

LONG-TERM CARE WORKGROUP AGENDA

Monday, November 21, 2016 11 a.m.-12 p.m.
Maryland Insurance Administration, Law Library

27th Floor, 200 St. Paul Place, Baltimore, MD 21202

CALL IN NUMBER: (866) 247-6034

CONFERENCE CODE: 1573490062

1. Roll Call

- MIA Workgroup members
 - Adam Zimmerman, Actuarial Analyst (Co-Chair)
 - Catherine Grason, Director of Regulatory Affairs (Co-Chair)
 - Jeff Ji, Senior Actuary
 - Joy Hatchette, Associate Commissioner, Consumer Education and Advocacy
 - Jamie St. Clair, Lead Analyst, Health Insurance Division
 - Nancy Egan, Director of Government and External Relations
 - Tracy Imm, Director of Public Relations
 - Emily Shrift, Assistant Attorney General, MIA
- Invited Legislators and Stakeholders
 - Senator Adelaide Eckardt
 - Delegate Ben Kramer
 - Lorie Mayorga, Deputy Director Medicaid Eligibility Policy, Maryland Department of Health and Mental Hygiene (DHMH)
 - Beth Sammis, Consumer Health First
 - Melissa Barnickel, Principal Baygroup Insurance, LLC
 - Sally Leimbach, Maryland LTCI Roundtable, Joint Legislative Committee of Maryland Association of Health Underwriters (MAHU) and The National Association of Insurance and Financial Advisors of Maryland (NAIFA-MD)
 - Jeff Merwin, Director of LTC Brokerage, Capitol Metro Financial Services, Inc.
 - Amanda Matthiesen, Executive Director, Product Policy, America's health Insurance Plans (AHIP)
 - Susan Coronel, Executive Director, Product Policy, America's Health Insurance Plans (AHIP)
 - Bill Weller, Consulting Actuary, America's Health Insurance Plans (AHIP)
 - Rod Perkins, Vice-President, Government Relations, The American Council of Life Insurers (ACLI)

2. TOPIC: 15% Cap on Rate Increases

Current Maryland Regulation, COMAR 31.14.01.04A(5), states "*An insurer may not charge a renewal premium rate for a long-term care policy which exceeds by more than 15 percent any premium charged for the policy during the preceding 12 months.*"

- A. Review pros and cons of maintaining cap on rate increases. (20 minutes)
- **Pros**
 - Allows protection for consumers each year.
 - **Cons**
 - Allows companies to file max increase of 15% year over year.

B. Review other workarounds associated with Rate Caps. (40 minutes)

- DOCUMENTS PROVIDED IN ADVANCE OF MEETING:
 - NAIC Model LTC Bulletin
 - Rate Hearing Follow-up Letters:
 - John Hancock
 - Transamerica
- Could Maryland provide a choice to policyholders regarding rate increases?
As an example, policyholder could choose 15% increase or full amount of increase as requested by company, to eliminate future rate increases? Has this been done before in other states? Feasibility of implementation in Maryland and for insurers?
- After a policyholder has reached a certain age, should policyholders be subject to future rate increases?

3. Next meeting: Monday, December 5, 2016 11 a.m.-12 p.m.

- TOPICS:
 - Determine ways to improve communication between the LTC Carriers and their policyholders.
 - What information would be needed from carriers to better understand the nature of the market in Maryland, and how to obtain it. i.e. age of policyholder and spouse

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Marie Roche

**Assistant Vice President
US Insurance Contracts and Legislative Services**

November 3, 2016

Honorable Commissioner Alfred Redmer, Jr.
State of Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, MD 21202-2272

**Re: Request for Additional Information
Maryland's October 27, 2016 Long-Term Insurance Hearing**

Dear Commissioner Redmer:

On behalf of John Hancock, I want to thank you for providing us with the opportunity to discuss our pending rate increase filing at the Maryland's October 27, 2016 Long-Term Insurance Hearing.

During the hearing you asked that insurers provide you with additional feedback on consumer mitigation options that are not presently available in Maryland, but are commonplace elsewhere.

