

In the Matter Of:

LONG TERM CARE PUBLIC INFORMATIONAL HEARING

HEARING

January 09, 2017

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BEFORE THE
MARYLAND INSURANCE ADMINISTRATION

LONG TERM CARE PUBLIC INFORMATIONAL HEARING

MONDAY, JANUARY 9, 2017
1:00 P.M.

MARYLAND INSURANCE ADMINISTRATION
200 ST. PAUL PLACE
24TH FLOOR
BALTIMORE, MARYLAND 21202

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1 APPEARANCES:

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January 9, 2017

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1 PROCEEDINGS

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

17 Today's hearing will focus on several rate
18 increase requests now before the Maryland Insurance
19 Administration. These include requests from Banker's
20 Life & Casualty Company proposing average rate
21 increases of 15 percent, John Alden Life Insurance
22 Company, proposing average rate increases of 15

1 percent, Senior Health Insurance Company of
2 Pennsylvania, proposing average rate increases of 15
3 percent, Physicians Mutual Insurance Company proposing
4 average rate increases from 0 to 15 percent dependent
5 on the form. Northwestern Long Term Care Insurance
6 Company, proposing average rate increases of 10 to 15
7 percent, depending on the form. The request effect
8 about 3,500 Maryland policyholders. The goal is to
9 hear insurance company officials explain their reasons
10 for the rate increases, and we will also listen to
11 comments from consumers and other stakeholders. We are
12 here to listen, ask questions from carriers and
13 consumers regarding the specific rate increase request.

14 I would like to highlight, take a couple of
15 minutes and highlight what the Maryland Insurance
16 Administration has done since our last hearing. The
17 Insurance Administration has proposed additional long
18 term care regulations that will impact consumer options
19 in the event of a long term care premium increase. The
20 proposed regulations will update the regulations to be
21 consistent with the 2014 changes to the National
22 Association of Insurance Commissioners' long term care

1 model regulation. These changes provide greater value
2 to many consumers who decide to lapse their policy
3 following a rate increase. Additionally, any Insurer
4 that files a rate increase request for a long term care
5 insurance product will be required to participate in a
6 public hearing before a decision is made on that
7 request. As part of efforts to provide more
8 transparency to the rate review process, any Insurer
9 that files a rate increase request for a long term care
10 insurance product will have its corresponding actuarial
11 memorandum posted to the MIA's web site for public
12 review prior to the hearing.

13 A long term care insurance work group has
14 been formed by our agency. The work group participants
15 include members of the Insurance Administration, long
16 term care insurance brokers, state legislators,
17 consumer protection groups, and trade groups. The
18 goals of the working group are to develop regulations
19 to improve the current state of the long term care
20 insurance marketplace in Maryland, specifically
21 developing ways to establish more transparency for
22 consumers during the rate review process, reviewing the

1 External Affairs --

2 MS. EGAN: Back here.

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

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

21 Second, the hearing is not intended as a
22 question and answer forum between consumers and

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

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

1 COMMISSIONER REDMER: Sure. It is
2 supposed --

3 THE SPEAKER VIA TELEPHONE: This is the
4 number.

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

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

8 COMMISSIONER REDMER: It is up.

9 THE SPEAKER VIA TELEPHONE: Get your web
10 people.

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

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

22 So, during this presentation -- can

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

21 So, just on the basics of long term care
22 insurance, long term care insurance pays out when

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

20 By law, these policies have to cover you
21 for life. So, the insurance companies cannot cancel
22 these while you pay your premium. So, because they are

1 meant to be in force for a very long period of time,
2 20, 30, even 40 years, the benefits that you buy today
3 may not be adequate in the future, and, so, a lot of
4 these policies had an option to buy what we call an
5 inflation protection feature, which automatically
6 increases the daily benefit each year to keep up with
7 the cost of care.

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

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

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

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

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

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

21 COMMISSIONER REDMER: Sir? Sir?

22 THE SPEAKER VIA TELEPHONE: Yes.

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

4 THE SPEAKER VIA TELEPHONE: Yes.

5 COMMISSIONER REDMER: Thank you.

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

18 In the beginning, when claims are less than
19 the premiums they are collecting, they take the excess
20 money, which is the premium over the claims, and they
21 put that into a reserve fund. So, while that's
22 happening, they put it into this reserve fund. The

1 fund grows over time. Then, after the claims exceed
2 premiums, we have the reserve fund being completed to
3 pay for claims. And, so, the companies, they take
4 every dollar that you pay into them, and they set some
5 of it aside as follows: For every dollar they collect,
6 they take something up front, and they use that to pay
7 policy administration costs. This is the cost of
8 people who are servicing your policy. They also will
9 pay agent commissions. They will pay state and federal
10 taxes. Some will be set aside for distributions to
11 shareholders as profits, but the vast majority of the
12 dollar that they are collecting from policyholders gets
13 put aside into a reserve fund. In general, depending
14 on when your policy was issued, tends to be about 60
15 cents of every dollar is put into this reserve fund.
16 This reserve fund acts just like a savings account.
17 So, if you think about these net premiums, which is the
18 60 cents on the dollar being deposited, so the money
19 gets deposited into the account early on, and, then,
20 the benefit payments are withdrawals from the account.
21 Like a savings account, this reserve fund
22 earns interest. However, unlike a savings account, it

