In the Matter Of:

LONG TERM CARE PUBLIC INFORMATIONAL HEARING

HEARING

January 09, 2017

BEFORE THE

MARYLAND INSURANCE ADMINISTRATION

LONG TERM CARE PUBLIC INFORMATIONAL HEARING

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Long Term Care Public Information Hearing

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PROCEEDINGS

COMMISSIONER REDMER: Good afternoon, everybody. If you don't mind, we are going to get started. I am Al Redmer, Maryland's Insurance Commissioner, and this is our second public hearing on specific carrier rate increases for long term care insurance. As background, we held an informational public meeting back on April the 27th, 2016, where we invited consumers, carriers, and other interested parties to provide comments on the state of long term care insurance in Maryland. Based on that feedback from consumers, and, also, based on Governor Hogan's emphasis on transparency, I have decided to have public hearings for any future rate increase request from long term care carriers. Our last hearing was held on October the 27th of last year.

Today's hearing will focus on several rate increase requests now before the Maryland Insurance Administration. These include requests from Banker's Life & Casualty Company proposing average rate increases of 15 percent, John Alden Life Insurance Company, proposing average rate increases of 15 percent, Senior Health Insurance Company of Pennsylvania, proposing average rate increases of 15 percent, Physicians Mutual Insurance Company proposing average rate increases from 0 to 15 percent dependent on the form. Northwestern Long Term Care Insurance Company, proposing average rate increases of 10 to 15 percent, depending on the form. The request effect about 3,500 Maryland policyholders. The goal is to hear insurance company officials explain their reasons for the rate increases, and we will also listen to comments from consumers and other stakeholders. We are here to listen, ask questions from carriers and consumers regarding the specific rate increase request.

I would like to highlight, take a couple of minutes and highlight what the Maryland Insurance Administration has done since our last hearing. The Insurance Administration has proposed additional long term care regulations that will impact consumer options in the event of a long term care premium increase. The proposed regulations will update the regulations to be consistent with the 2014 changes to the National Association of Insurance Commissioners' long term care model regulation. These changes provide greater value to many consumers who decide to lapse their policy following a rate increase. Additionally, any Insurer that files a rate increase request for a long term care insurance product will be required to participate in a public hearing before a decision is made on that request. As part of efforts to provide more transparency to the rate review process, any Insurer that files a rate increase request for a long term care insurance product will have its corresponding actuarial memorandum posted to the MIA's web site for public review prior to the hearing.

A long term care insurance work group has been formed by our agency. The work group participants include members of the Insurance Administration, long term care insurance brokers, state legislators, consumer protection groups, and trade groups. The goals of the working group are to develop regulations to improve the current state of the long term care insurance marketplace in Maryland, specifically developing ways to establish more transparency for consumers during the rate review process, reviewing the pros and cons of the 15 percent rate cap, reviewing potential workarounds of the 15 percent rate cap, and determining ways to improve communication between long term care carriers and their policyholder.

Additionally, the Insurance Administration is engaged in national discussions on the challenges in the long term care insurance marketplace. The MIA sits on the newly formed NEIC long term care innovation subgroup as an interested party.

With that being said, I would like to take a moment to introduce some of the folks who are here with me from the Insurance Administration. To my immediate left is Bob Morrow, Associate Commissioner of Life and Health. To his left is Cathy Grason, our Chief of Staff. To my right is Van Dorsey, our Principal Counsel. To his right is Adam Zimmerman, Actuarial Analyst. I would also like to point out that both Adam and Cathy are co-chairing our internal long term care insurance work group.

Also with us today is Joy Hatchette, our Associate Commissioner of Consumer Education & Advocacy, Nancy Egan, Director of Public Relations and

External Affairs --

MS. EGAN: Back here.

COMMISSIONER REDMER: -- Jeff Ji, Senior Actuary, David Cooney, Chief Health Insurance and Managed Care for Life & Health Insurance, Jamie St. Clair, Analyst, Joe Sviatko, Public Information Officer, Fern Thomas, Supervisor - Rates & Forms Review, Health, Theresa Morfe, Assistant Chief for Market Conduct, Mary Kwei, Chief, Complaints, Appeals and Grievances, Nykol Wynn, Senior Market Conduct Examiner, Nick Cavey, Assistant Director of Government Relations and External Affairs, and Zach Peters, Business Development & External Relations Specialist.

I am going to go over just a few procedures. First of all, there is a handout outside that has all of our contact information on it. Please make sure to pick one up. If you would like to speak today, you should have signed up on the sheet out front, although we will give everybody an opportunity to speak.

Second, the hearing is not intended as a question and answer forum between consumers and carriers. That's why God invented insurance producers and customer service representatives. We hope that you have submitted your comments in advance.

Additionally, we will be posting all of the written comments on our web site. The MIA will continue to keep the record open until Tuesday, January the 17th for any additional written testimony, and the transcript of today's meeting, as well as all written testimony submitted will be posted on the MIA web site. The transcript and written testimony will be provided on the MIA's long term care page, as well as the quasi legislation hearings page. The long term care page can be found at the MIA web site on the home page under the quick links on the left-hand side.

As a reminder, we do have a court reporter here today to document the hearing. When you are called to speak, state your name and affiliation clearly, for the record. If you are dialing into the hearing through our conference call line, we ask you that you please mute your phones. Once again, thank you for joining us.

We are going to begin by introducing Vince

Bodner, who represents the Society of Actuaries, who will present a power point presentation describing pricing and rate increase concepts for long term care insurance. Also, any time before speaking, if you could restate your name and organization again, that would be a big help, and we will be calling up carriers after Mr. Bodner's presentation. Mr. Bodner, thank you for joining us.

MR. BODNER: Thank you, Commissioner, and thank you for having me. As the Commissioner said, I am here on behalf of the Society of Actuaries. The Society of Actuaries is a neutral body and we are really here to provide some basic education about the mechanics of long term care insurance pricing -- I am trying to receive the long term care rates hearing on Facebook and I am unable to do it. Is there anyone who can help me or is it not available? It was advertised in your email one could click on facebook.commdinsuranceadministration and one would find it. I have clicked on it but I do not see evidence that it is live. It is streaming via telephone, but I would like to see it as well.

COMMISSIONER REDMER: Sure. It is supposed --

THE SPEAKER VIA TELEPHONE: This is the number.

COMMISSIONER REDMER: It is supposed to be up. We will double check it.

MS. GRASON: It is up. I can see it.

COMMISSIONER REDMER: It is up.

THE SPEAKER VIA TELEPHONE: Get your web people.

COMMISSIONER REDMER: It is up, and if you don't mind, please mute your phone, and we will go from there. Thank you. Mr. Bodner?

MR. BODNER: So, again, I am here on behalf of the Society of Actuaries again. It is a neutral presentation. It is supposed to be education based to provide some basic information about long term care pricing. In this capacity, I don't represent anybody from the industry. I am really here for the public's benefit to provide a better understanding of long term care insurance rating concepts.

So, during this presentation -- can

everybody hear me okay? I am going to provide an overview first and really will be a basics. It will be a 101 about what long term care products are, and what the features are. It will also go through some of the pricing mechanics of long term care. It's quite a unique insurance product. There are some features about it that make it particularly challenging for the actuaries to price. I will talk about what we do as insurance companies to pre-fund a lot of the benefits, and we will understand what that means as I get into the presentation, and, also, what has led to the premium rate increases that we are seeing not just for the carriers that are asking for premium rate increases here today, but across the industry recently. This explanation, again, it is a very simplified presentation. It is meant for a non-actuarial audience. If you were actuaries, you would see a lot more numbers and symbols. So, we tried to make it as easy to understand as possible. If you have any questions at the end, please feel free to ask.

