In the Matter Of:

LONG-TERM CARE INSURANCE PREMIUM INCREASES

HEARING October 27, 2016

1 MARYLAND INSURANCE ADMINISTRATION 2 -----X In re: 3 : 4 Long-Term Care : 5 Insurance Premium : б Increases. : -----X 7 8 9 10 TRANSCRIPT OF HEARING 11 Before COMMISSIONER AL REDMER, JR. 12 Perry Hall, Maryland 13 Thursday, October 27, 2016 14 1:02 p.m. 15 16 17 18 19 20 Job No. WDC-101559 21 Pages 1 - 146 Reported by Cari M. Inkenbrandt, RPR 22

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10	Pursuant to agreement, before Cari M.
11	Inkenbrandt, Registered Professional Reporter and
12	Notary Public in and for the State of Maryland.
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1 A P P E A R A N C E S 2 3 MARYLAND INSURANCE ADMINISTRATION STAFF: 4 Al Redmer, Jr., Maryland Insurance Commissioner 5 Joy Hatchette, Associate Commissioner, 6 Consumer 7 Sarah Li, Chief Actuary 8 Nancy Egan, Director of Government Relations 9 Catherine Grason, Director of Regulatory Affairs, NAIC 10 Tracy Imm, Director of Public Affairs 11 Adam Zimmerman, Actuarial Analyst, II 12 Nick Cavey, Assistant Director of Government and External Relations 13 14 Joeseph Sviako, Public Information Officer 15 Theresa Morfe, Assistant Chief Market Conduct 16 Lisa Larson, Regulations and Hearings Administrator 17 Van Dorsey, Principal Counsel 18 19 SENATOR KATHERINE KLAUSMEIER'S REPRESENTATIVE 20 Evan Richards 21 22

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1	PROCEEDINGS
2	MR. REDMER: Good afternoon. Welcome.
3	We've got at least one person still on the way,
4	but we're going to go ahead and get started
5	because we only have this room for a limited
6	amount of time.
7	My name is Al Redmer. I am Maryland's
8	Insurance Commissioner. And this is our first
9	public hearing on specific carrier rate increases
10	for long-term care. We held an informational
11	public meeting back in April where we invited
12	consumers, carriers and other interested parties
13	to provide comments on the state of long-term care
14	insurance in Maryland. Based on the feedback from
15	consumers and Governor Hogan's emphasis on
16	transparency, we had decided to have public
17	hearings for the foreseeable future on any future
18	rate increase requests from long-term care
19	carriers.
20	Today's hearing will focus on several
21	rate increase requests now before the Maryland
22	Insurance Administration, and these include

1	requests from Genworth Insurance Company,
2	proposing an average rate increase of 15 percent;
3	John Hancock Insurance Company, proposing average
4	rate increases from 13.7 percent to 14.7 percent,
5	depending on the policy; Metropolitan Life
б	Insurance Company, proposing average rate
7	increases of 15 percent; Principal Life Insurance
8	Company, proposing average rate increases of 15
9	percent; The Prudential Insurance Company of
10	America, proposing average rate increases from
11	12.8 percent to 15 percent; Transamerica Life
12	Insurance Company, proposing average rate
13	increases from 65 percent to 70 percent; UNUM Life
14	Insurance Company of America, proposing average
15	rate increases of 13 percent; MedAmerica Insurance
16	Company, proposing average rate increases of 15
17	percent.
18	These requests in aggregate affect about
19	35,000 Maryland policyholders, and the goal is to
20	hear from insurance company executives to explain
21	the reasons for the rate increases, and we will
22	also be listening to comments from consumers. We

1	are here to listen, ask some clarifying questions
2	from the carriers and consumers regarding the
3	specific rate increase requests.
4	I'd also like to highlight what the
5	Maryland Insurance Administration has done since
6	our meeting in April and what we're planning to
7	do. The MIA is proposing additional long-term
8	care regulations that will impact consumer options
9	in the event of a long-term care premium increase.
10	The proposed regulations will update the
11	regulations to be consistent with the 2014 changes
12	to the National Association of Insurance
13	Commissioners' long-term care model regulation.
14	These changes provide greater value to many
15	consumers who decide to lapse their policy
16	following a rate increase.
17	A long-term care insurance work group is
18	being formed. The work group participants will
19	include members of the Maryland Insurance
20	Administration, long-term care insurance brokers,
21	as well as state legislators, consumer protection
22	groups, and trade organizations.

1	The goals of the working group are to
2	develop recommendations to improve the current
3	state of the long-term care insurance marketplace
4	in Maryland, specifically developing ways to
5	establish more transparency for long-term care
6	consumers during the rate review process,
7	reviewing the pros and cons of the existing
8	15 percent rate cap on increases, and reviewing
9	potential work-arounds of the 15 percent rate cap
10	and determining ways to improve communication
11	between long-term care carriers and their
12	policyholders.
13	Additionally, the MIA, Maryland
14	Insurance Administration, is engaged in national
15	discussions on the challenges in the long-term
16	care insurance marketplace, and we sit on the
17	newly formed national association's Long-Term Care
18	Innovation Subgroup as an interested party.
19	With that not-so-brief introduction, I'd
20	like to introduce some of the folks from the
21	Insurance Administration that are with me here
22	this afternoon.

1	To my immediate left is our chief
2	actuary, Sarah Li. To my immediate right is Cathy
3	Grason, our Director of Regulatory Affairs. To
4	her right is Adam Zimmerman; Adam is an actuarial
5	analyst. And Cathy and Adam are cochairing our
6	long-term care work group. Also, in attendance is
7	Joy Hatchette; she's our Associate Commissioner of
8	Consumer Education and Advocacy. Nancy Egan, our
9	Director of Government Relations and External
10	Affairs.
11	MS. EGAN: Back here. Hi everyone.
12	MR. REDMER: Tracy Imm, the Director of
13	Public Affairs; Joe Sviako, our Public Information
14	Officer; Theresa Morfe, our Assistant Chief Market
15	Conduct; Lisa Larson is our Regulations and
16	Hearings Administrator; Nick Cavey, Assistant
17	Director of Government Relations and External
18	Affairs; and Jet Ji, an actuary; and Michael
19	Patte, who does regulations and legislative work.
	racec, who aces regaracions and regiptacive work.
20	We're going to go over a couple of
20 21	

1	contact information on it. Please take a copy.
2	That way if you have any follow-up comments,
3	questions or observations, we'd love to hear from
4	you.
5	We are going to start with folks that
6	have signed up to speak. So if you haven't signed
7	up, please make sure that you do.
8	Second, the hearing is it's not going
9	to be a debate. We're going to be collecting
10	information and asking questions. Additionally,
11	we will be posting all of the written comments on
12	our website.
13	The Maryland Insurance Administration
14	will continue to keep the record open for
15	additional comments until Thursday, November the
16	3rd, and a transcript of today's meeting as well
17	as all written testimony submitted will be posted
18	on our website.
19	As a reminder, we do have a court
20	reporter here today to document the hearing, so
21	when you're called up to speak, please state your
22	name and any affiliation that might be

1 appropriate. 2 For folks that are dialing in, please 3 keep your phones on mute, and once again, I want to thank you for joining us. 4 5 And I will reintroduce Sarah Li, our 6 Chief Actuary, to speak to you regarding our rate 7 review process. 8 LONG-TERM CARE INSURANCE 9 RATE REVIEW PROCESS-MARYLAND 10 MS. LI: Hello. I will speak briefly on 11 the MIA long-term care insurance rate review 12 process. 13 Speak up. UNIDENTIFIED SPEAKER: 14 I will speak up. MS. LI: 15 MR. REDMER: She's not going to get much louder, folks. 16 17 (Laughter.) 18 MS. LI: There are five steps when reviewing the long-term care rate planning. 19 Ι 20 will go over the details, but I will list the five 21 steps first. 2.2 So the first step is carriers submit

1	rate change request. And the second step is we
2	have filings assigned, and we start the initial
3	actuarial review process. And the third step is
4	peer review process. And the fourth step is that
5	we have public hearings. And then the last step
6	is we make final decisions. So I'm going to go
7	over all these five steps in detail, and then if
8	anybody has any questions, I can take questions.
9	So the first step is for insurers to
10	submit a rate request through the electronic
11	filing system. All carriers that are doing
12	business in Maryland's individual and group
13	long-term care market, they submit their rate
14	change request to the Maryland Insurance
15	Administration, and then the analyst checks the
16	submitted rate filing to make sure all required
17	documents are submitted.
18	And the next step is, after confirming
19	all the required documents are submitted, the
20	filing is assigned to an initial reviewer. The
21	reviewer starts the reviewing process.
22	So I will go into as much detail on what