1 were between 6 and 8 percent. For those of you who
2 have a bank account or a savings, you will notice that
3 what you are being credited for your interest has
4 dropped tremendously. Right now, interest rates that
5 insurance companies are earning on these reserve funds
6 have fallen to something like 3 to 4 percent. The
7 other thing that can go wrong is if the amount that you
8 need to withdraw from the savings account is different.
9 It's dependent on three key things. The first is
10 really -- it is the number of people who keep their
11 policies up to the point when the benefits begin to be
12 paid. Again, these are long-term contracts. If, at
13 the beginning of the policy's life there were 20 people
14 issued policies, and, then, say, 20 years later, the
15 actuaries have projected that 9 people were left, there
16 is an assumption -- and this is just an example -- that
17 1 out of 3 people will use their benefits. So, in this
18 case, 3 out of 9 people are left use their benefits.
19 So, this is the original -- this could be the original
20 assumption. If, however, out of those 20 you have 12
21 people left in 20 years, now, you have one additional
22 person going on claims. So, you have 3 out of 9 in the

1 assumption is that the industry has seen mixed
2 experience in this respect. Some companies have
3 underestimated the number of people that would use
4 their policies. Other people have over estimated. So,
5 we have seen it go both ways. The other thing that can
6 affect the amount that's withdrawn is the amount that
7 is paid out per person that uses benefits. If you
8 remember, long term care benefits are not paid out as a
9 lump sum. The amount that's paid out to everybody who
10 goes on claim is not known in advance. So, this is
11 also based on actuarial estimates. It will depend on
12 the number of days the person is disabled, it will
13 depend on the intensity of the care that the person is
14 receiving, and it will depend on the cost of the care
15 that that person receives. Again, it's based on
16 past -- this estimate is based on past observations.
17 When these products were priced in the early 1990's,
18 the predominant care delivery method was nursing homes.
19 So, if you became disabled, and were going to trigger
20 your policy, really the dominant place to receive care
21 was still nursing homes. However, we have seen over
22 the last 25 years new care delivery settings emerge, in

1 particular, assisted living facilities, which
2 are really more attractive for the policyholders, and
3 although they might cost less per day, we find that
4 people live longer in assisted living facilities than
5 nursing homes. In fact, it's about twice as long.
6 Although assisted living facilities are cheaper per
7 day, these are more expensive claims for insurance
8 companies than nursing home claims because people live
9 in them longer.

10 So, what happens when these estimates
11 aren't realized? So, I like to use a simple savings
12 plan analogy as an example. If you have got a goal of
13 saving \$10,000.00 in 10 years, and let's just assume
14 you are not going to earn interest on the on savings
15 account, you would set aside \$1,000.00 a year for 10
16 years. So, this graph, the darker red is the amount
17 that is in the account and the light red is the amount
18 that is being put in the account every year. So, you
19 can see it going up by \$1,000.00 a year for 10 years.
20 At the end of 10 years, you have reached your savings
21 goal of \$10,000.00. What happens -- just going back to
22 the original plan here, what happens if after 6 years,

1 something happens, and you find out you need to have
2 \$12,000.00 in your account by the end of the next year?
3 That means you are going to have to increase the amount
4 that you are putting into your account by \$500.00 every
5 year because you only have four years left, and you
6 need to make up \$2,000.00. In addition to the thousand
7 you are putting in every year, you need to make up
8 another \$2,000.00. So, \$2,000.00 divided by four years
9 is \$500.00. So, you need to increase your \$1,000.00
10 savings per year up to \$1,500.00 per year. That's a 50
11 percent increase. So, once you do that, you will now
12 hit your \$12,000.00, but you had to increase what you
13 were saving by an awful lot in order to make that
14 happen.

15 On the other hand, with hindsight, if you
16 had known you needed \$12,000.00 per year, you would
17 have taken \$12,000.00 and divided by 10, and you would
18 have saved \$1,200.00 per year, and that would have
19 gotten you up to \$12,000.00. The reason I am showing
20 you this is because \$1,200.00, if you had known from
21 the beginning, was only a 20 percent increase over the
22 thousand dollars as opposed to the \$500.00 per year if

1 you find out you need to catch up later. So, that's
2 important. So, when you know you need to increase your
3 savings schedule is important. The later you find out,
4 the more of an increase it will be.

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

16 In this case, we are showing a model that
17 is in balance. Again, this should work at any time
18 during the life of the policy. It can get out of
19 balance, though, if that reserve fund, or your savings
20 account, plus your future net premiums, which are your
21 deposits, are less than the future benefits. So, this
22 could happen for all of the reasons that I had just

1 described. If that happens, there is not going to be
2 enough money to fund the future benefits. So, you will
3 have this out of balance.