So, just on the basics of long term care insurance, long term care insurance pays out when somebody -- in general, when you incur a disability. In most policies, this is defined as the inability to perform two out of six activities of daily living or if you have a severe cognitive impairment. Most policies also require you to receive some kind of services. So, not only do you have to be disabled, but you need to be receiving services at home, in an assisted living facility, or in a nursing home, generally, and you have to have a qualified provider, and be receiving qualified services. Long term care, unlike life insurance, is not paid out as a lump sum. Instead, benefits are paid out for each day that you are disabled, usually up to a maximum amount per day. The amount that a policy pays out, in a lot of cases, are also limited. It won't pay out for your entire disability, although some policies are configured that way. Usually, it's up until a certain point in time. Some policies also require you to be disabled for a certain amount of time before they pay.

By law, these policies have to cover you for life. So, the insurance companies cannot cancel these while you pay your premium. So, because they are meant to be in force for a very long period of time, 20, 30, even 40 years, the benefits that you buy today may not be adequate in the future, and, so, a lot of these policies had an option to buy what we call an inflation protection feature, which automatically increases the daily benefit each year to keep up with the cost of care.

The chance of using long term care benefits is really quite a variable. It is not the same for everybody. In fact, there is a low chance of using it if you happen to be a married couple, and that is because, in general, when you become disabled, your spouse can take care of you. So, generally, these policies are not triggered while there is a spouse at home, although it does happen, but, generally, when you are still at home with your spouse, you tend to find ways to have informal care provided. So, the incidence rates for these policies are lower. It is also lower right after you by the policy and that's because insurance companies underwrote you for health conditions early on. These do wear off over time. So, you have a higher chance of using the policy.

Generally, if you bought the policy when you were married, generally over time, one member of the couple becomes single, or if you bought it single, you have a higher chance of using the policy. Also, as you age, a person who is age 80 has a much greater chance of using the policy than someone who is age 60.

So, just by design, these policies, generally, we will see an increasing chance of using care after you buy your policy. So, if you look on this chart, the beginning is very low, but over time, the chance of using your policy --

THE SPEAKER VIA TELEPHONE: They said I could watch it online, but there is no way of accessing it. There it is happening now. I don't know how --

COMMISSIONER REDMER: Excuse me. Hello, sir. If you wouldn't mind muting your line, please.

THE SPEAKER VIA TELEPHONE: Even the web people? Even the people who manage your web pages? That is who I would go to. Okay. I will wait. Thank you.

COMMISSIONER REDMER: Sir? Sir?

THE SPEAKER VIA TELEPHONE: Yes.

COMMISSIONER REDMER: The Facebook streaming is going as planned; however, if you wouldn't mind please muting your phone.

THE SPEAKER VIA TELEPHONE: Yes.

COMMISSIONER REDMER: Thank you.

MR. BODNER: So, again, the chance of needing care or triggering your policy increases greatly over time. However, your premiums are supposed to be level. They don't increase with age. So, just graphically, if you look at this graph, you see this is time unfolding, and, over time, your premium rates are meant to be level. However, the claim costs are expected to increase over time. So, you are -- so, at the beginning, again, just going back to the prior graph, you have a low number of claims the beginning of the policy and that increases over time. So, this creates a cash flow mismatch for insurance companies.

In the beginning, when claims are less than the premiums they are collecting, they take the excess money, which is the premium over the claims, and they put that into a reserve fund. So, while that's happening, they put it into this reserve fund. The fund grows over time. Then, after the claims exceed premiums, we have the reserve fund being completed to pay for claims. And, so, the companies, they take every dollar that you pay into them, and they set some of it aside as follows: For every dollar they collect, they take something up front, and they use that to pay policy administration costs. This is the cost of people who are servicing your policy. They also will pay agent commissions. They will pay state and federal taxes. Some will be set aside for distributions to shareholders as profits, but the vast majority of the dollar that they are collecting from policyholders gets put aside into a reserve fund. In general, depending on when your policy was issued, tends to be about 60 cents of every dollar is put into this reserve fund. This reserve fund acts just like a savings account. So, if you think about these net premiums, which is the 60 cents on the dollar being deposited, so the money gets deposited into the account early on, and, then, the benefit payments are withdrawals from the account.

Like a savings account, this reserve fund earns interest. However, unlike a savings account, it is not held for each individual person. The savings account is held for the benefit of all of the policyholders. It can only be used to pay benefits for those who become disabled. So, it is not paid to people who die or who stop paying premiums. That reserve fund is left in this pool and it is only used to pay benefits for people who need long term care.

You can think about these net premiums as scheduled deposits. So, you might have a savings plan. You decide to schedule away deposits into a savings plan and that's an awful lot like what those net premiums are like. This net premium schedule is based on actuarial estimates about the amount that will be drawn to make benefit payments and the interest rate that is going to be earned on the reserve fund. So, if either one of those are off, there may not be enough in the savings account to pay for benefits.

What can go wrong? First, the interest rate can change if the economy changes. We certainly have seen that. In the last 20 years, we have seen interest rates drop tremendously. Back in the early 1990's, when a lot of these products were priced, rates were between 6 and 8 percent. For those of you who have a bank account or a savings, you will notice that what you are being credited for your interest has dropped tremendously. Right now, interest rates that insurance companies are earning on these reserve funds have fallen to something like 3 to 4 percent. The other thing that can go wrong is if the amount that you need to withdraw from the savings account is different. It's dependent on three key things. The first is really -- it is the number of people who keep their policies up to the point when the benefits begin to be paid. Again, these are long-term contracts. If, at the beginning of the policy's life there were 20 people issued policies, and, then, say, 20 years later, the actuaries have projected that 9 people were left, there is an assumption -- and this is just an example -- that 1 out of 3 people will use their benefits. So, in this case, 3 out of 9 people are left use their benefits. So, this is the original -- this could be the original assumption. If, however, out of those 20 you have 12 people left in 20 years, now, you have one additional person going on claims. So, you have 3 out of 9 in the top example, but, in reality, it became 4 out of 12. This can happen if people keep their policy longer than the actuary expected, and that certainly has happened with these policies, or if people live longer, the actuary will have made an estimate as to the number of people who do not survive to use their benefits. What we have seen is that, in general, people who buy long term care policies were healthier, had lower mortality rates than anybody had expected. So, in fact, it's generally less than the mortality rates of people who buy annuities. So, it's a very self-selecting group of people.

The other thing that can happen is, of the people who keep their policies, the ratio of people that use their benefits. Then, just going back on the other example, if out of 20 people, the actuary estimated that 1 out of 3 would use their benefits in 20 years, if, instead, it turns out to be 5 out of 9 in this example, then, more people are going to receive benefits, but the insurance company will be paying out more in benefits.

What we have seen with this particular

assumption is that the industry has seen mixed experience in this respect. Some companies have underestimated the number of people that would use their policies. Other people have over estimated. So, we have seen it go both ways. The other thing that can affect the amount that's withdrawn is the amount that is paid out per person that uses benefits. If you remember, long term care benefits are not paid out as a lump sum. The amount that's paid out to everybody who goes on claim is not known in advance. So, this is also based on actuarial estimates. It will depend on the number of days the person is disabled, it will depend on the intensity of the care that the person is receiving, and it will depend on the cost of the care that that person receives. Again, it's based on past -- this estimate is based on past observations. When these products were priced in the early 1990's, the predominant care delivery method was nursing homes. So, if you became disabled, and were going to trigger your policy, really the dominant place to receive care was still nursing homes. However, we have seen over the last 25 years new care delivery settings emerge, in particular, assisted living facilities, which are really more attractive for the policyholders, and although they might cost less per day, we find that people live longer in assisted living facilities than nursing homes. In fact, it's about twice as long. Although assisted living facilities are cheaper per day, these are more expensive claims for insurance companies than nursing home claims because people live in them longer.