1	we look into for the initial rate review process.
2	When we receive the filing, there are four
3	controls we need to look into, and these four
4	controls are the laws and regulations that are
5	written in our COMAR and insurance articles.
6	So the first rule is the rate increase
7	cap. That cap in Maryland is a 15 percent rate
8	increase cap. So any rate increase, any renewal
9	rate increase can't be more than 15 percent of the
10	premium charged from the prior 12 months. There
11	is an exception. This exception is that if
12	carriers can demonstrate that their utilization is
13	greatly in excess of the utilization that the
14	carriers price, then, you know, we can consider
15	more than 15 percent rate increase as an
16	exception. So that's the first standard we look
17	into.
18	The second rule or standard we have in
19	place is the new business cap. So any renewal
20	premium can't be more than the rate for the
21	similar new business rate, except for difference
22	that's attributed to benefits. So that's new

1 business cap. 2 And then the third rule we are looking 3 into is that for any policies that were sold before October 1st, 2002, the lifetime loss ratio 4 cannot be less than 60 percent. The loss ratio is 5 6 the ratio of the claims over premium. What that states is if less than 60 percent of the premium 7 paid is used to pay for a claim, then carriers 8 9 cannot come in and ask for any rate increase. So that's for policies issued prior to October 1st, 10 11 2002. 12 And for policies issued after 13 October 1st, 2002, the policy has to satisfy the 14 specific 58/85 rule. What that states is the 15 claim cap for these policies cannot be less than 16 58 percent of the initial premium and 85 percent 17 of the rate increase premium. 18 So we have to check these four rules, 19 make sure each of these rate filings follow these 20 four rules. If there is any exception, we need to 21 ask the company why these rules are not followed.

So besides these rules, there are

2.2

1	multiple other factors that we look into.
2	Carriers, they usually submit their actuarial
3	memorandum. So we look, just for some examples,
4	what we're looking into in the actuarial
5	memorandum, we're looking into the lifetime
6	projections of earned premium and lifetime
7	projections of incurred claims, and we look into
8	the method and assumptions used to project the
9	premiums and claims. These assumptions include
10	but are not limited to the mortality assumption,
11	morbidity assumption, and interest rates.
12	Whatever assumption is used, they have to be
13	supported either by their own experience, if their
14	experience is credible, or if their experience is
15	not credible, they have to present us with similar
16	industry experience to support these assumptions.
17	We also look into the disclosures of the
18	analysis performed to determine why a rate
19	adjustment is necessary, which pricing assumptions
20	were not realized and why. And we also look into
21	the rate change history nationwide, because
22	Maryland is different than the other states with

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1	the rates being highly capped.
2	So this is the initial rate review
3	process. After we go through all this initial
4	rate review process, then we move on to the next
5	rate review process step. That's the peer review
6	process. So the initial rate reviewer in this
7	process, he or she will generate a rate review
8	summary form and send it to us or other actuarial
9	staff to trigger the peer review process. More
10	questions may be generated by peer reviewers, and
11	they will be sent to the rate filing company by
12	the initial reviewer.

13 So either on the initial rate review 14 process or a peer review process, we have internal time limits that we set for ourselves; that is, 15 for the initial rate reviewer, any response that 16 17 we receive from insurance carriers, we will 18 respond to those responses no more than seven 19 business days. So in other words, we receive 20 carriers' rate filing. We try to send out our 21 first objections or questions, set of questions 22 within seven business days, and the peer review

1	process, we try to limit that process to three
2	days.
3	The next step in the rate review process
4	is public hearing. So we hear what carriers have
5	to say about the rate filings and we hear what
6	consumers have to say about the rate filings, and
7	we take these comments into our consideration for
8	the rate review.
9	And the final process, final step in the
10	rate review process is that we make a final
11	decision. After considering the information
12	provided in the hearing and any additional public
13	comments, the insurance commissioner makes the
14	final decision.
15	So that concludes the rate review
16	process.
17	So I will now turn it over to Al.
18	MR. REDMER: Thank you, Sarah.
19	As you could tell, the rate review
20	process that we engage in is robust and very
21	thorough.
22	I will add that the law is pretty clear

1	on the criteria that we had to use in order to
2	approve or not approve a rate increase. The law
3	says that rate increases have to be actuarially
4	justified. A carrier can't just say, "We need
5	it." They have to provide the actuarial
6	justification, and that actuarial work is scrubbed
7	and challenged, as Sarah just mentioned. The
8	rates cannot be excessive. So we cannot allow
9	carriers to charge rates that are more than what
10	is actuarially justified. The law also says that
11	we cannot allow rates to be inadequate. Law
12	prevents us from allowing rates to be less than
13	what are necessary to run the business so that we
14	don't put insurance carriers in financial stress.
15	And then finally, the rates cannot be unfairly
16	discriminatory.
17	So with that, before we get into the
18	carriers, with us today is Van Dorsey, who is our
19	Principal Counsel from the Attorney General's
20	Office.
21	So with that, before we get into the
22	carriers, I would like to introduce Robert Eaton,

1	who is a consulting actuary with Milliman who will
2	present some information describing pricing and
3	rate increase concepts that are used for long-term
4	care around the country.
5	(The audio/visual equipment being set up.)
6	MR. COHEN: While we're waiting for a
7	miracle, will the remarks be made part of the
8	record? Because frankly, I had a great deal of
9	difficulty
10	MR. REDMER: Yes.
11	MR. I. COHEN: both noise-wise and
12	otherwise
13	MR. REDMER: Yeah.
14	MR. I. COHEN: following everything.
15	This is the first time that I heard of any of
16	this. Perhaps it was made public in another
17	forum.
18	MR. REDMER: We have a court reporter,
19	so all the remarks today will be captured and
20	disseminated on our website.
21	MR. I. COHEN: But does that information
22	involve the rate review process?

1	MR. REDMER: What Sarah just discussed
2	will be part of the record, yes.
3	MR. I. COHEN: I'm just wondering. You
4	talked about getting remarks from consumers. I'm
5	a consumer of two of the policies from one of the
6	companies you mentioned. How do I get notice from
7	the company that they've applied for an increase?
8	MR. REDMER: At this point most carriers
9	do not.
10	MR. I. COHEN: That's a problem.
11	MR. REDMER: That is a problem, and
12	that's one of the things that our internal work
13	group is going to be looking at is how to make
14	this more open and transparent. So because we
15	can't solve that immediately, we decided to do
16	these public hearings as our effort to get the
17	word out that these proposed rate increases are
18	being discussed.
19	MR. I. COHEN: Do I have to file a FOIA
20	request in order to get their file, or will that
21	be given to me just as a matter of asking?

1	and I really have not received anything near the
2	information she just gave.
3	MS. LI: The rate review process?
4	MR. I. COHEN: Yes, ma'am.
5	MS. LI: This was prepared for the
6	hearing, but if you want, we will post the
7	information, as Al just said, on our website.
8	MR. I. COHEN: I understood that you
9	were telling us what the process is now and has
10	been. So I'm asking you, when I filed a FOIA
11	request with respect to my carrier and asked for
12	everything in the file, I never received anything.
13	MR. REDMER: So the rate filing itself?
14	MR. I. COHEN: I never got any
15	information at all. How am I supposed to, as a
16	consumer, participate in the very detailed process
17	if I'm not noticed by the carrier and when I file
18	a FOIA request nothing happens?
19	MS. LI: We can talk to you after this.
20	I will make sure you get the information.
21	MR. REDMER: What information is
22	publicly available regarding the proposed rate

1 increase? 2 MS. LI: So the process with that is you 3 file a POIA request, and then we look into what 4 you requested, and then we notify in a courtesy 5 email to the insurance company, and then they will 6 let us know what information is confidential, 7 what's not, and then we will get that to you. 8 That has always been the process. 9 MR. I. COHEN: For me it hasn't 10 happened. 11 MS. LI: Sorry about that. 12 Sir, I can also add. MS. GRASON: One 13 of the things our working group is looking at is 14 whether we can post actuarial memoranda as well as 15 a summary document of some of these rate issues on 16 our website. So we are looking at that for future 17 application as well. 18 MR. REDMER: One more question, then 19 we're going to move on. 20 Yes, sir. 21 MR. FRITZ: Following up on his guestion 2.2 and Ms. Grason's comment, is the loss ratio and

