equal to the total premium value paid by the policyholder. To assist our policyholders in making the best decision given their individual circumstances, Physicians Mutual has established a dedicated long-term care customer service team to answer any questions our policyholders may have and to review possible alternatives. Our rate notification letter encourages our policyholders to call and discuss their options with our long-term care customer service team. Again, I want to thank the Maryland Insurance Administration for providing the opportunity to participate in the hearing today and I'd be happy to take any questions you or your staff may have.

COMMISSIONER REDMER: Mark, thank you, I appreciate it. I do not have any questions. Todd?

MR. SWITZER: Just one. Thank you, also. I noticed with two of the filings with us one is for 10 Maryland members, then there is for 12 Maryland members. Would considerations be given just to a de minimis level once a pool has gotten so small that the additional dollars that are generated from the revenue, even over multiple years, are relatively small, is a de minimis level of membership considered?

MR. LEHMAN: Yes, that's a great question. Over the last few years we've tried to treat every policyholder equally and file a similar rate increase regardless of the size of the policyholders in each filing. Over the last year or two we've begun to discuss whether filings for certain levels of policyholders continue to provide the value needed and I would anticipate for the two filings that you're mentioning we will not file for future rate increases after response from Maryland on the currently pending filings.

MR. SWITZER: Thank you.

MR. JI: This is Jeff. I would like to know your assumptions, say, how do you -- since you don't have credible data in Maryland, how do you set up assumptions for Marylanders?

MR. LEHMAN: Sure, so the rate increase requests that we file is based on nationwide information and even that for our company is not fully credible, so to supplement our own experience we've contracted with Miliman on the morbidity assumption to get a larger data pool for those assumptions. We've also contracted with them to help out with the mortality assumptions as well.

With that being said, we do have a lot of analysis around those assumptions, actual to expected assumptions and that type of something, and we have seen that the morbidity assumptions and the mortality assumptions that were provided from Miliman has matched up very well with our own company experience and those are the assumptions that we used in the Maryland projections.

MR. JI: Thank you.

COMMISSIONER REDMER: All right. Mark, that's it, I appreciate it. Thank you very much.

MR. LEHMAN: All right, thank you.

COMMISSIONER REDMER: And, last, certainly not least, we will move on to Transamerica.

MR. GUGIG: Thank you, Commissioner, very much, and thank you to the MIA staff as well. My name is Mike Gugig. I am Transamerica's vice president of state government relations and associate general counsel. On the phone with me are two of my colleagues who are my back up in the event that you ask me hard mathematical questions. Brad Rokosh, who is our lead LTC actuary, and Kevin Kang, who is another one of our LTC actuaries who took point on these filings. Brad and Kevin, can you hear me and can we hear you?

MR. ROKOSH: I'm here, Mike.

MR. KANG: Kevin's here too.

MR. GUGIG: Perfect, thank you guys.

COMMISSIONER REDMER: Michael looks much more relieved.

MR. GUGIG: Indeed. We do thank the MIA for inviting us to participate in this hearing. We agree with you, Commissioner, as you've said in the past and as Todd mentioned this morning, transparency with our customers is paramount and we believe that hearings like this serve that purpose very well. Todd, quick comment on your initial introduction, thank you for doing that. I thought that a detailed and objective discussion of what brought us to where we are right now sort of in long-term care on an aggregate basis was very important, it's very enlightening not only for MIA staff and others sitting in the room, but for our policyholders more generally who may be listening on the phone which is one of the reasons I asked whether that deck would be put on the website. So, thank you for that very much.

Sales of long-term care insurance and,

Commissioner, this goes to one of the questions that you asked earlier, sales of long-term care insurance over the past decade, I think plummeted is a fair word to use. And that is not good for current policyholders, for future policyholders, for states, for regulators or for insurance companies, and to that end Transamerica is one of several long-term care insurers that has been out there trying to develop innovative new ways to solve or help solve what I think we all can view as a forthcoming long-term care -- I'm not sure if crisis is the right word, but it's the word I'll use right now.

At the end of the day if we don't find a private solution it seems to me that Medicaid will be the last resort and that will significantly impact state budgets. So, to that end we are working to innovate, we are working with our trade associations to try and figure out what legislative changes might be necessary to be able to be more innovative with long-term care products. We are working with think tanks in Washington D.C. to see, you know, what law changes or policy changes might be available on the federal side.