So, what happens when these estimates aren't realized? So, I like to use a simple savings plan analogy as an example. If you have got a goal of saving $10,000.00 in 10 years, and let's just assume you are not going to earn interest on the on savings account, you would set aside $1,000.00 a year for 10 years. So, this graph, the darker red is the amount that is in the account and the light red is the amount that is being put in the account every year. So, you can see it going up by $1,000.00 a year for 10 years. At the end of 10 years, you have reached your savings goal of $10,000.00. What happens -- just going back to the original plan here, what happens if after 6 years, something happens, and you find out you need to have $12,000.00 in your account by the end of the next year? That means you are going to have to increase the amount that you are putting into your account by $500.00 every year because you only have four years left, and you need to make up $2,000.00. In addition to the thousand you are putting in every year, you need to make up another $2,000.00. So, $2,000.00 divided by four years is $500.00. So, you need to increase your $1,000.00 savings per year up to $1,500.00 per year. That's a 50 percent increase. So, once you do that, you will now hit your $12,000.00, but you had to increase what you were saving by an awful lot in order to make that happen.

On the other hand, with hindsight, if you had known you needed $12,000.00 per year, you would have taken $12,000.00 and divided by 10, and you would have saved $1,200.00 per year, and that would have gotten you up to $12,000.00. The reason I am showing you this is because $1,200.00, if you had known from the beginning, was only a 20 percent increase over the thousand dollars as opposed to the $500.00 per year if you find out you need to catch up later. So, that's important. So, when you know you need to increase your savings schedule is important. The later you find out, the more of an increase it will be.

So, now taking that simple example and showing you how it works with insurance companies that face long term care rate increases, so just to show you how it should work, at any given time during a policyholder life, that reserve fund that I was explaining to you, plus the actuaries' estimate of future deposits into that reserve fund at any given time should also equal the amount of future benefits that the company expects to pay out. So, these two things should be equal. The money going in should equal the expected money going out going forward.

In this case, we are showing a model that is in balance. Again, this should work at any time during the life of the policy. It can get out of balance, though, if that reserve fund, or your savings account, plus your future net premiums, which are your deposits, are less than the future benefits. So, this could happen for all of the reasons that I had just described. If that happens, there is not going to be enough money to fund the future benefits. So, you will have this out of balance.

So, the insurance company has some limited choices as to what it can do. So, in this example, the reserve fund, plus the future net premiums, plus the catch-up premium rate increase -- so, this is the equivalent of increasing your premium rate from that $1,000.00 a year to $1,500.00 per year -- if you could do all of that, then, it will be for the future benefits. Now, you have this balance being restored and it's entirely through premium rate increases. However, in many cases, the insurance company does not receive the premium rate increases that it needs, and, so, that will happen. In this case, the reserve fund, plus the future net premiums, plus a smaller premium rate increase is insufficient, is still less than the future benefits.

So, the insurance company has to find other sources to restore this balance. Insurance companies can't print money. So, it has to come from someplace. Generally, the insurance company has two choices. The first is that it can contribute a one-time deposit, which is really to allocate some of its surplus, and put it into this reserve fund. In this case, it's taking that deposit which is in its surplus, which is meant to be distributed as dividends to shareholders or other policyholders, and is using that to fund its future benefits. The other option it has is to take the money from other policyholders, so, in other words, charge other policyholder more money to subsidize the block of us that is not kicking in enough money. These are the two options the insurance companies have. Otherwise, it could be faced with insolvency, which has other issues. If it becomes insolvent, it can then be subject to the guarantee associations, and, usually, in those cases, the policy benefits are reduced.

So, that's my basic presentation of the mechanics of long term care and premium rate increases. I don't know if you wanted me to answer any questions? I am happy to.

COMMISSIONER REDMER: We can take a couple. Any questions for Mr. Bodner?

MS. LEIMBACH: Yes. My name is Sally

Leimbach, and I am representing NAIFA Maryland, and MAHU, and Maryland LTC Round Table. My question for the other two ways besides rate increases that insurance companies could look to, in fact, is it quite legal -- I guess is the best way to say -- to charge other policies to get more money to subsidize and establish costs?

MR. BODNER: Well, I am not a lawyer, so I can't really answer the legal question. I can tell you it does happen.

MS. LEIMBACH: It does happen.

MR. BODNER: It does happen, right.

MS. LEIMBACH: And looking at the other way which would be taking from surpluses to either reduce, or take away dividends, or payouts to stockholders, is there any rule of thumb of what is considered appropriate down to having that completely wiped out in order to save the Insured from rate increases?

MR. BODNER: Well, again, most -- the insurance department is really -- I don't want to speak for Maryland, in particular, but the other ones, in general, they are really concerned about two things.

One, yes, protecting the policyholders by limiting the amount of rate increases that can be approved, but, on the other hand, is the insolvency of the insurance company. So, regulators really prefer not to have an insurance company become insolvent. So, they will measure your financial areas and generally be watching and monitoring the surplus of insurance company to make sure that it doesn't fall below certain levels. There are things called risk-based capital, which are published in every company's annual statement. Insurance companies like to see that risk-based capital stay involved at a certain level. So, they generally will watch that and make sure a company doesn't go below that level. If it does, you can be looking at regulatory action, such as rehabilitation, for example, or liquidation.

MR. KAUL: Hi. Roger Kaul, K-a-u-l, representing myself. You mentioned the long term care facilities, people tend to live longer there. Can you give me, like, the medium number of years that they would be in there?

MR. BODNER: Sure. In a nursing home, it

is generally less than two years. In an assisted living facility, it is about four years.

MR. KAUL: Okay. Thank you.

COMMISSIONER REDMER: Yes, sir, the back.

MR. BENJAMIN: My name is Howard Benjamin. I am representing myself. Mr. Bodner, you mentioned on this about putting in a reserve based on interest rates which have come down, and they are very low. Are the insurance companies all required to set their reserve just based on interest rates or can they use investments?

MR. BODNER: That is generally regulated pretty strictly. Most insurance companies are very restricted as to what they can invest in. They generally have to be high quality corporate bonds and treasuries. I know they are allowed to invest a little bit in equities, but not much. I think it is about 20 percent or so.

MR. BENJAMIN: Okay. Over the last few years, one of the reasons as far as increases is because interest rates are lower then they were, but if they had invested in bonds, it would have been a completely different story.

MR. BODNER: Most of them have invested in bonds, but bonds eventually expire, and you have to reinvest at a new rate. So, many companies did try to match the duration of the liabilities with the duration of the bonds. These are very long-term contracts. So, it is really hard to buy, say, a 30 or a 40-year bond. So, what we are seeing is, as the portfolio is renewing, it's just the rates, the renewal rates are not that high as they were 20 years ago.

MR. BENJAMIN: Okay. Thank you.

MR. BODNER: Does that make sense?

MR. BENJAMIN: Yes.

COMMISSIONER REDMER: Vince, thank you. I appreciate it. Let's move to our carriers. Again, when you get up, if you wouldn't mind giving us your name, and who you are representing, and let's start with Banks Life & Casualty.

MS. JACOBS: Loretta Jacobs, Banks Life & Casualty. Good afternoon, Commissioner Redmer, the Maryland Insurance Administration staff, and distinguished guests. My name is Loretta Jacobs. I am the Senior Vice-president of Health Product Management and C&O Financial Group. Among other things, I am responsible for the long term care business at Bankers Life & Casualty Company, which is the largest insurance company under the C&O Financial Group umbrella. On behalf of my company, I would like to thank you for the opportunity to provide information regarding our recent request to increase premiums on one of our long term care insurance policy forms called the N-650 Policy Series.

Before discussing the details of the filing, I would like to provide some background on the long term care business at my company. Bankers Life & Casualty currently insures over 300,000 individuals nationwide, and, approximately, 5,100 in the State of Maryland under a long term care, home healthcare, nursing home, or short term convalescent care policy. We have been writing long term care business since 1987 and we remain actively selling new policies today, having issued over 350 new policies in the State of Maryland during the first 9 months of 2016. At Bankers Life, we are proud of our commitment to offering meaningful insurance coverage to middle market consumers at your retirement. We believe our long term care and short term convalescent care coverage products are an important component of our policyholders' financial security in their retirement years.