1	the components of the loss ratio confidential or
2	not confidential information from the insurance
3	company? In other words, if we do a FOIA request,
4	can we determine the components that allow them to
5	say yes, we are within the 58 percent or 60
6	percent tolerance limit, or is that something that
7	we can't find out, it's never reported by the
8	State to anyone and therefore it's only internal?
9	So that's a big difference to understand what
10	really is going on in rate requests for long-term
11	customers.
12	MS. LI: Right. So that's on a
13	case-by-case basis. So we look into what carriers
14	present to us, and then we decide what is
15	confidential, what's not confidential.
16	THE REPORTER: I'm sorry. Would anyone
17	like to identify themselves, who just spoke?
18	MR. FRITZ: Yes. Marshall Fritz,
19	consumer.
20	MR. COHEN: Irving Cohen, consumer.
21	MR. REDMER: Okay. Robert.
22	

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1	LONG-TERM CARE INSURANCE:
2	BASIC PRICING AND RATE INCREASE CONCEPTS
3	MR. EATON: Thank you, Commissioner and
4	folks from the Maryland Insurance Administration
5	for having me.
6	You mentioned my employer. I currently
7	work for a consulting company, but I'm here today
8	on behalf of the Society of Actuaries. Last year
9	I was elected to the Society of Actuaries'
10	Long-Term Care Section Council, and one of the
11	missions of the Society of Actuaries is to promote
12	education on a lot of these topics. So today I'm
13	here not on behalf of my employer or any of the
14	companies that might be there, but I'm here on
15	behalf of the Society and, you know, the remarks
16	that we're making are meant to be educational and
17	to really provide a foundation for the discussion
18	that we're going to have today.
19	MR. REDMER: Excuse me a second.
20	Can you hear him in the back okay?
21	(Unidentified audience members responded
22	affirmatively.)

1	MR. EATON: So statements of facts and
2	opinions, you know, are those from me and, unless
3	expressed to the contrary, they're not opinions of
4	the Society of Actuaries. This is a presentation
5	that I and some of my colleagues on the Long-Term
6	Care Section Council have put together. The
7	Society of Actuaries does not endorse or approve
8	and assumes no responsibility for the content, the
9	accuracy, or completeness of the information
10	presented.
11	Yes, ma'am.
12	UNIDENTIFIED FEMALE SPEAKER: Just for
13	everyone that's calling in, a copy of this
14	presentation is on the MIA website, so if you're
15	not doing Facebook streaming, you can actually see
16	it on the website in there with the comments.
17	MR. EATON: So as I mentioned earlier,
18	the purpose of today's presentation is to provide
19	an explanation of a few things: long-term care
20	insurance benefit features; we're also going to
21	talk about the pricing of long-term care
22	insurance, as we as actuaries have done for

1	companies that are offering long-term care
2	insurance; we're going to talk a little bit about
3	the reserves that companies will hold as they
4	continue to manage long-term care policies; we'll
5	talk a little bit about premium rate increases, of
6	course, that being the reason for this hearing.
7	And I should say that this explanation
8	is meant to be simplified and is not meant for a
9	technical audience. That's really the point here
10	is to make sure that you have a general
11	understanding of the insurance that's being
12	priced.
12 13	priced. We'll go through long-term care
13	We'll go through long-term care
13 14	We'll go through long-term care insurance 101. So long-term care insurance
13 14 15	We'll go through long-term care insurance 101. So long-term care insurance benefits, most of you know, working with companies
13 14 15 16	We'll go through long-term care insurance 101. So long-term care insurance benefits, most of you know, working with companies or as consumers, the long-term care insurance pays
13 14 15 16 17	We'll go through long-term care insurance 101. So long-term care insurance benefits, most of you know, working with companies or as consumers, the long-term care insurance pays out upon disability, and many long-term care
13 14 15 16 17 18	We'll go through long-term care insurance 101. So long-term care insurance benefits, most of you know, working with companies or as consumers, the long-term care insurance pays out upon disability, and many long-term care policies also require the receipt of LTC services,
13 14 15 16 17 18 19	We'll go through long-term care insurance 101. So long-term care insurance benefits, most of you know, working with companies or as consumers, the long-term care insurance pays out upon disability, and many long-term care policies also require the receipt of LTC services, so not just upon the incidence of disability, but

1	they are not intended to be a lump sum. You know,
2	a benefit is paid each day or in some cases each
3	month up to a maximum benefit per day. There is
4	typically a limit on the total amount paid out.
5	Many policies do not pay during the entire
6	disability episode. Most policies won't start
7	paying until the disability has lasted for a
8	certain amount of time.
9	By law, policies must cover the
10	policyholder for their entire life. The concept
11	is sometimes called guaranteed renewable
12	insurance. So the option to automatically
13	increase benefits is offered at the purchase, and
14	that option to increase your benefits is intended
15	to keep pace with the cost of care.
16	So we'll talk now about the chance of
17	using your benefits as a policyholder. There is a
18	lower chance of use of benefits as a policyholder
19	when you are, for instance, a married couple and
20	perhaps you have somebody who is there that may be
21	able to take care of you in the event of a

1	of using long-term care benefits right after you
2	purchase coverage, after perhaps you've been
3	underwritten through them. There is a higher
4	chance of use of long-term care policies where
5	individuals are living alone and as individuals
6	age into their later years. So given this dynamic
7	that I just discussed, a person's chance of using
8	benefits in any given year increases each year
9	after they purchase the policy. So typically,
10	claims over the lifetime of a policy will tend to
11	increase for long-term care policies.
12	So by law, insurance companies are
12 13	So by law, insurance companies are required to establish premiums by policy issue age
13	required to establish premiums by policy issue age
13 14	required to establish premiums by policy issue age that will be payable for the person's lifetime and
13 14 15	required to establish premiums by policy issue age that will be payable for the person's lifetime and are not expected to increase during the person's
13 14 15 16	required to establish premiums by policy issue age that will be payable for the person's lifetime and are not expected to increase during the person's lifetime. The premiums are expected to be at a
13 14 15 16 17	required to establish premiums by policy issue age that will be payable for the person's lifetime and are not expected to increase during the person's lifetime. The premiums are expected to be at a level amount over the course of your life.
13 14 15 16 17 18	required to establish premiums by policy issue age that will be payable for the person's lifetime and are not expected to increase during the person's lifetime. The premiums are expected to be at a level amount over the course of your life. However, as we just talked about and as we saw in
13 14 15 16 17 18 19	required to establish premiums by policy issue age that will be payable for the person's lifetime and are not expected to increase during the person's lifetime. The premiums are expected to be at a level amount over the course of your life. However, as we just talked about and as we saw in the previous slide, claims are intended to

1	expectation of your claims increases over time.
2	So by law, insurance companies set aside
3	a portion of the premium collected in the earlier
4	years in order to pay out the claim in the later
5	years. This is due to the cash flow mismatch.
б	That portion of premiums that are set aside to pay
7	for claims in later years, that's called the
8	reserve that the insurance company will establish.
9	And here you see the premium collected during the
10	first period of time when premiums are greater
11	than claims, those are intended to kind of fund
12	this reserve. Insurers use those to fund the
13	claims that are higher than the premiums in the
14	later years of the policy.
15	So setting the premiums aside, premium
16	dollars are used for a number of purposes by the
17	insurance company. One of the first purposes is
18	the policy administration, so maintaining the
19	premium policy, the paper that it's written on,
20	the folks who administer the policy and file the
21	claims. Premiums are also used to fund agent
22	commissions, the folks who sold you a long-term