4 So, the insurance company has some limited
5 choices as to what it can do. So, in this example, the
6 reserve fund, plus the future net premiums, plus the
7 catch-up premium rate increase -- so, this is the
8 equivalent of increasing your premium rate from that
9 \$1,000.00 a year to \$1,500.00 per year -- if you could
10 do all of that, then, it will be for the future
11 benefits. Now, you have this balance being restored
12 and it's entirely through premium rate increases.
13 However, in many cases, the insurance company does not
14 receive the premium rate increases that it needs, and,
15 so, that will happen. In this case, the reserve fund,
16 plus the future net premiums, plus a smaller premium
17 rate increase is insufficient, is still less than the
18 future benefits.

19 So, the insurance company has to find other
20 sources to restore this balance. Insurance companies
21 can't print money. So, it has to come from someplace.
22 Generally, the insurance company has two choices. The

1 first is that it can contribute a one-time deposit,
2 which is really to allocate some of its surplus, and
3 put it into this reserve fund. In this case, it's
4 taking that deposit which is in its surplus, which is
5 meant to be distributed as dividends to shareholders or
6 other policyholders, and is using that to fund its
7 future benefits. The other option it has is to take
8 the money from other policyholders, so, in other words,
9 charge other policyholder more money to subsidize the
10 block of us that is not kicking in enough money. These
11 are the two options the insurance companies have.
12 Otherwise, it could be faced with insolvency, which has
13 other issues. If it becomes insolvent, it can then be
14 subject to the guarantee associations, and, usually, in
15 those cases, the policy benefits are reduced.

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

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

22 MS. LEIMBACH: Yes. My name is Sally

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

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

11 MS. LEIMBACH: It does happen.

12 MR. BODNER: It does happen, right.

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

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

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

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

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

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

3 MR. KAUL: Okay. Thank you.

4 COMMISSIONER REDMER: Yes, sir, the back.

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

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

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

1 completely different story.

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

11 MR. BENJAMIN: Okay. Thank you.

12 MR. BODNER: Does that make sense?

13 MR. BENJAMIN: Yes.

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

19 MS. JACOBS: Loretta Jacobs, Banks Life &
20 Casualty. Good afternoon, Commissioner Redmer, the
21 Maryland Insurance Administration staff, and
22 distinguished guests. My name is Loretta Jacobs. I am

1 the Senior Vice-president of Health Product Management
2 and C&O Financial Group. Among other things, I am
3 responsible for the long term care business at Bankers
4 Life & Casualty Company, which is the largest insurance
5 company under the C&O Financial Group umbrella. On
6 behalf of my company, I would like to thank you for the
7 opportunity to provide information regarding our recent
8 request to increase premiums on one of our long term
9 care insurance policy forms called the N-650 Policy
10 Series.

11 Before discussing the details of the
12 filing, I would like to provide some background on the
13 long term care business at my company. Bankers Life &
14 Casualty currently insures over 300,000 individuals
15 nationwide, and, approximately, 5,100 in the State of
16 Maryland under a long term care, home healthcare,
17 nursing home, or short term convalescent care policy.
18 We have been writing long term care business since 1987
19 and we remain actively selling new policies today,
20 having issued over 350 new policies in the State of
21 Maryland during the first 9 months of 2016. At Bankers
22 Life, we are proud of our commitment to offering

1 meaningful insurance coverage to middle market
2 consumers at your retirement. We believe our long term
3 care and short term convalescent care coverage products
4 are an important component of our policyholders'
5 financial security in their retirement years.

6 We began selling the N650 Policy Series,
7 which is the subject of the rate increase before you
8 today on a nationwide basis in late 2009, with the
9 first policies of this form sold in the State of
10 Maryland in late 2010. We have revised pricing
11 assumptions and rate structure for the product in 2013,
12 and, consequently, began selling new policies on the
13 revised basis in Maryland as of August 1 of 2014.
14 Individuals who have purchased the policies since
15 August 1 of 2014 under the new pricing structure are
16 not subject to the rate increase request. The rate
17 increase request applies to, approximately, 220
18 Maryland consumers currently in force who were issued
19 from December 1 of 2010 through the end of July of
20 2014. As of January 1 of this year, 2017, the Maryland
21 consumers subject to this increase have been in force
22 for 4.25 years, on average. We have requested to

1 increase premiums 15 percent on the N-650 series
2 customers nationwide, including in the State of
3 Maryland. This is the first time we have requested to
4 change premium rates on these policies. We understand
5 that increasing premiums can be difficult for Insured's
6 who are on fixed incomes. And we make a point, where
7 possible, to personalize each notice of a premium rate
8 increase with options for the customer to consider,
9 including paying the increased amount, of course, or
10 reducing coverage, such as by increasing the
11 elimination period, or, perhaps, reducing the benefit
12 period duration, which is the length of time over which
13 benefits are payable.

14 In addition, each customer is invited to
15 call a 1-800 number to explore other possible benefit
16 reductions that may be available in the event the
17 specific personalized options described in the rate
18 increase notice are not satisfactory to them. We
19 understand that customers may wish to spend time
20 considering the options available to them, so our
21 current practice is to notify customers of an impending
22 premium rate change at least 60 days in advance of the

1 change. As you know, we are required to provide, at
2 least, a 45-day advance warning of a premium rate
3 change in Maryland, so our current process complies
4 with Maryland Law and provides an additional 15 days of
5 advance notice.