We began selling the N650 Policy Series, which is the subject of the rate increase before you today on a nationwide basis in late 2009, with the first policies of this form sold in the State of Maryland in late 2010. We have revised pricing assumptions and rate structure for the product in 2013, and, consequently, began selling new policies on the revised basis in Maryland as of August 1 of 2014. Individuals who have purchased the policies since August 1 of 2014 under the new pricing structure are not subject to the rate increase request. The rate increase request applies to, approximately, 220 Maryland consumers currently in force who were issued from December 1 of 2010 through the end of July of 2014. As of January 1 of this year, 2017, the Maryland consumers subject to this increase have been in force for 4.25 years, on average. We have requested to increase premiums 15 percent on the N-650 series customers nationwide, including in the State of Maryland. This is the first time we have requested to change premium rates on these policies. We understand that increasing premiums can be difficult for Insured's who are on fixed incomes. And we make a point, where possible, to personalize each notice of a premium rate increase with options for the customer to consider, including paying the increased amount, of course, or reducing coverage, such as by increasing the elimination period, or, perhaps, reducing the benefit period duration, which is the length of time over which benefits are payable.

In addition, each customer is invited to call a 1-800 number to explore other possible benefit reductions that may be available in the event the specific personalized options described in the rate increase notice are not satisfactory to them. We understand that customers may wish to spend time considering the options available to them, so our current practice is to notify customers of an impending premium rate change at least 60 days in advance of the change. As you know, we are required to provide, at least, a 45-day advance warning of a premium rate change in Maryland, so our current process complies with Maryland Law and provides an additional 15 days of advance notice.

Now, I would like to discuss our company's philosophy, pricing of the N-650 series specifically, and the reasons for the premium rates we have requested on this policy form. We, at Bankers Life, believe it is very important to actively manage our business to insure that we are maintaining premiums at adequate levels that allow us to meet our future claims obligations to the policyholders and Insurers. We believe continuous monitoring of our experience will allow us to recognize emerging trends as quickly as possible so that we may review and update our premium rates as soon as possible to reflect those trends. Updating our rates as soon as possible is important to consumers because in the event that a premium rate increase is required, the sooner we can implement the increase, the lower the increase, itself, will be.

Every year, we review our actual results relative to what we expected to those assumptions that contribute significantly to the premium re-rate setting process. These assumptions include morbidity rates, or plate rates, and persistency rates. Regarding morbidity, we study what is called the total claim cost, which equals the claims instance rates or the probability of a claim occurring times the dollar payout for a claim, given that it has occurred. The higher the year by year claims assumptions are, the higher the premium we, as an insurance company, need to charge. Persistency refers to the likelihood that a customer in force today will remain in force or persist into the future. The longer customers retain their policies in effect to advanced ages, when claims are likely to incur, the higher the premiums need to be to cover the claims as they emerge. The opposite of persistency rate is the termination rates. The termination rates are actually what we study each year. Therefore, the lower the policy termination rate, the higher the policy persistency rate, and the higher the premiums need to be. Policyholders may terminate their coverage voluntarily by ceasing to pay the premiums when due, or, involuntarily, if they have died or exhausted the maximum benefit available under the policy. For clarification sake, I would point out that investment earning assumptions were certainly an important component of the initial premium rate setting process for our N-650 Policy Series, but we did not consider adverse investment earnings rate experience in re-rating the process on this policy form.

This policy form is priced in accordance with the rate stabilization standards, whereby premiums are set at a high enough level to withstand what is termed moderately adverse experience for people requiring adjustment. That is, the premiums will change only when experience is worse than moderately adverse. Under the rate stabilization pricing standard, in the event that a premium rate increase is required, the amount of the rate change can be no larger than a specific amount dictated by a formula which requires the Insurer to meet a 58 percent lifetime loss ratio. The lifetime loss ratio is the ratio of incurred claims to earned premiums over the entire period of the contract. So, the Insurer must meet a 58 percent lifetime loss ratio on the original lower premiums amounts and an 85 percent lifetime loss ratio on any premium rates.

The interest rates used for discounting future experience and accruing past experience to the present day are based on the interest rates in effect when the policy form was originally priced at issue. Therefore, changes in interest rates since the original pricing are not captured by the rate increase formula applicable to this particular N-650 Policy Series. I would also like to note for this N-650 Policy Form, the rate increase calculation formula that I just mentioned would permit an increase of 28 percent has been requested on a nationwide basis. We have, however, only requested a 15 percent increase on a nationwide basis. At our company, we do not simply request the percentage increase that is prescribed by the formula. We consider the credibility of the experience data on the policy form that has been accumulated thus far. We supplement it, as appropriate, with information regarding trends we are experiencing on similar policies, as well any relevant trends developing on an industry-wide basis. Finally, we then consider the impact any planned management actions may have on future experience of the policy form before forming preliminary rate increase recommendation. We then confirm that our preliminary rate increase recommendation is in compliance with applicable laws and regulations, including being less than or equal to the formulated prescribed amount, which is the maximum amount that we may request.

Our analysis of the claims experience under this form do not reveal any trends we believe warranted reaction at this time; however, our analysis indicated a 15 percent premium rate increase was required due to a need to change our mortality assumption from the older table, the 1994 Group Annuity Mortality Table to a newer table in the Annuity 2000. The mortality rates in the revised table are, approximately, 22 percent lower than those in the original mortality table for the relevant age mass for our LTC Insurance, which is 70 and over. In addition, we determined we should increase the length of time over which our mortality assumptions will reach their ultimate level from 5 years to 25 years. This change further reduces the projected terminations due to mortality. In our original pricing, we tested and built moderately adverse experience margins into the premiums to withstand 10 percent across the board lower mortality than our original best estimate assumption of the 1994 GAM Table that I mentioned; however, as I noted our actual mortality is more than 20 percent lower than originally estimated, and our premiums do not have enough margin to cover this shortfall, which necessitates this rate increase.

The new financial projections that we prepared to support this filing and have shared with the Maryland Insurance Administration, after adjusting the mortality basis to the new basis, we showed that our lifetime loss ratio is 77 percent without the premium rate change, and if we are granted the increase that we requested, the lifetime loss ratio decreases to 69 percent. Had we requested and received approval for the maximum allowable increase under the Rate Stabilization Form, the loss ratio would be, approximately, 64 percent. These loss ratio projections underscore the importance of recognizing emerging trends as early as possible when relatively modest premium adjustment can be made to keep the product line financially sound as opposed to waiting 5 or 10 more years to act, resulting in substantially higher required rate increases for our policyholders, and lifetime loss ratios of nearly 100 percent.

I would like to close by again emphasizing the rate stabilization pricing guidelines applicable to our N-650 Policy Series would require the Insured to meet an 85 percent loss ratio on premium rate increase amounts, and are primarily designed to mitigate or reduce losses that are expected to emerge in the future, not to produce a profit for the insurance company. It is in both our company's interest and our policyholders' interest to continuously monitor our business, and work with regulators to adjust premiums as expeditiously as necessary to enable us to maintain a financially stable business, and honor our commitments to our policyholders to pay their claims when they arise.

We look forward to continuing to work with the Maryland Insurance Administration on this filing, and any others that may be required on this policy form, or others in the future, with the goal of meeting our mutual objectives of keeping the long term care business at Bankers Life & Casualty financially sound and stable. Thank you again for providing me the opportunity to speak with you today. I sincerely appreciate the opportunity to engage in dialogue on this important issue of the pending rate increase upon our N-650 series.

COMMISSIONER REDMER: Loretta, thank you for coming. I have a couple of questions.

MS. JACOBS: Sure.

COMMISSIONER REDMER: So, it seems like the biggest driver in this is the changing mortality?

MS. JACOBS: Yes.

COMMISSIONER REDMER: The policies were sold in 2010 to 2014.

MS. JACOBS: Right.

COMMISSIONER REDMER: When you were creating the pricing for these, you were using mortality tables from 1994?

MS. JACOBS: The 1994 GAM Table was actually sort of the table of choice from probably about 2005 or so to around that time, 2009 or '10. That was the reserve standards that are in place for long term care standards. In 1994, the GAM Table had been implemented in the reserve standards. It had been updated from the 1983 GAM Table. So, it was one of those tables that had gotten widespread acceptance around that time. That is what we used at the time.

COMMISSIONER REDMER: But you didn't have any company data that was fresher than that?