1	care insurance policy. Premiums are also used to
2	pay state and federal taxes. And another use of
3	premiums is distribution to shareholders, as
4	profit in some cases. And then finally, the rest
5	of the premium will be used to set into the
6	reserve fund which will pay which, premiums which
7	will pay out claims in later years of the policy.
8	So one analogy that we can make here is
9	that the reserve that long-term care insurance
10	carriers are setting aside is almost like a
11	savings account that we might have, where the
12	premiums that we're depositing, so these in that
13	case would be the premiums after the
14	administration, after the taxes are paid, after
15	the shareholders deposits are made, the net
16	premiums are deposited into the reserve, and the
17	benefits are paid from those reserves.
18	So like any good savings account that
19	you would have, it earns interest over time. So
20	the reserve is there for, held for the benefit of
21	all of the policyholders. It's only used to pay,
22	though, the benefits to those who become disabled

1	in the end. So the reserve is not used to pay for
2	anybody who does not end up using benefits.
3	That's a key feature of long-term care, if you
4	don't end up needing long-term care benefits, no
5	portion of the reserve, in most cases, will accrue
6	to you.
7	So in this example of the savings
8	account, the net premiums are like scheduled
9	deposits. You may have monthly or quarterly or
10	annual premium payments, and the scheduled deposit
11	amount, the premium rate, is determined at the
12	very beginning of the establishment of the account
13	or when you purchase your long-term care policy.
14	So the net premiums are set up in order
15	to pay a benefit amount, and the net premiums are
16	put into reserve, and they will earn interest. So
17	if you think about what's going into your savings
18	account and what's coming out of your savings
19	account into your long-term care reserve, there's
20	the benefits that are coming out and the interest
21	that's being paid in along with the premiums that
22	you're paying in, and if any of these estimates

are different than you initially assumed, the 1 2 account, the reserve, may not have enough to cover 3 future withdrawal. 4 So that is kind of the backdrop for 5 long-term care policies and the financing and why 6 companies will set premiums at the levels that they do. All of the premiums that are set 7 8 anticipate these basic concepts: assumptions about 9 the amount of premiums that are going in and assumptions about the amount of benefits paid out. 10 11 So we'll talk about what can go wrong in 12 this case of the reserves and the savings account 13 that we just discussed. So for starters, the 14 interest rates can change in the economy. Changes 15 in the economic conditions in the last 20 years, 16 as you know, led to a dramatic drop in interest 17 Many companies in the late '80s and early rates. 18 '90s assumed interest rates of 6 or 8 percent to 19 be earned on these reserves. Rates have now 20 dropped, as you probably know, to 3 or 4 percent. 21 I can think of a similar situation when 2.2 my parents purchased their house in the late '80s

1	and early '90s, their mortgage rate, which I know
2	now was a lot higher than when my wife and I
3	purchased our first house a couple of years ago.
4	That interest rate has also dropped and, you know,
5	that's similar to interest rates throughout the
6	economy. So the interest rates that have impacted
7	us as consumers also has impacted companies.
8	So let's also talk about not just
9	interest rates but withdrawals from the account
10	and some of the reasons why assumptions that were
11	made initially when a premium was priced, when a
12	long-term care policy was priced might change.
13	The amount of funds withdrawn are
13 14	
	The amount of funds withdrawn are
14	The amount of funds withdrawn are dependent on three key things. The first one is
14 15	The amount of funds withdrawn are dependent on three key things. The first one is the number of people who keep their policies up to
14 15 16	The amount of funds withdrawn are dependent on three key things. The first one is the number of people who keep their policies up to the point when benefits are being picked. So when
14 15 16 17	The amount of funds withdrawn are dependent on three key things. The first one is the number of people who keep their policies up to the point when benefits are being picked. So when policies are issued, at the very beginning you may
14 15 16 17 18	The amount of funds withdrawn are dependent on three key things. The first one is the number of people who keep their policies up to the point when benefits are being picked. So when policies are issued, at the very beginning you may have 20 or so, in this kind of depiction, there's
14 15 16 17 18 19	The amount of funds withdrawn are dependent on three key things. The first one is the number of people who keep their policies up to the point when benefits are being picked. So when policies are issued, at the very beginning you may have 20 or so, in this kind of depiction, there's 20 or so people right at the beginning, and none

1	here we've kind of listed those who are insured
2	but don't need long-term care, and then the three
3	people on the right are the people who did need
4	long-term care. So the assumption might look
5	something like this.
6	And again, this is kind of a high level
7	example. Most companies will make their own
8	assumptions about these sorts of policyholders'
9	behavior. But in reality, what appears to have
10	happened largely in the insurance industry is,
11	when policies are issued, fewer people ended up
12	foregoing their policy and lapsing their policy
13	and stopping to pay premiums, leaving there to be
14	more insurance policyholders in the later years.
15	Moreover, we find that more people have
16	collected claims, in some cases, than we
17	previously estimated. So the number of people
18	keeping their policies is really important to
19	consider when understanding the dynamics of
20	long-term care rate increases and why a company
21	might need to request a rate increase.
22	And we've seen this dynamic in the

1	industry in general. So not with any specific
2	company, but largely, if you look at the Society
3	of Actuaries' Long-Term Care Section has an
4	experience study where they reviewed long-term
5	care policy persistency, so how many people
6	maintain their long-term care policies. In
7	general, many more people have kept their
8	long-term care policy than were originally
9	estimated when the policies were originally
10	priced.
11	One more thing to remember is, of these
12	additional three people that we now have in this
13	diagram, some of them are there because they chose
14	to maintain their policies longer than the
1 -	

е 15 insurance company assumed, but some of them are there because they ended up living longer than 16 17 what was originally assumed. Mortality, we would refer to that as improved mortality. People are 18 living longer today, generally, than they have 19 been ten, 20, 30 years ago. And so there are more 20 21 people having long-term care policies or holding 22 onto their long-term care policies today for both

1	of these reasons. People are holding onto their
2	policy longer and then also people are dying at
3	lower rates, which is generally a good thing.
4	So the second reason we might withdraw
5	from the savings account or second impact on
6	the savings account is, of the people who maintain
7	their policies, the number of people who end up
8	using their long-term care policies might be
9	different than you expect.
10	So initially, you assume, again, the
11	same group of people and perhaps you assume that
12	three out of the initial group might need to use
13	long-term care benefits, but the reality might be
14	that even if there are ten people holding onto
15	their policies, it may be that more people end up
16	needing long-term care benefits. So in this case,
17	it doesn't have as much to do with how many people
18	are in a policy, it has to do with how many people
19	end up going on claim and needing long-term care
20	benefits.
21	Experience here does not lean largely
22	one way or the other. It's generally mixed. For

1	any company, it may be different than they
2	initially expected. There hasn't been, like the
3	policyholder persistency assumption, there hasn't
4	been a large industry directional trend. So this
5	is mixed and may vary by company.
6	So the third thing to consider when
7	looking at the payments from your long-term care
8	reserve, or the savings account that we set up, is
9	the amount that's actually paid out to people. So
10	remember at the beginning we discussed that these
11	are not lump sum payments that get paid out right
12	as you have a disability. Rather, these are
13	schedules of monthly payments to be paid as you
14	might have disability.
15	So the amount of these payments that the
16	insurance company may pay to people using
17	long-term care will not necessarily be known in
18	advance. It's going to depend on the number of
19	days for which you need long-term care. So for
20	instance, if you're in a nursing home for six
21	months or eight months or a year, the number of
	montens of ergine montens of a year, the number of

that can vary, and it's hard to kind of place an
 estimate on.

3 The intensity of care, the amount that 4 you might need long-term care reimbursement for in 5 an assisted living facility is not the same that 6 you might need in a nursing home, and those aren't the same as the amounts of reimbursement that you 7 8 might need if you had somebody coming into your 9 home to help you, like a home health aide or a nurse coming into your home. 10

And then finally, it's going to depend 11 on the cost of care. You know, when you go on 12 13 claim, the cost of care in ten years will be 14 different than it is today, and in 15 years it's 15 going to be different than that. And so there's a 16 number of moving factors in determining how much 17 the actual long-term care claim amount really will 18 be. 19 One key consideration here is the amount 20 that the insurance company will expect to pay. 21 That's based on past observation and the

22 historical data that people are able to collect as

they're determining the level premium for this
 insurance policy.

3 So other general observations that the 4 Society of Actuaries has noted in completing their 5 experience studies is the length of time that 6 people have stayed in the nursing home has not 7 changed drastically over the last ten or 20 years. 8 We do notice that more people are going into an 9 assisted living facility. In an assisted living 10 facility, assisted care facility, people tend to 11 live a lot longer than in a nursing home. So this 12 is one dynamic that's led to more benefits being 13 paid out maybe on average nationwide.