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

22 Every year, we review our actual results

1 relative to what we expected to those assumptions that
2 contribute significantly to the premium re-rate setting
3 process. These assumptions include morbidity rates, or
4 plate rates, and persistency rates. Regarding
5 morbidity, we study what is called the total claim
6 cost, which equals the claims instance rates or the
7 probability of a claim occurring times the dollar
8 payout for a claim, given that it has occurred. The
9 higher the year by year claims assumptions are, the
10 higher the premium we, as an insurance company, need to
11 charge. Persistency refers to the likelihood that a
12 customer in force today will remain in force or persist
13 into the future. The longer customers retain their
14 policies in effect to advanced ages, when claims are
15 likely to incur, the higher the premiums need to be to
16 cover the claims as they emerge. The opposite of
17 persistency rate is the termination rates. The
18 termination rates are actually what we study each year.
19 Therefore, the lower the policy termination rate, the
20 higher the policy persistency rate, and the higher the
21 premiums need to be. Policyholders may terminate their
22 coverage voluntarily by ceasing to pay the premiums

1 meet a 58 percent lifetime loss ratio on the original
2 lower premiums amounts and an 85 percent lifetime loss
3 ratio on any premium rates.

4 The interest rates used for discounting
5 future experience and accruing past experience to the
6 present day are based on the interest rates in effect
7 when the policy form was originally priced at issue.
8 Therefore, changes in interest rates since the original
9 pricing are not captured by the rate increase formula
10 applicable to this particular N-650 Policy Series. I
11 would also like to note for this N-650 Policy Form, the
12 rate increase calculation formula that I just mentioned
13 would permit an increase of 28 percent has been
14 requested on a nationwide basis. We have, however,
15 only requested a 15 percent increase on a nationwide
16 basis. At our company, we do not simply request the
17 percentage increase that is prescribed by the formula.
18 We consider the credibility of the experience data on
19 the policy form that has been accumulated thus far. We
20 supplement it, as appropriate, with information
21 regarding trends we are experiencing on similar
22 policies, as well any relevant trends developing on an

1 industry-wide basis. Finally, we then consider the
2 impact any planned management actions may have on
3 future experience of the policy form before forming
4 preliminary rate increase recommendation. We then
5 confirm that our preliminary rate increase
6 recommendation is in compliance with applicable laws
7 and regulations, including being less than or equal to
8 the formulated prescribed amount, which is the maximum
9 amount that we may request.

10 Our analysis of the claims experience under
11 this form do not reveal any trends we believe warranted
12 reaction at this time; however, our analysis indicated
13 a 15 percent premium rate increase was required due to
14 a need to change our mortality assumption from the
15 older table, the 1994 Group Annuity Mortality Table to
16 a newer table in the Annuity 2000. The mortality rates
17 in the revised table are, approximately, 22 percent
18 lower than those in the original mortality table for
19 the relevant age mass for our LTC Insurance, which is
20 70 and over. In addition, we determined we should
21 increase the length of time over which our mortality
22 assumptions will reach their ultimate level from 5

1 years to 25 years. This change further reduces the
2 projected terminations due to mortality. In our
3 original pricing, we tested and built moderately
4 adverse experience margins into the premiums to
5 withstand 10 percent across the board lower mortality
6 than our original best estimate assumption of the 1994
7 GAM Table that I mentioned; however, as I noted our
8 actual mortality is more than 20 percent lower than
9 originally estimated, and our premiums do not have
10 enough margin to cover this shortfall, which
11 necessitates this rate increase.

12 The new financial projections that we
13 prepared to support this filing and have shared with
14 the Maryland Insurance Administration, after adjusting
15 the mortality basis to the new basis, we showed that
16 our lifetime loss ratio is 77 percent without the
17 premium rate change, and if we are granted the increase
18 that we requested, the lifetime loss ratio decreases to
19 69 percent. Had we requested and received approval for
20 the maximum allowable increase under the Rate
21 Stabilization Form, the loss ratio would be,
22 approximately, 64 percent. These loss ratio

1 projections underscore the importance of recognizing
2 emerging trends as early as possible when relatively
3 modest premium adjustment can be made to keep the
4 product line financially sound as opposed to waiting 5
5 or 10 more years to act, resulting in substantially
6 higher required rate increases for our policyholders,
7 and lifetime loss ratios of nearly 100 percent.