MS. JACOBS: Typically, what we had done -- and I think a lot of companies had done this, too, is we were especially around that time frame again focused on looking at the experience of the total termination rate. So, we were looking at lapses and deaths combined, if you will, and comparing them, and, you know, at that time, too, the early 2000's is when most companies recognized that voluntary lapse was materially lower than had been thought of in, say, the 1990's. So, that got built in, and, frankly, there was a lot of underreporting of deaths, and, so, I think in studying what people thought was voluntary lapse experience, it was only when we really got into that in the mid to -- you know, that 2005 plus time frame, the people started saying, you know, there is probably another component of this. It's not just lower voluntary lapse, there is probably lower mortality going on here. It wasn't really recognized and it would be hard to study given the data -- there is no -- it's not like life insurance, where you actually have to know your deaths to pay your claims. You don't really have that information in a lot of your experience gathering process. There is no clear way to actually separate out a death from, sometimes, just a person chose not to pay. You could tell when someone actually writes a letter saying that.

COMMISSIONER REDMER: Sure.

MS. JACOBS: If they just don't pay, you don't necessarily know they didn't pay.

COMMISSIONER REDMER: Have your advisors or customers been advised of the rate request?

MS. JACOBS: In this state?

COMMISSIONER REDMER: Yes.

MS. JACOBS: I don't think -- it was not approved. We have put -- all of our agents are aware of pending increases nationwide. So, I can't say for sure that any of our agents wouldn't have, perhaps, spoken to some of the policyholders, and said, you may see something coming.

COMMISSIONER REDMER: Are there landing spots available in other parts of the country that are not available in Maryland?

MS. JACOBS: Well, that is interesting. I assume you mean by the landing spot the inflation landing spot?

COMMISSIONER REDMER: Yes, just the different options to avoid the full financial increases.

MS. JACOBS: First, let's start with inflation landing spot, which I think is the time and money where people have, like, a 5 percent compound, maybe in the future, accept something like 3 percent. Our business is a bit different. 71 percent of the people who purchased this particular policy form in Maryland didn't actually buy any automatic inflation.

For them, there is no equivalent. Then, of the 29 percent that are left, 15 percent, so half, just over half purchased the 3 percent compound. So, when we looked at that, we said, gee, you know, coming down -- 3 percent is a pretty economical inflation benefit and fairly consistent with what the cost of care is. So, we didn't think that, necessarily, customers would value that particular option more than increasing the elimination period or reducing the benefit period. So, the increasing elimination period and the reducing benefit period are the two options we typically illustrate to a customer. Then, like I say, we do say, if this isn't what you want, definitely give us a call, and we can construct something that meets your more specific needs for you.

COMMISSIONER REDMER: Okay. For the other carriers, so I am not redundant, if there are landing spots available outside of Maryland that are not available here, I would like to know about it. Also, if your customers have been informed of the pending rate increase, I would like to know that, too. Pat, any questions from you? Van?

MR. JI: I have a question. Jeff Ji, from Maryland Insurance Administration. I saw you mentioned your assumption currently is based on 2013 assumptions, right?

MS. JACOBS: I am having a little trouble hearing you.

MR. JI: Your pricing assumption is on the 2013 assumptions, right?

MS. JACOBS: In 2013, I mentioned we re-priced and that new product was released August 1st of 2014.

MR. JI: Okay. Do you have a plan to update that assumption in the near future? It is already 2017.

MS. JACOBS: Well, the re-priced business that was released here in August 1st of 2014, actually, that business included the same mortality assumption that we are putting in here, as well as a lower interest rate assumption, which, of course, I mentioned is not part of the rate increase request. So, that's one of the reasons it is not subject to a rate increase. It has our most recent thinking on assumptions at this point.

COMMISSIONER REDMER: Okay. Bob?

MR. MORROW: Not for me.

COMMISSIONER REDMER: Cathy? All right. With that, Loretta, I appreciate it. Thank you very much.

MS. JACOBS: Thank you. Thank you very much.

COMMISSIONER REDMER: Next is John Alden, and I believe John Alden is going to participate by phone, is that right? Now, you can take yourself off of mute. Anybody from John Alden on the phone? Okay. We will move on to Northwestern Mutual.

MR. GURLIK: Greg Gurlik, Northwestern Mutual.

MR. LASZEWSKI: Todd Laszewski, Northwestern Mutual.

COMMISSIONER REDMER: Very good. Thank you for joining us.

MR. GURLIK: Good afternoon and thank you for holding today's hearing and inviting regarding Northwestern's Long Term Insurance Company to participate. Also, thank you to the consumers here today. We appreciate your comments and participation, as well. As I said, my name is Greg Gurlik, with MLTC, which is a Pittsburgh company, and responsible for pricing our long term care products. I am going to provide some background on our LTC product line and our approach to the LTC business. Sitting next to me, here, is Todd Laszewski, who is the Director of LTC Product Development. He will share some information of our consumer research and consumer plan associated with the rate increases. LTC is wholly owned by its mutual parent company, Northwestern Mutual. NLTC embraces the useful values of the parent by selling participating policies and focusing on long term care and long term policy value. We try to keep the cost of our long term care policies low with persistent underwriting, prudent investments, and diligent expense management. NLTC came relatively late in the LTC market and sold its first policies in 1988. Especially with our high anticipated persistency, based on the experience from Northwestern Mutual's Life Insurance Policies, we initially had much higher premiums than most of our competitors, but, unfortunately, we are not immune to the challenge of the LTC marketplace reviewed by some of the previous speakers.

Our recent experience in valuations indicated that high rate increases are appropriate under policies sold from 1998 to 2013; however, after gathering input from our financial representatives in the field, we decided to take a more measured approach. So, this year, we began filing our first LTC rate increases nationwide from amounts primarily ranging from 10 to 30 percent. With the rate increase annual limits in Maryland, we requested increases of 10 to 15 percent, anticipated following up next year with premium rate increases for Maryland policy owners in alignment with the rest of the nation.

We appreciate the support of the Maryland Insurance Administration in consideration of approving increases in excess of 15 percent, which reduces expenses for both companies and the administration, and serves as more effective communication for policy owners.

As part of our rate increase filing, we are providing contingent nonforfeiture options to all effected policy owners. Even though our requested increase is smaller, under this feature a policy owner choosing to not pay the increase in premiums within 120 days of the premium increase effective date will receive a paid up benefit equal to the total amount of all premiums paid on the policy.

I will hand it over to Todd to discuss some of the client-based issues.

MR. LASZEWSKI: Thank you. As I mentioned, I am Todd Laszewski. As Greg said, this is the first time ever that Northwestern is seeking a rate increase for its LTC Policies in our 18 years in the long term care insurance business. We are hearing loud and clear from consumers that communication and transparency of are of utmost importance. So, as such, we have held consumer focus groups, as well as engaged in an ongoing dialogue with our financial representatives to help inform our processes and our decision making. We learned the importance of explaining to policy owners why this rate increase is needed, as well as the importance of providing clients with a wide variety of options if they choose to not pay the full increase.

So, our approaching in providing this information to policy owners is three prong. First, after our company's Board of Directors made the decision to request increased rates, as we began the filing process, we mailed a letter to all impacted long term care -- in force long term care policy owners, 2,100 of whom are Maryland policy owners. This letter is in addition to the required policy owner notification letter. This letter informed policy owners that we expect to implement a premium rate increase and described the challenging LTC environment. In this letter, we also provided financial representative contact information, as well as an 800 number for our home office dedicated server center.

Second, due to our exclusive agency structure, we have financial representatives who often have developed deep life-long relationships with their clients. For instance, over half of our long term care policy owners also own other Northwestern Mutual Products as part of a comprehensive financial plan. As such, our financial representatives are in a fairly unique position to discuss the rate increase with their clients and to provide options so that clients can make well-informed decisions. Towards this end, we are providing our financial representatives with lists of impacted clients so that they can proactively work with their clients to provide client-specific options.