We recognize that premium increases may be difficult for some policyholders to afford and we have taken some major steps to help ease the burden on our insureds. As indicated in my oral testimony:

- We have applied the more restrictive NAIC rate stability rules to all policies including our pre-rate stability block.
- We have ensured that the resulting premiums on our inforce business are not more than our comparable new business rates adjusted for benefit and underwriting differences (in fact, they are often substantially less than our new business rates).
- We have provided the typical benefit reduction alternatives to mitigate the impact of premium increases.

The Inflation Reduction Landing Spot Provides a Meaningful Alternative to Our Insureds

In 2010, we pioneered a unique and innovative alternative to completely offset the rate increase for those with automatic inflation increases, by lowering the future inflation increases on a prospective basis. We call this the Inflation Reduction Landing Spot, or Landing Spot for short. Past inflation accruals are retained by the policyholder and only future accruals are reduced. For example, a person with 5% annual compound or 5% simple inflation would be able to reduce their inflation index based upon the revised lower index assigned to them (i.e., 4%, 3.5%, 2%, etc.) The key to this option is that it allows policyholders to retain the core value of his/her current plan design, while still avoiding the rate increase. Making this change does not decrease current benefit levels, nor does it affect such key provisions as covered services, levels of reimbursement, elimination periods, exclusions, or other important provisions.

We developed this option for one reason only, to help our customers retain their valuable coverage. Nationwide, more than half of the insureds eligible for the Landing Spot chose to elect this mitigation option. In addition, we don't want our policyholders to lapse and receive little or no value from their policies. Our experience in other states has shown that the availability of Landing Spots did help customers retain their coverage as our overall national lapse rate is less than 4%.

Our Regulators and our distribution partners continue to find the inflation reduction landing spot to be an innovative and effective alternative for our insureds. We also believe that this option has greatly reduced complaints as it empowered our customers with a very viable mitigation alternative.

We Believe that the MIA has the Flexibility to Accept of Our Requested Increase

Unfortunately, the inflation reduction landing spot is not currently available in Maryland due to the fact that requested rate increases have been capped at no more than 15%. The inflation reduction landing spots are only available when all or a substantial portion of the requested rate increase is approved. In our outstanding filing, our average needed rate increase is 46%. Please note we would be able to offer inflation reduction landing spots if the MIA were to approve the full requested increase that is phased in over a series of years (up to the annual 15% cap.)

It is our understanding that the basis of the 15% cap and the present inability to pre-approved increases which are phased in over a series of years is found in Section 31.14.01.04A(5) & (6) of the Code of Maryland Regulations, which states:

“(5) An insurer may not charge a renewal premium rate for a long-term care policy which exceeds by more than 15 percent any premium charged for the policy during the preceding 12 months.

(6) With the approval of the Commissioner, the insurer may charge a renewal premium exceeding a 15 percent increase upon a showing that a larger increase is necessary because of utilization of policy benefits greatly in excess of the expected rate.”

We respectfully believe that there is an alternative reading of Section 31.14.01.04A(5). This provision restricts the carrier from charging a renewal premium of more than 15% in any 12-month period. We do not believe it restricts the MIA from accepting a larger increase that is phased in over a series of years in up to 15% annual increase segments. Under such phase-in schedule, if our review of experience (which will be reported to you annually) shows that minimum loss ratios are not achieved, we would of course work with the MIA and implement less than had originally been accepted. We also note that capping rate increases results in a higher ultimate premium that consumers will pay over time.

Conclusion

The inflation reduction inflation option will allow our eligible Maryland consumers with inflation coverage the ability to keep their core coverage intact. We also believe implementation of the landing spots will reduce policy lapsation and will result in less anti-selection and more stable premiums for the block going forward. In addition, we expect this option will greatly reduce complaints as it empowers consumers with a very viable alternative. We therefore request that the MIA consider and approve rate increase requests in excess 15% with a phased-in time table.

We will be happy to make ourselves available at time of your convenience to discuss this further via a conference call or an in person meeting.

Thank you again for your consideration.