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

22 We look forward to continuing to work with

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

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

13 MS. JACOBS: Sure.

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

16 MS. JACOBS: Yes.

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

19 MS. JACOBS: Right.

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

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

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

12 MS. JACOBS: Typically, what we had done --
13 and I think a lot of companies had done this, too, is
14 we were especially around that time frame again focused
15 on looking at the experience of the total termination
16 rate. So, we were looking at lapses and deaths
17 combined, if you will, and comparing them, and, you
18 know, at that time, too, the early 2000's is when most
19 companies recognized that voluntary lapse was
20 materially lower than had been thought of in, say, the
21 1990's. So, that got built in, and, frankly, there was
22 a lot of underreporting of deaths, and, so, I think in

1 studying what people thought was voluntary lapse
2 experience, it was only when we really got into that in
3 the mid to -- you know, that 2005 plus time frame, the
4 people started saying, you know, there is probably
5 another component of this. It's not just lower
6 voluntary lapse, there is probably lower mortality
7 going on here. It wasn't really recognized and it
8 would be hard to study given the data -- there is no --
9 it's not like life insurance, where you actually have
10 to know your deaths to pay your claims. You don't
11 really have that information in a lot of your
12 experience gathering process. There is no clear way to
13 actually separate out a death from, sometimes, just a
14 person chose not to pay. You could tell when someone
15 actually writes a letter saying that.

16 COMMISSIONER REDMER: Sure.

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

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

21 MS. JACOBS: In this state?

22 COMMISSIONER REDMER: Yes.

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

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

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

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

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

1 For them, there is no equivalent. Then, of the 29
2 percent that are left, 15 percent, so half, just over
3 half purchased the 3 percent compound. So, when we
4 looked at that, we said, gee, you know, coming down --
5 3 percent is a pretty economical inflation benefit and
6 fairly consistent with what the cost of care is. So,
7 we didn't think that, necessarily, customers would
8 value that particular option more than increasing the
9 elimination period or reducing the benefit period. So,
10 the increasing elimination period and the reducing
11 benefit period are the two options we typically
12 illustrate to a customer. Then, like I say, we do say,
13 if this isn't what you want, definitely give us a call,
14 and we can construct something that meets your more
15 specific needs for you.

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

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

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

7 MR. JI: Your pricing assumption is on the
8 2013 assumptions, right?

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

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

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

1 assumptions at this point.

2 COMMISSIONER REDMER: Okay. Bob?

3 MR. MORROW: Not for me.

4 COMMISSIONER REDMER: Cathy? All right.

5 With that, Loretta, I appreciate it. Thank you very
6 much.

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

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

14 MR. GURLIK: Greg Gurlik, Northwestern
15 Mutual.

16 MR. LASZEWSKI: Todd Laszewski,
17 Northwestern Mutual.

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

20 MR. GURLIK: Good afternoon and thank you
21 for holding today's hearing and inviting regarding
22 Northwestern's Long Term Insurance Company to

1 participate. Also, thank you to the consumers here
2 today. We appreciate your comments and participation,
3 as well. As I said, my name is Greg Gurlik, with MLTC,
4 which is a Pittsburgh company, and responsible for
5 pricing our long term care products. I am going to
6 provide some background on our LTC product line and our
7 approach to the LTC business. Sitting next to me,
8 here, is Todd Laszewski, who is the Director of LTC
9 Product Development. He will share some information of
10 our consumer research and consumer plan associated with
11 the rate increases. LTC is wholly owned by its mutual
12 parent company, Northwestern Mutual. NLTC embraces the
13 useful values of the parent by selling participating
14 policies and focusing on long term care and long term
15 policy value. We try to keep the cost of our long term
16 care policies low with persistent underwriting, prudent
17 investments, and diligent expense management. NLTC
18 came relatively late in the LTC market and sold its
19 first policies in 1988. Especially with our high
20 anticipated persistency, based on the experience from
21 Northwestern Mutual's Life Insurance Policies, we
22 initially had much higher premiums than most of our

1 competitors, but, unfortunately, we are not immune to
2 the challenge of the LTC marketplace reviewed by some
3 of the previous speakers.

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

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

22 As part of our rate increase filing, we are

1 providing contingent nonforfeiture options to all
2 effected policy owners. Even though our requested
3 increase is smaller, under this feature a policy owner
4 choosing to not pay the increase in premiums within 120
5 days of the premium increase effective date will
6 receive a paid up benefit equal to the total amount of
7 all premiums paid on the policy.

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

10 MR. LASZEWSKI: Thank you. As I mentioned,
11 I am Todd Laszewski. As Greg said, this is the first
12 time ever that Northwestern is seeking a rate increase
13 for its LTC Policies in our 18 years in the long term
14 care insurance business. We are hearing loud and clear
15 from consumers that communication and transparency of
16 are of utmost importance. So, as such, we have held
17 consumer focus groups, as well as engaged in an ongoing
18 dialogue with our financial representatives to help
19 inform our processes and our decision making. We
20 learned the importance of explaining to policy owners
21 why this rate increase is needed, as well as the
22 importance of providing clients with a wide variety of

1 consumers that having options is extremely important.
2 So, in addition to the option in the letter, we also
3 provide contact information for our dedicated service
4 team to discuss the other options available to policy
5 owners' specific circumstances. We are exploring
6 additional channels such as web site content to
7 communicate with our policy owners and provide
8 information to help them understand and navigate the
9 process. While being faced with a rate increase is
10 certainly not ideal, we are striving to be transparent,
11 and to make the client experience as positive as
12 possible allowing consumers to make sound decisions for
13 their particular circumstances.