As you know, the IRS and its tax govern much of what we can offer on long-term care policies so we're taking a hard look at that. One of the reasons we're doing that, Commissioner, and to answer directly your question, we are still in this business. We sell in Maryland and almost all other states, and we continue, and that is both in the stand-alone world of long-term care and in the hybrid space. We've been doing business in Maryland in the long-term care field since the late '80s and we have over 2,800 policyholders outstanding in Maryland as of the end of 2018.

And, again, we are one of the very few companies that remains in this marketplace. We've got four filings before the MIA presently all written by Transamerica Life Insurance Company. We are here on a round two for our legacy products. There are 705 policies in Maryland. We are requesting 53 percent but targeting two 15 percent increases so that we would be able to offer landing spots. The second group is Transamerica Life NEA, which is National Education Association.

This is also a round two filing there. There are 463 Maryland policies. We are requesting again 53 percent but again targeting two 15 percent approvals so we would be able to offer a landing spot. Transamerica Uni was issued a bit later than those older policies, this is round two for that block. We have 210 Maryland policies in force. We are requesting 48 percent but again targeting two 15s so we can offer the landing spot.

And, finally, we had a filing with the Interstate Compact on a block of forms, there were 260 Maryland policies affected by that filing. We have re-filed here given the rules of the compact we requested 42.33 in that filing but, again, given Maryland's law two times 15, so that we can offer a landing spot, is what we're talking. While it may seem a long time since many of our policyholders bought these policies back in the '90s when this business was started.

At that time, the long-term care insurance industry was in its infancy. It was very limited in data, in fact, there was virtually no long-term care specific data on which to make initial pricing assumptions. Companies and consultants worked to try to determine best estimate assumptions from all the data available to price the product at that time that would give us the best starting place for a guaranteed renewable policy form all those number of years ago. Today the story is different.

We have data into later and later durations along with more regular experience studies which taken together, increase our confidence in what we're asking for here. At Transamerica we perform experience studies on an annual basis covering mortality, lapses, and morbidity, three of the more significant driving factors. Our observation over the years, much like our peers in the industry, has been more people are living to older ages where long-term care claims are more common and longer claims than was originally anticipated, meaning they stay on claim longer than originally anticipated.

Transamerica is committed to providing our policyholders with benefits -- I'm sorry, alternatives to rate increases where possible. We know the value of these policies. Our policyholders not only let us know that when they call for claim time but they also let us know that by their actions in terms of how many people across the country generally pay the full long-term care rate increase. And, generally, we are at about 85ish percent nationally that pay the full increase comparable to -- I think it was Genworth that said this, about 10 to 12 percent takes some form of benefit reduction, and then the balance take a non-forfeiture.

We are committed, as I noted, to providing our policyholders with alternatives to rate increases where possible. As an example, the landing stops that I mentioned if we are able to get to two 15s on each of the filings, we would be able to offer that. Basically, that would allow policyholders with certain benefit inflation options to reduce the future growth of their benefit. So they lock in where they are today but would grow at a slower rate, and that would enable them to avoid the entirety of this rate increase if they were to accept it.

If policyholders choose to discontinue their policies, on most policy forms we are offering a non-forfeiture benefit that is equal to the amount of premiums paid over the years. The one block that went to the compact is called Transcare 2, we underwent a thorough review of our rate increase request with the Interstate Compact. I believe that our -- or the review that the Compact did on our filing was the second that they have done over the years. So, the filing was extremely well-vetted. From a review an advisory report was issued by the Compact stating that Transamerica had demonstrated compliance with the rate filing standards and that our requested increase amount of 42.33 percent is within the range supported by the documentation.

42.33 is our requested rate increase with the Compact but the Compact also tested an alternative method called the "perspective present value method" to determine if that came out with a different number and there they came up with an increase of 37.47 percent. The Compact commented that they could not say which was the more appropriate number, the 42.33 or the 37.47, but that our documentation certainly supports an increase in that range. While we fully understand inconvenience or potential challenges these rate increases can create for our policyholders, our primary concern for Transamerica and the entire industry, I would think, is that we have the premium flow both now and in the future to allow us to fulfill our promises to our customers and pay every qualified claim that we receive.