And, third, as I mentioned, we have a dedicated Home Office Service Center where the sole focus of the service reps is to answer policy owner questions and to provide options related to this rate increase. Then, because we have heard from consumers that it is important that they have enough time to make a more informed decision on how to proceed, we decided to send the specific policy owner notifications 60 to 120 days prior to the policy anniversary, depending on the timing of state approval, generally providing more time than the minimum required notice. These notifications provide specific information regarding the amount of the increase, and the range of available options, as well as three specific options to reduce benefits in order to maintain the premium, or reduce the amount of the increases. We have heard from consumers that having options is extremely important. So, in addition to the option in the letter, we also provide contact information for our dedicated service team to discuss the other options available to policy owners' specific circumstances. We are exploring additional channels such as web site content to communicate with our policy owners and provide information to help them understand and navigate the process. While being faced with a rate increase is certainly not ideal, we are striving to be transparent, and to make the client experience as positive as possible allowing consumers to make sound decisions for their particular circumstances.

Thank you again for holding today's hearing and for inviting us to participate. We would be happy to take any questions.

COMMISSIONER REDMER: Thank you. You may have alluded to this, but I will ask it, anyway. Were you affected by our 15 percent rate cap? In other words, would you have gone higher than 15 percent.

MR. GURLIK: Yes. In most of these states, we are filing from 10 to 30 percent. We did limit our initial request here in Maryland to 10 to 15 percent.

COMMISSIONER REDMER: If not now, I would be interested in your perspective particularly considering the unique exclusive business model that you have. We have heard from both consumers and advisors that they like the 15 percent cap, because, obviously, it limits the financial impact in any given year; however, we had heard from others that they would prefer to bear the burden up front of a larger increase because it gave them the ability to plan long term easier than the uncertainty of knowing it's 15 percent this year, but what's coming behind it.

MR. GURLIK: I think as we gathered information, like I said, we took a more measured approach. The 30 percent is something that our field representatives thought was manageable. Certainly, it was still a significant amount when you look at the dollars that people are impacted by. We did try to limit it to 30 percent. So, that's something that we feel is -- in all of the other states, it is what we filed for the most part. We believe that is something we can effectively communicate and deal with. We have had some states that had said, we will give you the 30 percent, but you need to phase it in over two years. But at least having that amount approved 0in advance, we can effectively communicate to people what the increases are going to be over the next two years.

COMMISSIONER REDMER: Right.

MR. GURLIK: In the current situation, it is more difficult for us because to say, well, there is a 15 percent increase. We can file for more, but we don't know if it will be approved. It just makes it difficult.

COMMISSIONER REDMER: Van? Adam? Anybody else from our team? All right. Thank you. I appreciate your time. I understand John Alden is back on the phone.

MR. ALDEN: I am on the phone. I wasn't sure whether I should just speak out. I wasn't sure if this was hear only or I would be interrupting.

COMMISSIONER REDMER: Sure, sure. Thanks for joining us. It is all your's.

MR. ALDEN: Okay. Well, I have been hearing a little bit of the call going on. I just heard from Rod about the fact that the hearing was going on live. I didn't realize at the time that I could call into it. Likewise, as you probably know, the John Alden product was issued between the late '80's and the '90's. Approximately '99 was the last time the policies were issued, and the product, as I am sure you also know, had very little actuarial experience around it. It was very heavily underwritten, which has actually worked to its advantage in that the rate increases have generally been asked out of the John Alden product have been much lower than other tier companies that were selling at that time.

The industry, as a whole, the long term care section society actually did a fairly expansive study of what the products looked like, and what the likelihood of rate increases were based on all of the knowledge as it was known in both the years 2000, 2007, and 2014. I was part of that group that included many other people who are not only on this call, but are in the long term care actuarial areas of each of the different companies and consultants. Eventually, the best knowledge that was known in 2000, and, obviously, significantly more so prior to that, was not sufficient to reduce the likelihood of the rate increase at the very early stages of the long term care industry. Because of that, the combination of claims experience being a bit higher, the lapse rates being a bit lower than would have rationally been expected back at those times, and as well as the interest rates have been trending down over the last 30 years to a very low current level have all put pressure on the original pricing. It was best assumed based on the health insurance product, and I know that, at least, the John Alden product, and I am sure many and most of the others have tried to both minimize the rate increases, reduce profits to zero, or even below, and to try to maintain as much opportunity for the policyholder to find ways to minimize the problem associated with the rate increases.

One of the more interesting things that has not come out much in the discussions that I have heard is the fact for anybody who gets a rate increase on virtually any of the products that have been filing rate increases, if you looked at what their price would have been from inception at the original age, and original rate class, if issued on a policy that's being offered today, it is still far below even after the rate increase, and in terms of options, most of the companies and I know our's offer people a chance to reduce their daily benefit, to reduce or freeze their cost of living benefit, and to find other ways that fit their likely need for the long term care benefits to the future pricing of it without having to incur the burden of a rate increase. I believe that Rod may be able to inform you of the things the ACLI is working on to try to get this standardized and beneficial to the policyholders, as well as uniform among the states. I think that effort is one that should be very seriously embraced because of its opportunity to create a middle ground between the companies recovering some of their losses in terms of future experience and the policyholder being able to minimize the amount of rate increases they get, but they will still be getting very fine benefits, much better than they could get today under new products for the price they have paid, and will continue to pay even after the rate increase.

COMMISSIONER REDMER: Okay, Jim. Thank you. With your current request, what is your projected loss ratio?

MR. ALDEN: I would have to pull that up, which I can do if you give me a couple of minutes to call up somebody, but --

COMMISSIONER REDMER: That is all right.

MR. ALDEN: -- it's well over 75 or 80 percent still. I suspect closer to the 90's just because the history of the business is only from 1989 to '99 in terms of when the policies were issued.

COMMISSIONER REDMER: Okay. Any questions? Nope? Anything? All right. We are good. Thank you for participating, Jim.

MR. ALDEN: I appreciate the opportunity to do so by phone. Thank you.

COMMISSIONER REDMER: Physicians Mutual.

MR. LEHMAN: Mark Lehman, for Physicians Mutual Insurance Company. Good afternoon. My name is Mark Lehman, Assistant Vice-president, Actuary in charge of the management of Physicians Mutual Insurance

Company's long term care business. I would like to thank Commissioner Redmer for the opportunity to discuss our long term care filings which are currently pending with the Maryland Insurance Administration. Physicians Mutual sold long term care insurance in the State of Maryland fro 1999 through 2007. It currently provides coverage for just over 250 Maryland policyholders.

Physicians Mutual ceased long term care policies at the end of 2012 and currently provides coverage for over 27,000 policyholders nationwide. We understand how difficult rate increases can be for policyholders and appreciate the opportunity for further detailed discussion regarding the company's decision to file for the rate increases requested. We will speak to the factors for the rate increase. We will also discuss options being made available to our policyholders to mitigate the impact of the rate increase. Included will be a brief discussion surrounding the services provided by the company's customer support centers to assist our policyholders in making an informed decision about their long term care coverage.

The need for the rate increase is driven by four key assumptions that despite being based on actuarial science and the data available at the time, have not materialized commensurate with the policy performance original pricing assumptions. The four key assumptions are morbidity, mortality, lapse rates, and interest rates.

As has been seen across the industry, the experience realized in relation to these four elements have caused the premiums originally charged policyholders to be less that what is needed to fund just the claims expense, without consideration for administrative costs or other factors. Morbidity rates have been higher than what were originally priced for the product primarily as a result of policy holders remaining on claim status for a longer time period than what we originally assumed. The proliferation of assisted living facilities has caused much of this increase.

Mortality rates have been lower than what were originally priced with the products, which is a good thing; however, while life spans are now longer, we have not yet been able to cure many of our chronic diseases. The result for long term care insurance is that more policyholders are living longer with chronic diseases, filing more claims, which drives the aggregate claims benefits to be even higher.

As more and more policyholders have recognized the value they have received from their long term care policy, lapse rates have continued to decline. Again, it is a good thing that more people have long term care coverage, but it has also served to drive claims experience higher in the aggregate.