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

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

21 MR. GURLIK: Yes. In most of these states,
22 we are filing from 10 to 30 percent. We did limit our

1 initial request here in Maryland to 10 to 15 percent.

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

13 MR. GURLIK: I think as we gathered
14 information, like I said, we took a more measured
15 approach. The 30 percent is something that our field
16 representatives thought was manageable. Certainly, it
17 was still a significant amount when you look at the
18 dollars that people are impacted by. We did try to
19 limit it to 30 percent. So, that's something that we
20 feel is -- in all of the other states, it is what we
21 filed for the most part. We believe that is something
22 we can effectively communicate and deal with. We have

1 had some states that had said, we will give you the 30
2 percent, but you need to phase it in over two years.
3 But at least having that amount approved 0in advance,
4 we can effectively communicate to people what the
5 increases are going to be over the next two years.

6 COMMISSIONER REDMER: Right.

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

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

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

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

21 MR. ALDEN: Okay. Well, I have been
22 hearing a little bit of the call going on. I just

1 best knowledge that was known in 2000, and, obviously,
2 significantly more so prior to that, was not sufficient
3 to reduce the likelihood of the rate increase at the
4 very early stages of the long term care industry.
5 Because of that, the combination of claims experience
6 being a bit higher, the lapse rates being a bit lower
7 than would have rationally been expected back at those
8 times, and as well as the interest rates have been
9 trending down over the last 30 years to a very low
10 current level have all put pressure on the original
11 pricing. It was best assumed based on the health
12 insurance product, and I know that, at least, the John
13 Alden product, and I am sure many and most of the
14 others have tried to both minimize the rate increases,
15 reduce profits to zero, or even below, and to try to
16 maintain as much opportunity for the policyholder to
17 find ways to minimize the problem associated with the
18 rate increases.

19 One of the more interesting things that has
20 not come out much in the discussions that I have heard
21 is the fact for anybody who gets a rate increase on
22 virtually any of the products that have been filing

1 rate increases, if you looked at what their price would
2 have been from inception at the original age, and
3 original rate class, if issued on a policy that's being
4 offered today, it is still far below even after the
5 rate increase, and in terms of options, most of the
6 companies and I know our's offer people a chance to
7 reduce their daily benefit, to reduce or freeze their
8 cost of living benefit, and to find other ways that fit
9 their likely need for the long term care benefits to
10 the future pricing of it without having to incur the
11 burden of a rate increase. I believe that Rod may be
12 able to inform you of the things the ACLI is working on
13 to try to get this standardized and beneficial to the
14 policyholders, as well as uniform among the states. I
15 think that effort is one that should be very seriously
16 embraced because of its opportunity to create a middle
17 ground between the companies recovering some of their
18 losses in terms of future experience and the
19 policyholder being able to minimize the amount of rate
20 increases they get, but they will still be getting very
21 fine benefits, much better than they could get today
22 under new products for the price they have paid, and

1 will continue to pay even after the rate increase.

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

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

8 COMMISSIONER REDMER: That is all right.

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

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

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

18 COMMISSIONER REDMER: Physicians Mutual.

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

1 good thing; however, while life spans are now longer,
2 we have not yet been able to cure many of our chronic
3 diseases. The result for long term care insurance is
4 that more policyholders are living longer with chronic
5 diseases, filing more claims, which drives the
6 aggregate claims benefits to be even higher.

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

13 Finally, the lengthy period of sustained
14 low interest rates has also played a role in the
15 under-performance of the company's long term care block
16 of business. Physicians Mutual is requesting rate
17 increases in Maryland that average between 0 and 15
18 percent across the companies four pending filings.
19 These rate increase requests take into account
20 Maryland's 15 percent cap on the long term care rate
21 increase request. Without the regulated cap, the rate
22 increase in Maryland would have averaged 119 percent

1 taken over multiple years. Physicians Mutual believes
2 it is important to be transparent with their
3 policyholders and to inform them of the total rate
4 increases to insure that funds are available to pay
5 claims.

6 This is the approach that we have taken in
7 states that do not have a regulated cap on the long
8 term care rate increase request. This approach allows
9 the company to provide clarity to the policyholders on
10 the ultimate cost of their long term care coverage,
11 giving them the information needed to make the best
12 decisions going forth for their individual situations.
13 Because Maryland has a 15 percent cap on long term care
14 rate on rate increase long term care filings,
15 Physicians Mutual expects to continue to file for
16 premium rate increases until the premium rates in
17 Maryland are equitable in relation to premium rates of
18 other states.

19 It is significant to note that the rate
20 increase that Physicians Mutual is targeting across the
21 entire block of long term care business is not a level
22 that generates any profit to the company, but simply

1 strives to make premium revenue to a level that allows
2 the company to pay policyholder claims. All of the
3 expense associated with supporting our long term care
4 business is being absorbed by the company and no
5 profits are expected to be generated from long term
6 care bought business. We feel even with the rate
7 increases, our long term care policies provide a great
8 benefit for our policyholders. It appears that our
9 policyholders agree, as our experience is that 80 to 85
10 percent of our policyholders have chosen to pay the
11 premium increases rather than altering their benefits.
12 We do understand that rate increases may put a burden
13 on some of the policyholders, and to assist with this,
14 Physicians Mutual has several benefit reduction options
15 available to policyholders to maintain the premium
16 expense at their current levels. All of these options
17 are available in Maryland, as well as nationwide.