We believe in clear communications to our policyholder, describing why we need the rate increase. We also provide flexibility and options necessary for people who might not be able to afford the increased rate. I will note not only do we offer the landing spot but certainly all of the other reduced benefit triggers would be available as well. So, as others had pointed out, a decreased benefit period, a decreased daily amount, an extended deductible period. All of those levers can be pulled depending on what's in the client's interest from his or her point of view.

When we get a rate increase approval we send out several documents to our policyholders. One of them is a cover letter trying to explain it. Another is a set of frequently asked questions, and we also provide a quote sheet which, sort of in a check box fashion, would allow policyholders to review what might be available to them and make a decision in a relatively straightforward and simple fashion. The other thing that we do, and we too have a dedicated team of customer service reps specifically trained on long-term care rate increases, but we also have a rather robust website, and on that website not only can our policyholders find general information about rate increases but they can actually find specific information relating to their policies.

They can compare the benefits that they have or that they are thinking about obtaining to the cost of care where they live. They can actually toggle back and forth and try various different benefit reduction alternatives to see if any of those might be better or worse for them. It allows for our policyholders or very frequently the children, the adult children of our policyholders to make an appointment so that one of our customer service reps can call them at a time that is convenient for them. And, again, I will thank the MIA, I will thank our policyholders for holding this hearing and participating in this hearing. We are grateful for it and we remain available to answer any questions you might have.

COMMISSIONER REDMER: Thank you, Mike, I appreciate it very much. Any questions for Mike?

MR. SWITZER: Thank you, Mike. Thank you also for being open to new business in Maryland. One tangent question, looking at financial statements and was glad to see that for 2017 the risk base capital provision of the company improved a good amount, from 851 percent in 2016 to 1,008 in 2017, to 157 points. I understand it's not at the top of your head, but was there a main driver of that favorable change?

MR. GUGIG: This is where those smart people on the other end of the phone might be helpful. I'm actually not sure if any of us have that information, but Brad or Kevin, can you answer that?

MR. ROKOSH: This is Brad, I can't answer that off the top of my head but we're happy to get that back to the Maryland Department of Insurance.

MR. SWITZER: I appreciate it, thanks.

MR. GUGIG: Yeah, so we'll get that for you.

MR. SWITZER: Thanks a lot. That was it.

COMMISSIONER REDMER: Anybody else?

MR. JI: Yes, one of the filings you mentioned was with Compact, you are seeking 42 --

MR. GUGIG: Point 33.

MR. JI: -- 42.33 percent rate increase. I looked at the filing and actually the rates, you know, was approved, it was on the 11th. Looks fairly new to me, this rate. So my question is in general, I mean, how do you learn from your historical pricing? How do you -- how are you -- improve your future on pricing options for rate increase too?

MR. GUGIG: Jeff, thank you for the question, it's a good one. Let me give my own initial remarks and then I'm sure Brad will be able to fill in in more detail. As noted not only by us but by other companies, in this industry pricing assumptions were based on what industry felt was the best available evidence back at the time of original pricing. So they looked at things like disability insurance, they looked at things like health insurance to see what lapse rates were on those types of policies and then we made assumptions about what they would look like in these policies.

Our lapse assumptions, for example, were in that 5 or 6 percent range at the beginning that we were talking about earlier. On our current pricing and, Brad, check me on this, I believe our assumptions on ultimate lapse rates are below 1 percent at this point. We also have experience in data that enable us probably into the mid-80s now to better assess the likelihood of claims and severity of claims and incidents of claims. I will add that back in 2001 or 2002, don't hold me to those years, we were one of the first large companies, large writers, to actually seek rate increases and I think we did that for the first time back in about 2000, 2001.

At that time we realized that in order for us to be able to sell a product we would have to increase our rates by some 40 or 50 percent more than our competitors. So, back at the time we actually -- we didn't formally withdraw but we basically sold almost no policies until about that 2010, 2011 timeframe when it appeared that the industry was right-siding itself in terms of the premiums that needed to be charged. There was still a lot of unknowns in 2010, 2011. I think our actuaries will speak to what we know much more now, but that gives you a little background, Jeff, that I hope is helpful. Brad, do you want to fill in some of the gaps there.

MR. ROKOSH: Yes, so, thanks, Mike. What I kind of want to add is 211 is currently a new policy form. Since then our new business rates, we had increased their new business rates twice, which kind of tally to about 80 or 90 percent increase on new business rates as well and that is primarily driven by our additional experience that we're seeing. So, to give you an analysis of how much more from 2011 that we do currently have, it's actually both, level the amount that claim experience from 2011 to around '15, '16 when we priced our new products, our current price -- current product that is currently in the market.