Finally, the lengthy period of sustained low interest rates has also played a role in the under-performance 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 companies four pending filings. These rate increase requests take into account Maryland's 15 percent cap on the long term care rate increase request. Without the regulated cap, the rate increase in Maryland would have averaged 119 percent taken over multiple years. Physicians Mutual believes it is important to be transparent with their policyholders and to inform them of the total rate increases to insure that funds are available to pay claims.

This is the approach that we have taken in states that do not have a regulated cap on the long term care rate increase request. 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 forth for their individual situations. Because Maryland has a 15 percent cap on long term care rate on rate increase long term care filings, Physicians Mutual expects to continue to file for premium rate increases until the premium rates in Maryland are equitable in relation to premium rates of other states.

It is significant to note that the rate increase that Physicians Mutual is targeting across the entire block of long term care business is not a level that generates any profit to the company, but simply strives to make premium revenue to a level that allows the company to pay policyholder claims. All of the expense associated with supporting our long term care business is being absorbed by the company and no profits are expected to be generated from long term care bought business. We feel even with the rate increases, our long term care policies provide a great benefit for our policyholders. It appears that our policyholders agree, as our experience is that 80 to 85 percent of our policyholders 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 the policyholders, and to assist with this, Physicians Mutual has several benefit reduction options available to policyholders to maintain the premium expense at their current levels. All of these options are available in Maryland, as well as nationwide.

Benefit reduction options include reducing their monthly benefit amount, reducing the length of their benefit periods, increasing the length of their elimination periods, removing attached riders to the policy, or any combination of the above.

For policyholders who feel that they no longer need or can afford a nonforfeiture option is provided. This nonforfeiture option represents a paid-up policy with benefits equal to the total premium vale paid to the policyholder minus any claims paid. 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 all alternatives. Our rate notification level encourages policyholders to call and discuss their options, and the policyholder response has been very positive. These letters that are mailed out go out 66 days prior to the effective date of the rate increase. So, we are not sending letters out ahead of time letting them know that we filed for the rate increase.

Again, I want to thank Commissioner Redmer for providing the opportunity to participate in the hearing today. I would be happy to take any questions you or your staff may have.

COMMISSIONER REDMER: Questions?

MR. ZIMMERMAN: So, nationally, do you offer landing spots?

MR. LEHMAN: We don't offer, you know, a specific landing spot. Again, our approach has been more to offer a multitude of options. So, again, we feel that our policy owners -- you know, everyone's circumstance is different. Giving them the option of multiple different things to adjust premiums gives them ultimate flexibility to find the spot that's appropriate for them.

MR. MORROW: Real quickly. You mentioned the block of business doesn't generate any profits. Were you speaking on a nationwide basis, Maryland specific, or both.

MR. LEHMAN: Both.

MR. MORROW: Okay. Thank you.

MR. JI: Jeff Ji. You have four filings with us now?

MR. LEHMAN: Yes.

MR. JI: Those cover all forms currently with us or do you have a lot?

MR. LEHMAN: No, they cover all Maryland

business.

MR. JI: All Maryland business. Okay.
Thank you.

COMMISSIONER REDMER: Okay. Thank you.
Senior Health Insurance Company of Pennsylvania.

MS. DARROW: Good afternoon. Ginger
Darrow. I would like to thank you for giving me the opportunity to speak on behalf of Senior Health Insurance Company of Pennsylvania, Otherwise known as SHIP, to describe the policies impacted and why the rate increases are needed. As I mentioned, my name is Ginger Darrow. I am the Chief Analytics Officer and ultimately responsible for the actuarial work done on behalf of SHIP. I have with me Juliette Spector with Milliman. Milliman has been providing actuarial consulting services to SHIP since 2008. My plan today is to provide a brief company history, reasons for the rate increases, and information on the policies impacted, included alternative options to the rate increases.

The company SHIP was formed in 2008. It's legacy business consists of American Travelers and

Transport Life Insurance Companies, which merged in 1998, and later became Senior Health Insurance Company. In 2008, the company was transferred to Senior Health Care Oversight Trust, otherwise known as the trust which was created by the Commonwealth of Pennsylvania. The trust was given the responsibility to take ownership of the company and oversee runoff of its closed blocks of long term care insurance. Long term care business is the only line of business we manage. The trust and the company operate exclusively for the benefit of the policyholders, and we seek to maintain solvency for the remaining life of the company so that all obligations of the policyholders are met. The trust is controlled by four former Commissioners of Insurance, including ones from D.C., Massachusetts, New York, and Montana, and the former President of the Society of Actuaries. Implicit in the trust stated objective is that SHIP be managed to avoid both a deficiency in surplus, in which case it would be unable to meet policy quarter obligations and excess accumulation of surplus, in which case it would have collected more from premiums from policyholders than was necessary to meet obligations.

Accordingly, the ideal outcome is for the last policyholder claim to be paid with the company's last dollar. While this may not be practical, this serves as the principle by which we manage the company. The companies wrote 615,000 policies through 80 policy forms and has paid over 7 billion in claims for home health care and nursing home services. Policies were written between 1975 and 2003. There are now 68,000 active policyholders and we have paid claims in excess of $100 million dollars. In Maryland, the companies wrote 8,000 policies through 28 forms from 1984 to 2003 and has paid over $119 million in claims. There are now 1,500 active policyholders in Maryland.

SHIP is aware of the extreme difficulty these rate increases put upon the policyholders and continue to do everything possible to be there for the policyholder at their time of need. SHIP's decision to file for rate increases was made after in depth analysis of the experience relating to these policies. We filed for this increase in light of the information that has emerged over the years. These policies have been in force including claims experience and consistency. Consistent with the findings of other long term care companies, projected claims are higher than expected, compounded by more policyholders retaining their policies longer than expected. We are requesting a 15 percent rate increase capped due to the Maryland limit on policies with 5 percent compound lifetime inflation benefit. This impacts 670 policyholders in Maryland. These policies were sold through 9 policy forms.

As a reminder, the SHIP exists for the sole purpose of meeting long term care policyholder needs. The company operates without a profit motive and will never attempt to recover past losses. In our outstanding filing, the average rate increases we were able to justify is 689 percent. The company is not seeking that high of a rate. We are capping at 15 percent; however, we do anticipate future increase rate filings in Maryland.

Past experience has shown the majority of policyholders will retain their policy and the company has proposed a variety of options for the policyholders to be able to do so. The first option is for the policyholder to drop their option for compound inflation going forward, while maintaining their accumulated current benefit. This means the current daily benefit amount will remain constant for the future. We are offering the policyholder a reduction in premium of 40 percent for selecting this option. We are voluntarily offering the policyholder the ability to select a nonforfeiture option under which the lifetime maximum benefit would be reduced to an amount equal to the sum of all premiums paid, less all benefits paid. We also allow the policyholder to select other options that reduce benefits, such as a reduction of benefit period, a reduction in daily benefit amount, or an increase in the elimination period.

As I mentioned, SHIP understands the challenges rate increases place on our policyholders. Rate increases, along with alternative options are needed to help insure future premiums along with reserves will be adequate to fund anticipated claims. We actively manage and monitor the performance of our business, updating our actuarial studies on an annual basis to make sure that we are there when our policyholders need us most, which is at the time of claim. We will continue this dedication into the future. To restate, the trust in the company operates exclusively for the policyholder and they seek to maintain solvency through the remaining life of the company so all obligations of the policyholders are met.

We would like to thank Commissioner Redmer, and the Maryland Insurance Department, and our policyholders for their time and attention today. I will be happy to take any questions you have.

COMMISSIONER REDMER: Okay. Thank you. Adam?

MS. GRASON: I have one. Thanks, Ginger. So, you discussed the landing spots that your company offers. Are you able to offer those notwithstanding the 15 percent rate increase?

MS. DARROW: Yes, we are.

MS. GRASON: And it sounds like some of the other companies that testified the same today are also offering -- and notwithstanding the rate cap. I just make the observation because in our past rate hearings, some companies said that the 15 percent cap precluded them from offering such landing spots. I am sorry, Al, if you don't mind, are any of the other companies, as I understood, you are offering the landing spots notwithstanding the rate cap right now? Thank you.