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

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

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

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

15 MR. LEHMAN: Both.

16 MR. MORROW: Okay. Thank you.

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

19 MR. LEHMAN: Yes.

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

22 MR. LEHMAN: No, they cover all Maryland

1 business.

2 MR. JI: All Maryland business. Okay.

3 Thank you.

4 COMMISSIONER REDMER: Okay. Thank you.

5 Senior Health Insurance Company of Pennsylvania.

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

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

1 Transport Life Insurance Companies, which merged in
2 1998, and later became Senior Health Insurance Company.
3 In 2008, the company was transferred to Senior Health
4 Care Oversight Trust, otherwise known as the trust
5 which was created by the Commonwealth of Pennsylvania.
6 The trust was given the responsibility to take
7 ownership of the company and oversee runoff of its
8 closed blocks of long term care insurance. Long term
9 care business is the only line of business we manage.
10 The trust and the company operate exclusively for the
11 benefit of the policyholders, and we seek to maintain
12 solvency for the remaining life of the company so that
13 all obligations of the policyholders are met. The
14 trust is controlled by four former Commissioners of
15 Insurance, including ones from D.C., Massachusetts, New
16 York, and Montana, and the former President of the
17 Society of Actuaries. Implicit in the trust stated
18 objective is that SHIP be managed to avoid both a
19 deficiency in surplus, in which case it would be unable
20 to meet policy quarter obligations and excess
21 accumulation of surplus, in which case it would have
22 collected more from premiums from policyholders than

1 been in force including claims experience and
2 consistency. Consistent with the findings of other
3 long term care companies, projected claims are higher
4 than expected, compounded by more policyholders
5 retaining their policies longer than expected. We are
6 requesting a 15 percent rate increase capped due to the
7 Maryland limit on policies with 5 percent compound
8 lifetime inflation benefit. This impacts 670
9 policyholders in Maryland. These policies were sold
10 through 9 policy forms.

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

20 Past experience has shown the majority of
21 policyholders will retain their policy and the company
22 has proposed a variety of options for the policyholders

1 to be able to do so. The first option is for the
2 policyholder to drop their option for compound
3 inflation going forward, while maintaining their
4 accumulated current benefit. This means the current
5 daily benefit amount will remain constant for the
6 future. We are offering the policyholder a reduction
7 in premium of 40 percent for selecting this option. We
8 are voluntarily offering the policyholder the ability
9 to select a nonforfeiture option under which the
10 lifetime maximum benefit would be reduced to an amount
11 equal to the sum of all premiums paid, less all
12 benefits paid. We also allow the policyholder to
13 select other options that reduce benefits, such as a
14 reduction of benefit period, a reduction in daily
15 benefit amount, or an increase in the elimination
16 period.

17 As I mentioned, SHIP understands the
18 challenges rate increases place on our policyholders.
19 Rate increases, along with alternative options are
20 needed to help insure future premiums along with
21 reserves will be adequate to fund anticipated claims.
22 We actively manage and monitor the performance of our

1 business, updating our actuarial studies on an annual
2 basis to make sure that we are there when our
3 policyholders need us most, which is at the time of
4 claim. We will continue this dedication into the
5 future. To restate, the trust in the company operates
6 exclusively for the policyholder and they seek to
7 maintain solvency through the remaining life of the
8 company so all obligations of the policyholders are
9 met.

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

14 COMMISSIONER REDMER: Okay. Thank you.
15 Adam?

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

20 MS. DARROW: Yes, we are.

21 MS. GRASON: And it sounds like some of the
22 other companies that testified the same today are also

1 offering -- and notwithstanding the rate cap. I just
2 make the observation because in our past rate hearings,
3 some companies said that the 15 percent cap precluded
4 them from offering such landing spots. I am sorry, Al,
5 if you don't mind, are any of the other companies, as I
6 understood, you are offering the landing spots
7 notwithstanding the rate cap right now? Thank you.

8 COMMISSIONER REDMER: Okay. Anybody else?

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

12 MS. DARROW: Correct.

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

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

21 COMMISSIONER REDMER: All right. Thank you
22 very much. Next we will go to some other folks that

1 have signed up. Mr. Kaul.