So, that is significant and it kind of adds to the amount of credibility and the confidence that we have in our new business rates and it's just a learning aspect of, you know, gathering that additional experience which is causing some of these rate increases associated for the Interstate Compact, where that rate increase is driven by future morbidity -- for future deterioration morbidity that is expected. I hope that addressed your question, Jeff.

MR. JI: Thank you.

COMMISSIONER REDMER: All right.
MR. GUGIG: Thank you very much.
COMMISSIONER REDMER: Thank you, Michael. All right, that is it for our carriers. We do have two folks that have signed up in advance to provide comments. First is Doug Godesky, is that right? Doug. And again, for those of you on the phone, if you're not going to speak if you could mute your phone we'd appreciate it. Thank you.
MR. GODESKY: Use the microphone?
COMMISSIONER REDMER: Yes, and if you could speak loudly for the transcriber and give us your name again.
MR. GODESKY: Certainly. Douglas Godesky, and I live at 202 Evergreen Road in Severna Park, Maryland 21146. Douglas Godesky, G-O-D-E-S-K-Y, 202 Evergreen Road, Severna Park, Maryland 21146, and I thank the Insurance Administration for having these types of hearings and getting us notice that we can appear.
CLERK: I think you may need to flip the switch on the microphone.
MR. GODESKY: I'm a 62-year-old male, and I am a

Genworth long-term care -- long-term health care policyholder since October of 2002. I purchased my policy from GE and the policy was converted to Genworth control in about April of 2006. I'm also a direct or an account controlling Genworth common stockholder. My Genworth long-term health policy has undergone a couple of changes increasing my premiums over the years where I've had to cut back on my coverage in order to maintain a premium that I could afford.

So, my testimony here is based upon my hearing that these premium increases that I've read for my policy and probably other haven't read the other policies, will force us to tip towards making difficult decisions to give up policies that are life-saving in many ways because we've just finished putting two elders through one year in care at age 94 and one at 97, so we have firsthand experience of what these policies could pay versus out of hand cash that was used for those cases.

So, my testimony has two goals, I think one is factual-based and I'll apologize up front to Genworth that I'm certainly not an actuary, I'm certainly not --

have not put an enormous amount of reading so they may find that I'm slightly off but I don't think I am grossly off in what I'm about to offer factually. Because I think that the filing has a negative story about the company's finances when, as an investor, I'm seeing a different positive story, and there's also an emotional second part to my testimony that I won't take up much time with.

So, I'm going to read from Genworth's February 5, 2019 press release to investors, quote, after tax increase and long-term care reserves -- after tax, the increase in long-term care reserves of 258 million related to changes in benefit utilization rates, claim termination rates, and other assumptions. My take on that is that it means they now have over a quarter billion dollars more in reserves than they -- whatever reference point they were speaking to. Another quote, strong capital levels above management targets in U.S., Canada, and Australia, end quote.

That to me means that they're improving their business faster than that they thought. Long-term -- quote, long-term care active generally accepted accounting principle margins are about half a billion to one billion are consistent with prior years, end quote. To me it seems like they're remaining at the very least consistent, not getting worse. So, I looked at their third versus fourth quarter 2018 income and every line of business except what they tagged as U.S. Life, which I'm going to potentially and correctly assume it includes long-term health, has been making more money.

It means, in my opinion, Genworth is on a path of profitability while the long-term care line of business, if that's where they're placing it under, life, is losing. Absolutely, and it's causing a total loss. They have plenty of opportunity to improve those other lines of business to not come out so far. In the negative end they have come out in the positive in the past quarters that I've watched as an investor. And, finally, my last thing is that they just gave Genworth Canada, which I believe is part of the company, just declared a 51 cent per the Canadian dollar dividend for the first quarter of 2019.

Well, that means the company overall is paying out dividends. If I best recall they either cut or eliminated the U.S. dividend but, nevertheless, they're making money somewhere. So, that ends my factual pitch. Is that, basically, my take is that it's not all dire straights as a company in total and I think companies in total should be looked at, not lines of business individually as the filing describes.