COMMISSIONER REDMER: Okay. Anybody else?

MR. JI: So, on your original filing, you request 40 percent. You are saying today the maximum you can ask is 600-something, right?

MS. DARROW: Correct.

MR. JI: So, I am wondering how was that 40 percent determined in the rate increase?

MS. DARROW: Well, we looked at it. We did not want to try to recover past losses, which these policies, as old as they are, that is a lifetime loss ratio. So, we have had a lot of past losses. The 40 percent gets us to the place we need to maintain solvency going forward.

COMMISSIONER REDMER: All right. Thank you very much. Next we will go to some other folks that have signed up. Mr. Kaul.

MR. KAUL: Should I go over here?

COMMISSIONER REDMER: Sure, sure. Thank you for coming out.

MR. KAUL: Thanks to the Maryland Insurance Agency for making this available to the public, and, also, to Miss -- I guess it's -- Muehlberger, who sent me the email. Thank you. I am a senior, obviously retired, and who is feeling like they are getting ground up in this long term care issue, and I believe I understand why, and I haven't investigated your web site in detail, so I am going to keep it pretty short, but it seems to me that we are not making the average citizen aware of this situation adequately, and I just really feel at this point, if somebody asked me, I have $40,000 bucks plus invested in some company, I think it's a bad investment, to be honest with you, and I think I would like to encourage you to come up with numbers that people can work with. For example, long term care, typically 4 years. What is the actual cost in this state for a long term care facility, for a nursing home? Now, this may be on your web site, I don't know, but when I asked somebody about it, they didn't answer the question. And, so, I really think at this point, I understand how we got here, but for the people who are thinking about getting a new contract, how do we keep them from getting ground up in the future? We are not living any longer. So, hopefully, that's not going to be the issue. Okay? And, so, I would like to suggest something. Maybe it's as simple as this: We have Maryland Public Television. We have Mr. Salk, who on Monday night has a call-in program. I think it would be very good to get a company representative, get yourselves, get a long term care facility-type representative, maybe Mr. Bodner, who is kind of neutral, and take some calls, and try to get people educated on this, because, as I say, when people ask me now, I say, no. Thank you.

COMMISSIONER REDMER: Well, I appreciate your comments and I can tell that you one of the things our work group is looking at is how we do better educate the consumers. Also, I would invite you to, when you get a chance, to look at the web site.

MR. KAUL: Yes, I need to do that.

COMMISSIONER REDMER: If you have additional comments, we are going to hold the record open until next Tuesday, the 17th, if you want to provide some additional comments.

MR. KAUL: Yes. Also, you stated that there is some of the previous meetings on there. I need to look at that.

MS. HATCHETTE: I am Joy Hatchette, the head of the Consumer Education Advocacy Unit. If you stay a couple of minutes, I am going to show you on the web site some of the things on the web site that we currently have available for you.

MR. KAUL: Okay.

COMMISSIONER REDMER: Thank you, Joy. Mr. Benjamin?

MR. BENJAMIN: I pass.

COMMISSIONER REDMER: You are good. Okay. So, I think that is all that we have that have signed. Is there anybody else that has any comments that they would like to make? Sally?

MS. LEMBACH: Sally Lembach. I am representing the agents and brokers in Maryland that are members of NAIFA Maryland, and MAHU, and the Maryland Insurance Long Term Care Round Table. I also have the privilege to serve on the MIA Task Force, and that has been wonderful, and I think that we are definitely making progress here in Maryland thanks to MIA. We are getting all of the stakeholders to be able to contribute. Also, there is legislation perhaps going to be introduced concerning wanting to have better education, the incredible need that the public and the private sector must get together to get this education out to consumers. So, I appreciate your comment and I am working with our lobbyists on that as we speak.

But I wanted to be sure that the MIA had on the record when you are talking about your landing spots, I have found as a dedicated long term care insurance specialist that when these options come in, if you say, "landing spot," some of the companies will say, yes, you can change your inflation protection, but you must go back to the original amount, and it will be all recalculated, and, then, go forward that way, whereas, others say it is whatever it has reached at this particular point. Okay. So, it was 5 percent compound, and, then, going forward, it will be 3 percent compound, or whatever the lesser is. So, I am hopeful that MIA has some way when the filings come in to be sure they're checking on that to try to negotiate on behalf of consumers of Maryland that we would have the better option. Thank you.

COMMISSIONER REDMER: Thank you, Sally. Anybody else like to make any comments? Yes, sir. Could you give us your name and who you might be representing?

MR. WALT: Yes, my name is Richard Walt. May I go ahead?

COMMISSIONER REDMER: Sure. Are you representing an organization?

MR. WALT: No, I am representing myself. I am an individual at the long term care policyholder since 2003. The comments that I am about to make have been submitted in writing as requested to Miss Muehlberger ahead of time.

The initial one is: Why can we not begin to request that our premiums can be paid by credit card? Why can't this be an MIA demand as a condition for doing business in the State of Maryland? We are being penalized tremendously by the massive premium increases. This gives us some way to receive some awards. That is question one.

COMMISSIONER REDMER: Okay.

MR. WALT: Can I go to a second one?

COMMISSIONER REDMER: Sure, sure, go ahead.

MR. WALT: Thank you. I receive from my insurance long term care insurance that I have been a policyholder since 2003 a coverage change request form. It offers me four different options for reducing my premiums. You know them, reducing monthly benefits, the elimination periods, and riders, and the problem is the company does not offer any pricing options to enable one to compare different reduction levels against potential savings. One gets to check off an option, receive a new rate, accepts or rejects it, and, then, begins the rate again. This is not a very efficient way of doing business. Why can't the MIA require companies to offer a matrix of cost benefits for each of the options listed? My guess is that if the policyholder can't get this, maybe neither can the MIA, but I think it's a gross oversight as it severely penalizes the policyholder from making an informed choice. My experience in exercising one of these options last year was that by decreasing the benefit period by a third, one realized a savings of marginal value. We need you, the MIA, to examine this as carefully as you view the proposed limit increases, and demand that companies provide the full details available that are not shared with us policyholders. When I initially signed up for my policy, my agent had the matrix available, and allowed me to use it to make the best informed choice available. Now that I am almost forced to begin considering changes to reduce my premiums, I do not have that information and I have to do it on a 1 by 1 basis, and that's a severe disadvantage. I thank you for the opportunity to submit this and I thank you for this hearing.

COMMISSIONER REDMER: Mr. Walt, thank you for your comments. Very helpful. I do have a question for you, though. As you evaluate your options, are you doing either former or new advisor?

MR. WALT: The agent through which this was purchased, the company that issued this policy no longer supports the sub-company through which I obtained the policy. They ask that one go directly to the company, and in doing so, it's a very long turnover process because they have to go to their software to get a single quote. It is often 10 to 20 minutes' worth of time. They wear you down before you have even begun the process of looking at options.

COMMISSIONER REDMER: Yes. All right. I appreciate your feedback. Very helpful.

MR. WALT: I thank you for that opportunity.

COMMISSIONER REDMER: Anybody else have any comments?

MR. KAUL: I would say ditto to what he just said.

COMMISSIONER REDMER: All right. With that, we will adjourn, and, once again, thank you for coming out. This is very helpful for us. Thank you.

(Hearing concluded at 2:41 p.m.)

State of Maryland:
County of Baltimore, to wit:

I, Susan Kambouris, a Notary Public of the State of Maryland, County of Baltimore, do hereby certify that the within-named witness personally appeared before me at the time and place herein set out, and after having been duly sworn by me, according to law, was examined by counsel.

I further certify that the examination was recorded stenographically by me and this transcript is a true record of the proceedings.

I further certify that I am not of counsel to any of the parties, nor in any way interested in the outcome of this action.

As witness my hand this 19th day of January, 2017.

____

SUSAN A. KAMBOURIS
Notary Public

My Commission Expires:
May 1, 2017