Sincerely,



Marie Roche
Assistant Vice President



Adam Zimmerman -MDInsurance- <adam.zimmerman@maryland.gov>

Hearing follow up question

Kneeland, Tim <Tim.Kneeland@transamerica.com>

Fri, Nov 11, 2016 at 12:33 PM

To: "adam.zimmerman@maryland.gov" <adam.zimmerman@maryland.gov>

Cc: "Glowacki, Bob" <bob.glowacki@transamerica.com>

Good morning Adam,

In response to your question, yes, Transamerica has developed a landing spot that allows a policyholder to offset a premium rate increase by electing to reduce the inflation increase percentage. Several states have approved this option as part of a rate increase filing. The option works best when the entire filed for rate increase is approved as this allows the company to explain to the policyholders that premiums will not increase if the policyholder elects to reduce the inflation increase percentage. In some cases, the inflation landing spot will not fully offset the premium increase and some policyholders will still see their premiums increase even if they elect to reduce the inflation increase percentage.

Most states have asked Transamerica to phase in the rate increase over a few years versus implementing a single increase. The landing spot will still work in this situation if the insurance department has approved the filed for increase as described above. This allows Transamerica to offer the landing spot to policyholders that have an inflation benefit, notifying those policyholders of the current rate increase as well as the rate increases that will be phased in over the next few years. Policyholders are then able to elect the inflation percentage decrease and offset the current as well as the coming phased in increase(s). We should also note that future rate increases are possible even if the policyholder elects to accept the landing spot. Future increases would be based on continued deterioration of experience on these policies.

We would be happy to discuss the landing spot option with the Department if you would like further information or details.

Tim

Tim F. Kneeland

President Transamerica Long Term Care

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MODEL BULLETIN

DATE: [Insert Date]

TO: All Licensed Insurers Writing Long-Term Care Insurance

FROM: [Insert Name & Title]

RE: Announcement of Alternative Filing Requirements for Long-Term Care Premium Rate Increases

Effective *[insert date three (3) months after issuance of this bulletin]*, the following guidelines will be used in the review of pre-rate-stability and post-rate-stability premium rate adjustment filings for long-term care insurance policies. The intent of this bulletin is to address rate increases for long-term care insurance policies currently in force, in particular pre-rate-stability policies.

For purposes of this bulletin, “rate stability” is defined as provisions contained in the 2000 NAIC Long-Term Care Insurance Model Regulation (Model 641) as adopted by *[insert state name]* on *[insert date of adoption of Section 20 et al]*. Policies with effective dates prior to *[insert rate stability adoption date]* are referred to as “pre-rate-stability” policies, and policies with effective dates on or after *[insert rate stability adoption date]* are referred to as “post-rate-stability” policies.

Drafting Note: States may need to consider whether their state rules allow these provisions to be issued as a bulletin, or whether some or all of these provisions may require adoption through other state regulatory procedures.

Actuarial Assumptions for Establishing Rate Increase Requests:

When rate adjustments are filed with the [Department] for both pre-rate-stability and post-rate-stability policy forms, it is the intent of the [Department] to work with the insurer, to the extent appropriate, to review the reasonableness of the set of assumptions by which to determine the rate increase(s) necessary to reach adequate ultimate premiums and that can be used to monitor developing experience. When disclosing assumptions to the [Department], the insurer will provide the resulting rate revision request at the same time so that the [Department] may include this in their review.

In assessing these assumptions as proposed by the insurer, the [Department] may use the services of an independent actuary and, if appropriate under state law, may charge the insurer for the costs of these services. The [Department] may also accept a review done by or for another state or states for the same or substantially the same policy form where any differences in benefits and premiums are not material and such review was completed within eighteen months of the date of the rate adjustment filing and such review substantially complies with the [Department]’s rate review standards.

The assumptions will be consistent with the following:

1. All present and accumulated values used to determine rate increases shall use the maximum valuation interest rate for contract reserves. The actuary shall disclose as part of the actuarial memorandum the use of any averages.
2. All accumulated values used to determine rate increases shall use the actual experience of the product in as close a manner to that used in the original development of rates as possible. This is not intended to preclude the inclusion of multiple policy forms into one rate increase determination if such pooling increases the credibility of the combined accumulated experience.
3. All present values calculated to determine rate increases shall use reasonable estimates of future premium payments and claims payments. Such estimates are to be part of the assumptions as anticipated above and, for post-rate-stability policies this would include a margin for moderately adverse experience, while for pre-rate-stability policies, this would be based on best estimate assumptions for the future lifetime of the policies, including potential margins.