14 So now let's go into what happens when 15 the estimates that an insurance company might 16 make, what happens when these are not realized. 17 So I want to kind of maintain the savings plan example where we're going to set ourselves a goal. 18 The original goal is to save \$10,000 in ten years. 19 20 So let's say I have a goal: I'm going to put my 21 child into college. It doesn't cost \$10,000 to 2.2 put my child into college, it costs a lot more,

1	but in this example, let's say I'm trying to raise
2	\$10,000 in ten years, and I'm going to schedule
3	some payments in order to do so, and so this might
4	be what my bank account looks like. I start out
5	with the amount that I saved in the current year,
6	the kind of lighter red here, and then every year,
7	every additional year I get more and more money,
8	and this is all increasing with the amount of
9	interest that the bank will give me.
10	In this example right here, kind of for
11	simplicity, I've assumed just no interest rate
12	here. So we're just collecting the same amount
13	every year. So here, the amount that I'm
14	contributing every year is \$1,000, and it's being
15	added to the savings account, and then by the end
16	of ten years I collect the \$10,000.
17	So let's think of this example where I'm
18	trying to save \$10,000, but after six years I
19	learn that I need to pay \$12,000 for my child's
20	college. So here's the first six years where I've
21	made these contributions to this account. I've
22	got \$6,000, having contributed \$1,000 every year,

1	but I have a new goal. After the sixth year, I
2	need \$12,000 by the tenth year, and so I actually
3	have to make catch-up saving contributions.
4	So in this case, if you think about it,
5	if my goal is 12,000 and my initial goal was
6	10,000, that's only a 20 percent increase in my
7	goal, but because I didn't realize this goal until
8	six years into the future, I actually don't need a
9	20 percent increase in the amount of savings, I
10	need a bigger increase. I need a 50 percent
11	increase in the amount of savings in order to meet
12	this goal. So my catch-up contributions there
13	means that I have to pay \$1,500 a month instead of
14	just \$1,200 a month if I had scheduled it from the
15	very first day. So with hindsight, as I mentioned
16	earlier, with hindsight, I would have just
17	scheduled ten even deposits of \$1,200 and, you
18	know, this would be this is all defined as kind
19	of the hindsight deposit schedule.
20	So here's the application of this
21	example and how it should work. At a given point
22	in time, for a long-term care insurance policy,

1	the savings account amounts to you have future net
2	premiums that you expect to collect from
3	policyholders, and you also have what's called a
4	reserve fund that we've been talking about, in
5	this case the savings account, and all of those
6	are being balanced against the need to provide
7	future benefits to policyholders and customers who
8	bought a long-term care plan.
9	So this model here shows the two sides
10	are in balance. The future payments that I'm
11	scheduled to put into the reserve fund, plus the
12	current reserve fund that I have, in this example
13	they match exactly, and the two sides of this
14	equation are in balance.
15	So let's talk about when those sides
16	might be out of balance. For instance, if the
17	future benefits, as we discussed, might be greater
18	than what's currently planned for in premium
19	deposits and in the reserve fund, if the future
20	benefits are greater, the two sides are going to
20 21	-

1	number of years that the amount of scheduled
2	premium payments plus the amount of the reserve
3	that I've built up are not going to be enough to
4	meet my goal, this is going to be a situation
5	where, you know, here we're out of balance and
6	there's more future benefits to be paid than we
7	have scheduled.
8	So in the example that I just gave, a
9	premium increase is needed in order to put the two
10	sides back into balance. So here we have the same
11	scheduled premiums that we'll collect in the
12	future in addition to the reserve which is being
13	built up over time, and on top of that a catch-up
14	premium rate increase is needed in order to
15	balance out the future benefits that are required
16	to be paid by the company. So in this case,
17	balance is restored from these rate increases
18	being collected.
19	So let's have yet another example, where
20	in this case we have a reserve fund, a reserve
21	which has been built up by premiums being paid
22	into the policy over time. We have future net

1	premiums, future premiums which are intended to be
2	paid, and also a premium rate increase. But in
3	this case the premium rate increase is really not
4	sufficient in order to bring balance to our
5	equation here.
6	In this case, if a premium rate increase
7	is not enough to collect all of the funds to pay
8	the future benefits, then other funding may be
9	used. Other funding may be used from a onetime
10	deposit from the company's surplus, which is
11	ultimately from other policyholders or other
12	shareholders of the company. So that money must
13	come from somewhere.
14	So we presented some examples. We
15	
	presented an example of a savings account where
16	presented an example of a savings account where funds are paid in in order to meet a goal. We've
16 17	
	funds are paid in in order to meet a goal. We've
17	funds are paid in in order to meet a goal. We've talked about an example where our goal, the amount
17 18	funds are paid in in order to meet a goal. We've talked about an example where our goal, the amount that we needed to be funded changed over time and
17 18 19	funds are paid in in order to meet a goal. We've talked about an example where our goal, the amount that we needed to be funded changed over time and how we had to respond to that. We also talked a

1	used to pay future benefits, and then what happens
2	when our expectation of future benefits changes,
3	what are the ways that we might fund those
4	increased future benefits.
5	So this has been a presentation that I
6	and some of the other members of the Society of
7	Actuaries have put together and we've presented
8	here in Maryland, but also in Maine and I think
9	another couple of states.
10	I'm happy to answer questions on just
11	the material that I presented here. Questions
12	that are kind of outside of this scope, you know,
13	I'll probably defer to the Commissioner or someone
14	else. But if anybody has questions about the
15	slides directly.
16	Yes, sir.
17	MR. FRITZ: Yes. Marshall Fritz. I
18	have looked at the slides, and I have a comment.
19	Slide 17 and 18 are similar, and you explained
20	something that's not similar. It doesn't come out
21	in the words you used, nor do I quite see how it
22	fits in, both talking in terms of those who are
1	

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1	holding long term and then getting benefits.
2	Okay. So
3	MR. EATON: Would it be helpful for me
4	to go back to the slides?
5	MR. FRITZ: Yes. I will comment on
6	18 well, both of them.
7	MR. EATON: Okay. Here's slide 17.
8	MR. FRITZ: Okay. So my first comment
9	is the later years, in reality, well, this is a
10	generic approach you used; however, in the
11	Genworth model, that later year ratio of 6 percent
12	over the long term, we don't know how long, but
13	let's say ten, 20, 30 years, is woefully higher
14	retention than they assumed, based on what they
15	stated. In the 1997 NAIC report, which is part of
16	that regulation set I think it's 1331, but I
17	won't testify on that comment suggests that
18	they knew in the '90s that they were assuming too
19	high a dropout rate, and they were adjusting
20	because of that, but it doesn't seem to have come
21	into your model as successfully nor into the way
22	Genworth is doing business.

1	But between 17 and 18, I don't quite
2	understand why you have three more people in 17 in
3	later year reality than 18. It's subtle, but your
4	captions don't help me. So maybe we shouldn't
5	waste time, but you should look at that and see if
6	you can explain it in a different way that brings
7	out the captions.
8	MR. EATON: I guess I'd start by saying
9	I don't speak for Genworth or any of the
10	companies.
11	MR. FRITZ: I understand. This is a
12	generic model.
13	MR. EATON: Yes, exactly.
14	MR. FRITZ: I'm just saying that it
15	assumes a pretty reasonable dropout rate, but that
16	may not correspond to reality.
17	MR. EATON: Do you mind if I respond
18	just real quickly. So in this case, you know, we
19	started with in this example there's, say, 20
20	people that began with their policy, and after a
21	number of years we only expected ten of them to be
22	remaining, so, you know, say 50 percent of the

1	people are expected to, you know, lose their
2	policy over the course of, I'm going to just say
3	20 years or so. That could be for a number of
4	reasons. People will die naturally. People will
5	use their policies and then maybe exhaust their
6	policy benefits. Other people will decide that
7	they no longer want their policy. You know, we
8	might refer to that as a lapse or a termination.
9	So in this example, where I thought that
10	there would be, you know, ten people after 20
11	years, here, you know, in this kind of
12	illustration, there's actually just 30 percent
13	more than that initial ten people.
14	And again, I can't comment on some of
15	the other items you've been talking about, but
16	that's generally correct, you know, that the
17	reason that there are more people here is because
18	more people have kept their policies than we
19	expected and people are living longer.
20	MR. REDMER: Yes, sir.
21	MR. LYON: I have a question, I believe
22	related to this tell me if I'm wrong but not
1	