2 MR. KAUL: Should I go over here?

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

5 MR. KAUL: Thanks to the Maryland Insurance
6 Agency for making this available to the public, and,
7 also, to Miss -- I guess it's -- Muehlberger, who sent
8 me the email. Thank you. I am a senior, obviously
9 retired, and who is feeling like they are getting
10 ground up in this long term care issue, and I believe I
11 understand why, and I haven't investigated your web
12 site in detail, so I am going to keep it pretty short,
13 but it seems to me that we are not making the average
14 citizen aware of this situation adequately, and I just
15 really feel at this point, if somebody asked me, I have
16 \$40,000 bucks plus invested in some company, I think
17 it's a bad investment, to be honest with you, and I
18 think I would like to encourage you to come up with
19 numbers that people can work with. For example, long
20 term care, typically 4 years. What is the actual cost
21 in this state for a long term care facility, for a
22 nursing home? Now, this may be on your web site, I

1 don't know, but when I asked somebody about it, they
2 didn't answer the question. And, so, I really think at
3 this point, I understand how we got here, but for the
4 people who are thinking about getting a new contract,
5 how do we keep them from getting ground up in the
6 future? We are not living any longer. So, hopefully,
7 that's not going to be the issue. Okay? And, so, I
8 would like to suggest something. Maybe it's as simple
9 as this: We have Maryland Public Television. We have
10 Mr. Salk, who on Monday night has a call-in program. I
11 think it would be very good to get a company
12 representative, get yourselves, get a long term care
13 facility-type representative, maybe Mr. Bodner, who is
14 kind of neutral, and take some calls, and try to get
15 people educated on this, because, as I say, when people
16 ask me now, I say, no. Thank you.

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

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

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

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

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

13 MR. KAUL: Okay.

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

16 MR. BENJAMIN: I pass.

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

21 MS. LEMBACH: Sally Lembach. I am
22 representing the agents and brokers in Maryland that

1 are members of NAIFA Maryland, and MAHU, and the
2 Maryland Insurance Long Term Care Round Table. I also
3 have the privilege to serve on the MIA Task Force, and
4 that has been wonderful, and I think that we are
5 definitely making progress here in Maryland thanks to
6 MIA. We are getting all of the stakeholders to be able
7 to contribute. Also, there is legislation perhaps
8 going to be introduced concerning wanting to have
9 better education, the incredible need that the public
10 and the private sector must get together to get this
11 education out to consumers. So, I appreciate your
12 comment and I am working with our lobbyists on that as
13 we speak.

14 But I wanted to be sure that the MIA had on
15 the record when you are talking about your landing
16 spots, I have found as a dedicated long term care
17 insurance specialist that when these options come in,
18 if you say, "landing spot," some of the companies will
19 say, yes, you can change your inflation protection, but
20 you must go back to the original amount, and it will be
21 all recalculated, and, then, go forward that way,
22 whereas, others say it is whatever it has reached at

1 this particular point. Okay. So, it was 5 percent
2 compound, and, then, going forward, it will be 3
3 percent compound, or whatever the lesser is. So, I am
4 hopeful that MIA has some way when the filings come in
5 to be sure they're checking on that to try to negotiate
6 on behalf of consumers of Maryland that we would have
7 the better option. Thank you.

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

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

14 COMMISSIONER REDMER: Sure. Are you
15 representing an organization?

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

21 The initial one is: Why can we not begin
22 to request that our premiums can be paid by credit

1 card? Why can't this be an MIA demand as a condition
2 for doing business in the State of Maryland? We are
3 being penalized tremendously by the massive premium
4 increases. This gives us some way to receive some
5 awards. That is question one.

6 COMMISSIONER REDMER: Okay.

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

8 COMMISSIONER REDMER: Sure, sure, go ahead.

9 MR. WALT: Thank you. I receive from my
10 insurance long term care insurance that I have been a
11 policyholder since 2003 a coverage change request form.
12 It offers me four different options for reducing my
13 premiums. You know them, reducing monthly benefits,
14 the elimination periods, and riders, and the problem is
15 the company does not offer any pricing options to
16 enable one to compare different reduction levels
17 against potential savings. One gets to check off an
18 option, receive a new rate, accepts or rejects it, and,
19 then, begins the rate again. This is not a very
20 efficient way of doing business. Why can't the MIA
21 require companies to offer a matrix of cost benefits
22 for each of the options listed? My guess is that if

1 the policyholder can't get this, maybe neither can the
2 MIA, but I think it's a gross oversight as it severely
3 penalizes the policyholder from making an informed
4 choice. My experience in exercising one of these
5 options last year was that by decreasing the benefit
6 period by a third, one realized a savings of marginal
7 value. We need you, the MIA, to examine this as
8 carefully as you view the proposed limit increases, and
9 demand that companies provide the full details
10 available that are not shared with us policyholders.
11 When I initially signed up for my policy, my agent had
12 the matrix available, and allowed me to use it to make
13 the best informed choice available. Now that I am
14 almost forced to begin considering changes to reduce my
15 premiums, I do not have that information and I have to
16 do it on a 1 by 1 basis, and that's a severe
17 disadvantage. I thank you for the opportunity to
18 submit this and I thank you for this hearing.

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

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

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

12 MR. WALT: I thank you for that
13 opportunity.

14 COMMISSIONER REDMER: Anybody else have any
15 comments?

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

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

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

22

1 State of Maryland:

2 County of Baltimore, to wit:

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

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

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

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

17 _____

18 SUSAN A. KAMBOURIS

19 Notary Public

20

21 My Commission Expires:

22 May 1, 2017

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