Drafting Note: While not limiting each state's authority with respect to the approval of rate increases, the intention of the development of a set of assumptions is to increase the uniformity and fairness of premium rate schedule changes for all policyholders regardless of the state of issue of each policy or the current state of residence.

Approval of Rate Increases:

In approving rate increase requests for both pre-rate-stability policies and post-rate-stability policies consistent with the assumptions described in the section above, the [Department], with the concurrence of the insurer where such concurrence is appropriate, will determine ways in which the following may be included to benefit policyholders:

1. The [Department] may approve a single increase of the requested amount and the insurer agrees to not implement future rate increases on each subject policy for three years from the date of implementation of the rate increase for each policy form; or
2. In lieu of a single increase, the [Department] may approve a series of scheduled rate increases that are actuarially equivalent to the single amount requested by the insurer over the lifetime of the policy. The entire series would be approved at one time as part of the current rate increase filing. For pre-rate-stability policy forms, the approval includes a three-year monitoring provision similar to that currently applicable to post-rate-stability rate increases to allow modification of later increases that were not appropriate based on the experience following the initial rate increase. When determining the rate comparison for new business, forms subject to a series of increases shall not be included.

Requirement to Administer Contingent Benefit Upon Lapse:

For pre-rate-stability policies, the [Department] will require the implementation of the contingent benefit upon lapse¹ as outlined below, as a condition of approval of a rate increase for a block of business for which the contingent benefit upon lapse is not otherwise required. The contingent benefit upon lapse is already required for post-rate-stability policies.

For both pre-rate-stability and post-rate-stability policies, if the rate increase is approved in a series of scheduled rate increases and the sum of all scheduled rate increases would ultimately trigger the offering of the contingent benefit upon lapse, the insurer will be required² to include contingent benefit upon lapse at the time of each scheduled increase.

For policies or certificates which have reached their twentieth duration, the [Department] may require the insurer to provide the contingent benefit upon lapse³ without reference to the table of trigger percentages. For policies which have not reached their twentieth duration, any percentage value in excess of 100% will be reduced to 100%.

The insurer shall notify policyholders and certificate holders of the contingent benefit upon lapse when required by the [Department] in conjunction with the implementation of a rate increase.

Policyholder Notification of Premium Increase:

The insurer shall file with the [Department] the premium increase notification letter to policyholders at the time of the premium rate increase for informational purposes. The insurer shall clearly disclose to policyholders the following elements:

1. the amount of the premium rate increase requested and implementation schedule (e.g., single premium increase applied or phased in a series of premium increases);
2. available benefit reduction/rate increase mitigation actions;
3. clear disclosure addressing the guaranteed renewable nature of the policy/coverage and that the insured should understand that premium rates may increase again in the future; and
4. offer of contingent benefit upon lapse, if applicable.

Application of New Loss Ratio Standards:

The [Department] will require the insurer to limit the increase based on the use of a dual loss-ratio approach for pre-rate-stability policy forms. The recommended loss-ratio would be:

¹ A company may provide alternative nonforfeiture benefits in lieu of the benefit required by the contingent benefit upon lapse, if approved by the [Commissioner].

² Any such additional requirements, with respect to contingent benefit upon lapse, shall not change the determination of whether or not a majority of policies or certificates are eligible for contingent benefit upon lapse.

³ A company may provide alternative nonforfeiture benefits in lieu of the benefit required by the contingent benefit upon lapse, if approved by the [Commissioner].

- the greater of 60% or the lifetime loss ratio used in the original pricing, applied to the current rate schedule on the effective date of these new requirements; plus
- 80% applied to any premium increase that is filed after that date on an individual policy form; or
- 75% applied to any premium increase that is filed on a group policy form.

For post-rate-stability policy forms, the current loss-ratio standards are unchanged.

Consideration of New Approaches:

At the request of the insurer, the [Department] may also consider other options which may be made available to insureds which may mitigate the impact of the rate increases on the insured population or alternative actuarial methodologies relating to the rate increase. The insurer shall provide an explanation and demonstration on how such methodology is actuarially justified and/or how such new mitigation option may reasonably benefit insureds. No alternative method/approach may be used until it has been accepted by the [Department].

(INSERT COMMISSIONER NAME)
(INSERT COMMISSIONER TITLE)
(INSERT STATE NAME)