1	addressed.
2	If all of these approaches to bring
3	back, the situation back into balance do not work,
4	the company is unable to fulfill its obligations
5	under the policy, bankruptcy, whatever, what
6	protection, if any, do we consumers in the state
7	of Maryland have?
8	MR. REDMER: Sure. Currently, a
9	Pennsylvania domestic company, Sentry (phonetic),
10	is going through that. In Maryland, there are, I
11	think it's a little over 800 policyholders that
12	have policies with Sentry, and in Maryland we have
13	a guarantee fund that is used to guarantee a level
14	of benefits for the consumer.
15	MR. LYON: Is that the Maryland Life and
16	Health Insurance Guarantee corporation?
17	MR. REDMER: Yes, sir, it is.
18	MR. LYON: My particular policy says
19	that that corporation may not provide coverage for
20	our policies in the state of Maryland. If
21	coverage is provided, it may be subject to
22	substantial limitations or exclusions and require

1	continued residency in Maryland. That's a whole
2	lot of ifs, if I may.
3	MR. REDMER: There are ifs.
4	MR. LYON: So that doesn't sound like we
5	have much of a guarantee.
6	MR. REDMER: Well, there is a guarantee,
7	but I don't want to take the time during a rate
8	hearing to discuss the guarantee fund. So we do
9	have our contact information, and we're happy to
10	follow up with you on the specifics of the
11	guarantee fund.
12	MR. LYON: Fair enough. Thank you.
13	MR. REDMER: Any other questions about
14	Robert's overview?
15	UNIDENTIFIED FEMALE SPEAKER: Can we get
16	your name again.
17	MR. LYON: Robert Lyon, L-Y-O-N.
18	MR. REDMER: Robert, thank you very
19	much. Appreciate it.
20	MR. LYON: My company's name is
21	Genworth.
22	MR. REDMER: So with that, we're going

to move into the carriers. We are a little bit 1 behind schedule, so I don't want to keep you from 2 3 saying anything that you want to say, but to the 4 extent that you can be brief, we would appreciate 5 it. 6 We are going to start with Genworth, 7 Elena Edwards and Jamala Murray. 8 MS. GRASON: And if you could, kindly, 9 speak into the phone with your testimony. That would be helpful. Thank you. 10 11 Thanks for joining us. MR. REDMER: 12 GENWORTH INSURANCE COMPANY TESTIMONY 13 MS. EDWARDS: Good afternoon. My name 14 is Elena Edwards, and I'm a senior vice president 15 of Genworth's long-term care business. 16 Commissioner Redmer, thank you for 17 holding today's hearing and for inviting Genworth 18 to participate. I was also able to participate in 19 the hearing that you held in April where I offered 20 some general information across our long-term care 21 operations the need for our premium rate increases 2.2 and the future of our long-term care product. But

1	today I'm happy to return to speak and to speak
2	specifically to our current long-term care premium
3	rate increase filings which are pending today with
4	the Maryland Insurance Administration.
5	But before I do that, I'd also like to
6	say the consumers who are here today, thank you
7	for being here. Thank you for your interest and
8	participation.
9	Genworth has been selling long-term care
10	insurance in the state of Maryland since 1978, and
11	we currently provide coverage for more than 31,000
12	residents of this great state and for more than
13	1.2 million policyholders nationwide.
14	We understand how difficult these large
15	premium rate increases are for all of our
16	customers, and so we welcome this opportunity to
17	give you more information that explains why we
18	need these rate increases. We also want to
19	discuss all of the options that we offer to our
20	policyholders so they can continue to make
21	informed choices that address their specific
22	needs.
1	

1	And I'm also pleased to introduce Jamala
2	Arland, who is our long-term care in-force
3	actuarial leader, and she's going to provide some
4	basic information about our current premium rate
5	filing.
6	MS. ARLAND: Thank you, Elena.
7	Good afternoon to the Maryland Insurance
8	Administration and to our consumers who are
9	present and listening on the phone.
10	My name is Jamala Murray Arland. I'm an
11	actuary in good standing with the Society of
12	Actuaries and the American Academy of Actuaries,
13	and my team and I put together the actuarial
14	justification and support that is filed with the
15	Maryland Insurance Administration to support
16	Genworth's rate action. I appreciate the
17	opportunity to discuss our pending rate increases
18	and the actuarial justification.
19	Genworth is currently seeking rate
20	increases of 15 percent on our Choice 2 and 2.1
21	policy forms. For customers who are looking at
22	their policy forms, that relates to policy form
1	

1	number 7042 and 7044.
2	This rate increase of 15 percent is the
3	maximum rate increase permitted in the state of
4	Maryland. The rate action request applies to both
5	stand-alone individual long-term care policies
6	sold in Maryland and also those sold through a
7	program associated with the American Association
8	of Retired People, the AARP. This particular rate
9	increase will impact about 11,000 Maryland
10	policyholders.
11	The need for rate increases is primarily
12	driven by projected claims which are higher than
13	expected and compounded by persistency which is
14	higher than expected.
15	As Robert Eaton explained, underlying
16	the pricing of long-term care insurance are the
17	actuarial assumptions that look as long as 50
18	years into the future. When this product was
19	priced, and even today as we monitor the
20	experience in our in-force block, Genworth looks
21	at three main risk factors, the first being
22	interest rate risk. However, for interest rate
1	

1	risk, because this particular filing, the interest
2	rates underlying this filing are dictated by
3	regulation, interest rate is not a key driver in
4	this filing that we are discussing today.
5	The second major risk is morbidity, and
6	you can think about this as the condition of
7	health as people age and how that relates to the
8	claims that we expect to see on our long-term care
9	insurance policy.
10	The second element is persistency, and
11	you can think about this as the likelihood of a
12	policy to remain in force. Now, when it comes to
13	persistency, there are two key things that we
14	think about, the first being mortality, which is
15	how long a customer is expected to live. The
16	second factor is lapse, and that is how many
17	customers decide to terminate their coverage
18	before the benefits are exhausted.
19	Although we employed our best efforts to
20	complete thorough assessments of these risks at
21	the time of pricing, our mortality and lapse have
22	materialized differently than we originally

1	assumed. Because more policyholders are expected
2	to persist, our best view of morbidity is also
3	different than originally assumed. As such,
4	following actuarial standards of practice and
5	complying with the regulations governing these
6	products in the state of Maryland and in accord
7	with our contracts with policyholders, we are
8	attempting to adjust premium rates as soon as
9	possible, because we know that the longer we wait
10	to pursue these rate actions the greater the rate
11	increase will be. In fact, experience has shown
12	that the rate increase approximately doubles for
13	every five years that no action is taken.
14	It is our intent to learn from the past,
15	act early in these policy forms and seek to avoid
16	more significant rate increases as the average
17	attained age of our policyholders is higher.
18	While we are currently seeking the
19	maximum rate increase on these forms in Maryland
20	of 15 percent on both the AARP and non-AARP
21	policies, our current view of future claims
22	actually justify the higher rate increase of

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1	approximately 48 percent. As a result, we expect
2	for these policies, that they will be subject to
3	additional rate actions in the future.
4	MS. EDWARDS: Thanks, Jamala.
5	I'd like to now speak briefly to the
6	financial performance of our long-term care
7	policies.
8	Like most long-term care insurance
9	companies, Genworth has policies in force that are
10	challenged. On our three generations of our older
11	products and one series of our newer products,
12	Genworth has lost several billion dollars
13	collectively. On the three older generation
14	products, we expect losses to continue for the
15	next several years. We've agreed with regulators
16	that we'll never recover any of the losses on our
17	three older generation products. They are, in
18	fact, sunk costs for our company. The premium
19	rate request that we're currently seeking for our
20	newer policies that Jamala referenced, our Choice
21	2 and 2.1 policy series, will not be used to
22	offset losses on our older generation products.
1	