So, the next is a little bit emotional, a little bit -- it's factual but it had emotions to it. It's a -- when we bought our GE long-term care policies we bought them with marketing materials for GE that put Americans first in their marketing describing 25 years of no premium increases, and I believe that with the type of marketing GE was doing at the time and since then, even after they created Genworth, with their marketing of America railroad engines, wind turbines, jet engines and making products to make America strong. Had this policy still been with GE I believe I'd still be reading now 35 years without premium increases, they would of been finding a way.

So, it's unfortunate that this move to spinoff to Genworth has enabled them to wipe out that track record that they had, and seeing that Genworth is now in negotiations to sell itself to a Chinese-owned conglomerate, Oceanwide Holdings, my feeling is for the good of Maryland holders and American holders we should wait till that deal plays out and see what their finances look like after that. If Oceanwide Holdings wants to invest in them, they need to eat up whatever risks or deficiencies they might have in the long-term healthcare where they're making money in the other areas. So, I guess I'm, in that sense, asking for the Board to consider a delay in this until they wrap up that investment with this non-American firm. And, with that, I thank you for the opportunity to testify and that concludes my statement.

COMMISSIONER REDMER: Thank you for being here. I only have one question. Do you know whether your specific policy is one of those where there's a proposed rate increase?

MR. GODESKY: It is and I called it on the lower left corner, it has the four digits and the et al, I'm in that pool.

COMMISSIONER REDMER: Thank you.

MR. GODESKY: Thank you.

COMMISSIONER REDMER: Any other questions?

MR. SWITZER: Not a question, I just wanted to reiterate, I don't think you could be here for the beginning but, first of all, thank you very much for being here. It adds to the process, I think, more than you realize. In terms of reviewing these filings, one for Genworth, one of the reasons this filings is before us, a specific one Genworth is here for, because we didn't approve, after lots of deliberation, trying to find the balance, what was fully requested last time. We approved a filing 9-26 of '18 and this filing is for -- talk about the remainder that we didn't approve. And of 49 filing, we -- long-term care from all companies that we got from our team in 2018 the average increase requested over two years was 42 percent and we accrued 16-5. We're doing our best to be fair on all sides to scrutinize every page of the filings. Just wanted to reiterate that.

MR. GODESKY: And as a citizen and a policyholder I appreciate that and I'm fully aware that my increase, which makes it tough, is less than the increase on my wife's policy so, I'm being full disclosure here, I know the policies are going up but, you know, it's -- in this case I'm asking that the totality of these businesses looked at not just the filings which is probably a legal twist on. You probably only get one look at one thing. So, thank you.

COMMISSIONER REDMER: Thank you. Any other questions? Thank you very much. Also we received a reservation -- I'll call it an RSVP, that's right, dinner for two. Ed Hudman. Ed, are you on the phone?

MR. HUDMAN: Yes, I am.

COMMISSIONER REDMER: All right, good to hear you.

MR. HUDMAN: Good to talk to you and, again, thank you and the MIA for continuing to hold these hearings and also the considerable efforts that you all are working and balancing consumer and company interest in a very difficult decision process. I must say that I have -- I'm an insurance agent. I've written a long-term care business since 1991, I'm in my 29th year and my wife and I are policyholders, we have CNA and Genworth policies.

And I think we have been subjected to four rate increases with CNA and five rate increases with our Genworth policy, and not made any changes. I have to commend both Genworth and CNA. I have a number of policyholders currently on claim and who have used the policy as well as policyholders who have used their policies in past years and the claims process is not perfect but it works.

It generally works quite well. One suggestion that I have for Genworth regarding their wellness program, CNA is conducting and I was just interviewed from their wellness program and you may want to speak with CNA as you quote your model in terms of what you want to do. I think it's very smart and very effective. The document that I submitted for discussion today is a long-term care insurance personal worksheet. This is from Genworth but I might point out that it's a part of all of the policy applications written from the early 2000s on, and on the second page on that long-term care personal worksheet there's a question that's asked.

And this is a part of every application, have you considered whether you could afford to keep this policy if the premiums went up, for example, by 20 percent. The question is not have you considered whether you could afford to keep this policy if the premiums went up, for example, by 20 percent each year, with multiple years. The question, could you -- have you considered whether you could afford to keep the policy if the premiums when up by 20 percent, okay.

While I think this is an accurate statement today based on the Society of Actuaries report 2014, it appears that the industry has reached stability regarding this very important coverage, and they've reflected that it was less than a 10 percent likelihood that there would be rate increases based on the current pricing at the time going into future years. My concern and what I'm addressing is not the new policyholder, the industry is finally getting it right. I'm very concerned about existing policyholders, not the new policyholder.