1	I'd also like to quickly touch on the
2	policy value of our policies. Long-term care
3	policies offer tremendous value to our
4	policyholders, even after significant rate
5	increases. Our policyholders often have several
6	times, many multiples of the premiums the
7	benefits are many multiples of the premiums that
8	they have paid in and will pay in the future.
9	But I want to go back to say that we
10	understand that these premium rate increases are a
11	tremendous burden on our policyholders, because we
12	do talk to our customers every day. As a matter
13	of fact, over the last two years we've taken over
14	200,000 calls from customers into our customer
15	service department, and they've talked to us about
16	the rate increases over those two years.
17	And we currently offer a number of
18	options and try to give a lot of optionality to
19	our policyholders as they face into these rate
20	increases. Our customer service representatives,
21	we put the most knowledgeable and longest tenured
22	associates on the phones to take these calls

1	because we know how important they are, and
2	they're waiting, ready, and willing to help
3	explain the options and take people through them
4	so that they can determine the best course of
5	action, because each policyholder themselves knows
6	what that course of action should be for their
7	situation. And we also have a website that we put
8	up for policyholders to help them understand both
9	the increases and what their options are.
10	And then our policyholders can choose
11	really a few things. One, they can choose to pay
12	the full rate increase and keep the level of
13	benefit that they've attained. Second, they can
14	make benefit adjustments, instead of paying the
15	higher premiums, to find the right balance for
16	them of both affordability and protection that
17	they need for their given situation. And third,
18	for policyholders who can no longer pay any
19	premiums or don't want to pay any premiums going
20	forward, we voluntarily offer a non-forfeiture
21	option that equals, really, a paid-up policy. And
22	with this option, if the policyholder becomes

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1	claim eligible, Genworth will reimburse the
2	eligible expenses up to the premium that's been
3	paid in minus any claims that have been paid.
4	From our overall nationwide experience,
5	since 2012 to current day, what we've see on the
6	options that we've offered is that over 80 percent
7	of our customers choose to pay the higher premium,
8	and that suggests that they really do understand
9	the value of the coverage and the benefits that
10	they currently have.
11	We're attempting to actively manage our
12	business to ensure that we're here when our
13	policyholders need us most, and that's to deliver
14	on our promise at that time in claim. Toward that
15	end, we remain committed to work with the Maryland
16	Insurance Administration to implement actuarially
17	justified rate increases in a reasonable and
18	responsible manner, keeping consumer interests and
19	concerns top of mind.
20	Commissioner Redmer, again, we
21	appreciate the opportunity to participate in your
22	hearing today, and we'd be happy to take any

1	questions that you or your staff have.
2	MR. REDMER: Thank you.
3	The policies, the generation of policies
4	that are subject to this rate request, do you know
5	when they were sold, by chance, as far as the
6	years?
7	MS. EDWARDS: Yes, Choice 2 and 2.1 are
8	the policy series and they started in 2003 and
9	went through around 2013.
10	MR. REDMER: 2003 to 2013?
11	MS. EDWARDS: Uh-huh.
12	MR. REDMER: One of the things I had
13	heard from some producers, brokers as well as
14	consumers, is with our rate cap at 15 percent, you
15	get a couple of 15 percent increases in a row and
16	it's tough to make long-term decisions, long-term
17	plans, because you don't know when the end is
18	going to come. Have you considered or would it be
19	attractive to offer a onetime increase of some
20	larger number where you commit to that that's
20 21	

1	MS. EDWARDS: We're always happy to work
2	with you and your department to look at the full
3	actuarially justified amount and to work with you
4	to implement that over time or a number of years
5	but be very clear and transparent to all the
6	policyholders so they understand what's coming or
7	to do it all upfront. But as you mentioned, we
8	could do it over several years, and over those
9	years we'd use what we would call a lockout, pay
10	for these number of years, there will be no other
11	rate increases. So we're always happy to work
12	with you and your department on that product.
13	MR. REDMER: Sarah.
14	MS. LI: Thank you for being here.
15	You said that 48 percent rate increase
16	was actually justified for this rate filing. Even
17	though these two policy forms were issued after
18	October 1st of 2002, when you say 48 percent was
19	justified, 48 percent is the least amount that you
20	need to satisfy the 58/85 test, or do you have
21	other ways to come up with the 48 percent?
22	MS. ARLAND: In determining the 48

1	percent that we believe is actuarially justified
2	for these two policy forms, we did comply. You
3	talked about in your remarks, Sarah, about the
4	58/85 test, the new business rate cap. Those two
5	provisions are accounted for in determining this
6	justified rate increase.
7	So a couple things that we look at in
8	determining this rate increase are we can make
9	sure that this rate increase would not exceed the
10	rates that we currently offer today on a new
11	policy sold, and we also complied with the 58/85
12	test, and we also applied an additional limiting
13	factor on that test for ourself, to self-limit, in
14	that the 58 component of that test is the loss
15	ratio that you think about for the original
16	premium level. So 58 percent of the premiums that
17	are collected on the original level go toward
18	claims, paid claims. We actually limit ourselves
19	to a higher amount than that 58 percent on the
20	original premiums. Then for any additional rate
21	increases that are approved, we limit ourselves to
22	85 percent. So 85 percent of every dollar

1	collected on the additional rate increase amount
2	will go towards paying claims. And those two
3	components were considered in determining this
4	justified rate increase of approximately
5	48 percent.
6	MS. LI: Thank you.
7	MR. REDMER: Thank you.
8	John Hancock.
9	JOHN HANCOCK INSURANCE COMPANY TESTIMONY
10	MS. ROCHE: Good afternoon. My name is
11	Marie Roche, and I'm assistant vice president at
12	John Hancock responsible for insurance contracts
13	and legislative services.
14	Thank you, Commissioner Redmer, staff of
15	the Insurance Administration, as well as the
16	attendees and folks on the phone. We're very
17	pleased to be here today to talk to you about rate
18	increases generally as well as specifically John
19	Hancock's currently pending filing.
20	Hancock has been writing long-term care
21	since 1987. My goal today is to talk a little bit
22	about the need for premium adjustments, how we can

or how Hancock mitigates the impact of the rate 1 2 increases on our policyholders as well as to the 3 specifics of our filing and what we can do to help 4 educate our consumers. 5 As you've heard, long-term care is a 6 long-duration policy. People buy them in their 7 50s, 40s and 50s and then claim in their 80s and 8 90s. And long-term care usage as well as expenses 9 are extremely difficult to predict for many decades in the future. Medical advances, family 10 11 patterns, people, you know, children working, 12 provider utilizations are all things that are 13 extremely or are virtually impossible to be able 14 to predict. 15 What we're seeing, again is good news, 16 people are living longer, but in many instances 17 people are living longer, but they're also living 18 frail, in a frailer state, meaning that they are going to need long-term care, and they will also 19 20 claim longer. And these are some of the elements 21 that have caused the need for rate increases.

22 And one of the things that, the most

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1	important thing I think that any carrier,
2	including Hancock, can do is help to mitigate the
3	impact of rate increases on our policyholders.
4	And we understand that these premium increases are
5	extremely difficult for our policyholders and have
6	taken some significant steps to mitigate the
7	burden.
8	For example, on our pre-rate
9	stabilization blocks of business, so the earlier
10	blocks of business written from 1991 to the early
11	2000s
12	MR. REDMER: Excuse me for interrupting.
13	Are they the policies that are subject to the rate
14	request increase?
15	MS. ROCHE: Yes.
16	MR. REDMER: Thank you.
17	MS. ROCHE: And I'll get to that
18	specifically, but one of the things we have
19	proactively applied, the tenets of rate
20	stabilization to our pre-rate stabilization block,
21	and that includes the 58/85 block ratio as well as
22	the new business cap, so it's also applied on the

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2 a contingent non-forfeiture benefit as well. 3 And again, in 2010, Hancock pioneered 4 unique and innovative alternative as a mitigatio 5 option, and it was called the inflation reductio 6 landing spot whereby the inflation index or
4 unique and innovative alternative as a mitigatio 5 option, and it was called the inflation reductio
5 option, and it was called the inflation reductio
6 landing goot whereby the inflation index or
6 landing spot whereby the inflation index or
7 individuals who had 5 percent compounded,
8 5 percent simple inflation on a prospective basi
9 that 5 percent index is reduced based upon a fix
10 amount by policy series. And I think that the
11 important thing to that type of mitigation optio
12 is that the benefits, existing benefits, includi
13 past accruals, are retained by the policyholder,
14 and then only future inflation increases are
15 reduced. This option, unfortunately, is not
16 available in Maryland, because of the 15 percent
17 cap. When we offer these inflation landing spot
18 the requested rate increases need to be approved
19 in full.
20 MR. REDMER: Excuse me. There are
21 states where you offer that as an option, I take
22 it; right?