And going back to the industry knew, for example, the one word that I heard in the testimony that was cause of great concern is the word persistency. CNA knew in 1996 that persistency was an issue 22 years ago, okay. The whole industry knew that persistency was a major problem (inaudible.) Genworth is requesting I believe it's some policies that was written between 2003 and 2005, I could not hear clearly, the mic was breaking up a little bit, and this is troubling to me. That -- and of course the impact of errors that were made in persistency were magnified by the errors that were made in mortality and morbidity assumptions.

I don't have any problem with the interest rate issue because I don't think anybody could of figured that, what was coming as far as the reduced interest rates on investment. But the other were business errors that were made by the companies and the question is in the MIA's efforts to create a truly fair and balanced situation between the carriers and the consumer, you know, how do you weigh the fact that -- that the reason we're having these discussions today in large part is due to the fact companies made business errors 20 years ago? Okay.

And the question is how much of this burden should the consumer bear. I don't know the answer to the question and I think that the task you all have is -- but realize that the consumer, not only in terms of all the promotional material that came from the companies, okay, also was looking at a document approved by the MIA on this 9CC form that's used today that says, have you considered whether you could afford to keep the policy if the premiums were up, for example, by 20 percent that the rate request were upwards of 160 percent over the years depending upon the carrier and the policy form.

That doesn't square and that's not a fair business deal, and the consumer is hearing one piece of information for one set of facts upon which they're trying to make a decision. And, in fact, the reality is something entirely different. So, my question is what is fair here and it continues to remain a problem and I would hope that while I think the form is important and I think this number is correct, going forward I think that having this form is important and the statement is accurate and it's fair, but for the policyholders remain -- the rate increases are being requested.

I think a very unfair situation existed in that the consumer was misled, okay. This is not really written testimony. I'll be submitting a more thorough write up, but I just had to make those comments and I appreciate your time.

COMMISSIONER REDMER: All right, thank you very much, Ed. I appreciate it. Any questions for Ed.

MR. SWITZER: I'll just respond, Ed, and thanks again for being a steadfast voice in this ongoing dialogue. How do we weigh in these factors? One of the slides was aimed to scratch the surface of that. Again, the carriers have voluntarily said that our original goals are off the table, to use that term, and what I mean by that is in one of the examples we looked at, it's certainly not covering every example, but at the start of the product the aim was to make over 50-75 years a rate of return of 20 percent.

I think there's agreement that given how things unfolded, getting back to as high as 20 percent is not the target. In one of the examples we gave -- the target was all in and I know most of the legal minimum requirements 58-85 are centered on the loss ratio, just the claims and the income. We're trying to bring in the whole picture and in this singular example the modeling from the company was -- what we would like to get is to make 5 percent instead of 20.

If we cap at 15 we'll break even and we don't have an answer to what between 20 and break even or any other number might be on people's minds is fair, equitable. But that conversation is what is happening between us and the carriers and with groups like this to answer hard questions like that, but I think every -- we -- multiple sensitivity testing, multiple tables of morbility and mortality on our team and we continue to evolve to get first, not just a point estimate of what will happen over the next 50 years, but a range to have these conversations and get the best answers from the SOA, from the MIA, from people here.

COMMISSIONER REDMER: Thank you, Todd. Any questions? All right, thank you very much. I will -- any other questions or comments from anybody in the room? If not, we will go to the phone, anybody on the phone with any questions or comments? All right, I'll ask one more time for comments, okay. Hearing none, again, I appreciate everybody for being here. We will have another rate hearing on additional rate increases probably in the next couple of months and, again, for those of you in the room we've got our contact information outside. For those of you on the phone, please feel free to visit our website or follow us on Facebook. Thank you very much.

(Hearing adjourned at 10:47 a.m.)

CERTIFICATE OF SHORTHAND REPORTER - NOTARY PUBLIC

I, Danielle Lawrence, court reporter, the officer before whom the foregoing proceedings were taken, do hereby certify that the foregoing transcript and said proceedings were taken by me stenographically and thereafter reduced to typewriting under my supervision; and that I am neither counsel for, related to, nor employed by any of the parties to this case and have no interest, financial or otherwise, in its outcome.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal this 25th day of February 2019.

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