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1	MS. ROCHE: In the vast majority of
2	states, we do offer that.
3	MR. REDMER: Okay.
4	MS. ROCHE: As to our
5	UNIDENTIFIED FEMALE SPEAKER: Can you
6	explain that better.
7	MR. REDMER: I'm sorry. We don't have
8	time to let the audience ask questions of the
9	carriers. However, we've got our contact
10	information. At the conclusion of this, you can
11	ask questions. If you prefer, you can send
12	questions to us and we'll be happy to facilitate
13	answers on your behalf.
14	With that, I have a question. Could you
15	answer that. Explain that better.
16	(Laughter.)
17	MS. ROCHE: Okay. So what the inflation
18	landing spot does, let's assume that you have
19	5 percent compound inflation and your policy
20	benefits are inflating for 5 percent over a period
21	of time. So let's assume your daily benefit is
22	100, and now because of inflation over a period of

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1	years, let's just pick a number, your daily
2	benefit is now, over a series of years, is now at
3	\$150.
4	What we allow in other states is, for
5	example, an individual to reduce that 5 percent
6	compound to maybe 4 percent or 3.5 percent
7	compound inflation. So rather than prospectively
8	your benefits increasing at 5 percent, it
9	increases at 4 or 3.5 percent, but the
10	starting-off point for that daily benefit is still
11	\$150. And so again, the inflation or the reduced
12	inflation index would apply on a move-forward
13	basis.
14	Is that helpful?
15	(Unidentified female speaker motioned
16	affirmatively.)
17	Okay. Thank you.
18	Okay. The other thing that I wanted to
19	talk about, clearly, is our current pending
20	filing. This submission was made in August 2016
21	and remains pending. It covers 13 policy series
22	that have been issued over time in the state of

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Maryland from the time period of 1991 to 2004. 1 2 Those were the issue dates for the policies that 3 are being increased. And as you have heard, Maryland is 4 5 unique in that the Maryland regulation has capped 6 rate increases to a maximum of 15 percent. One of the other things that I'd like to take note of is 7 8 that capping rate increases has a result of, 9 meaning for consumers, that the ultimate rate 10 increase that consumers will pay over time will, 11 in fact, be higher. So we think that that's an 12 important consideration. 13 In our outstanding filing, the average 14 needed rate increase that we believe that we were 15 actually able to justify is 46 percent. So we 16 would anticipate additional rate increases in the 17 future. 18 In addition, Hancock continually 19 monitors its experience over the years, and we are

20 in the process of conducting a deep dive on

21 experience. That's done every few years, and the

22 results of that study is ongoing, and the results

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1	may require future rate increases as well.
2	But getting back to the rate increase at
3	hand, if Hancock is, in fact, capped at
4	15 percent, the average increase for the pending
5	rate increase is 14.2 with increases that range
6	from .2 to 15 percent based upon policy series.
7	And the reasons for needing these increases are,
8	again, the experience that we are seeing at older
9	ages. Again, people are claiming longer, and the
10	claims are they're claiming longer, but people
11	are also living a longer period of time where
12	they're most likely to claim.
13	The other thing that I wanted to mention
14	is that we you know, another important thing,
15	in addition to mitigating or providing our
16	policyholders with meaningful options to help
17	mitigate the rate increase, is our ability to
18	educate our consumers, and we believe that the
19	type of communication that is needed is that all
20	consumers need to be informed of the amount of the
21	rate increase, the timing, as well as in clear,
22	easy to understand language the mitigation options

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1	available to them.
2	And one of the things over the past few
3	years the NAIC has been working on is new
4	disclosure on rate increases, which we fully
5	support.
6	Again, we commend the department's
7	thoughts about implementing the most current
8	version of the NAIC. We are supportive of that.
9	We believe that it will provide added protections
10	to consumers as well as clear disclosures.
11	And we respectfully ask that we
12	believe that we have actuarially, from an
13	actuarially justification perspective, have
14	justified the increases that we have requested and
15	that the department would provide disposition on
16	our submission.
17	MR. REDMER: Thank you.
18	Sarah.
19	MS. LI: So you said that you can
20	MR. REDMER: Let everybody else hear
21	you.
22	MS. LI: So you said that you can

justify 46 percent rate increase. 1 2 MS. ROCHE: Uh-huh. 3 MS. LI: Okay. Over the past few months we have received a couple complaints with regard 4 5 to your policies, and in the process of 6 investigating these complaints, we realized that your company did not implement the rate increase 7 8 for the last three years. Current point, it seems 9 like to us you are still implementing... business. 10 Is there any system problems or is that --11 MS. ROCHE: I'm not aware, and I 12 apologize, of any operational aspect. I do know 13 that there may have been a delay in implementing a 14 few policy series, but not overall. And I'll be 15 happy to do some investigation, and I'll get back 16 to you in the next few days. 17 That would be good. Thank you. MS. LI: 18 MR. REDMER: Thank you, Marie. 19 My understanding is MedAmerica is not 20 represented. They're going to provide written 21 testimony. Is that right? 2.2 MR. ZIMMERMAN: MedAmerica and Principal

1	Life provided written comments which will be
2	posted to our website.
3	MR. REDMER: Thanks, Adam.
4	Metropolitan.
5	METROPOLITAN LIFE INSURANCE COMPANY
6	MR. TREND: Good afternoon, Commissioner
7	Redmer, Ms. Li, Ms. Grason, Mr. Zimmerman, Met
8	Life long-term care policyholders and other
9	interested parties.
10	My name is Jonathan Trend. I am a vice
11	president and actuary at Metropolitan Life
12	Insurance Company, and I have overall
13	responsibility for the actuarial memoranda and
14	accompanying documents that support the
15	application. I'm a fellow of the Society of
16	Actuaries and a member of the American Academy of
17	Actuaries and have over 18 years of experience in
18	long-term care insurance and the risks,
19	assumptions and benefits that are characteristic
20	of that coverage.
21	Also with me is Tom Reilly. Tom is
22	Metropolitan Life Insurance Company's director of

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1	long-term care product management and compliance.
2	We are here today on behalf of
3	Metropolitan Life Insurance Company, Met Life
4	Insurance Company USA, TIAA-CREF Life Insurance
5	Company, and Teachers Insurance and Annuity
6	Association of America. During the presentation,
7	we will refer to all these companies collectively
8	as Met Life.
9	We welcome the opportunity to present
10	our views on Met Life's long-term rate filings
11	currently before the Maryland Insurance
12	Administration and to answer your questions.
13	Thank you also for providing this forum for
14	Maryland citizens, including our valued customers,
15	to express their views and comments on the
16	filings.
17	Our brief presentation will include a
18	description of the steps we have taken to mitigate
19	the impact of the proposed increase. We also hope
20	to provide a greater understanding of why the
21	increases are necessary and the process Met Life
22	uses to evaluate the underlying assumptions and

1	risks that we are required to assess before filing
2	for an increase with the administration.
3	Please keep in mind that this
4	presentation will highlight and expound upon
5	certain areas relating to Met Life's comprehensive
6	filing made with the Administration on May 25th,
7	and June 23rd, 2016. The filings present the full
8	and complete actuarial basis for the requested
9	rate increase that constitute Met Life's official
10	request.
11	Met Life's decision to file for rate
12	increases was made only after careful and in-depth
13	analysis of the experience relating to these
14	policies that are the subject of these failings.
15	We are proposing these increases in light of the
16	information that has emerged over the years these
17	policies have been in force, including claim
18	experience and persistency and the changes and
19	assumptions underlying these policies since they
20	were first issued.
21	Met Life believes that the rate filings
22	made with the Administration clearly demonstrate

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1	that the increases are needed because the
2	experience relating to these policies has been and
3	is expected to remain materially worse than
4	initially anticipated. This is also my
5	professional opinion.
6	We believe that the proposed premium
7	schedules are not excessive nor unfairly
8	discriminatory and the benefits provided are
9	reasonable in relation to the proposed premiums
10	based on the lifetime loss ratio being in excess
11	of minimum requirement set by Maryland insurance
12	law.
13	I'm now going to turn the presentation
14	over to my colleague Tom Reilly who will provide
15	an overview of the scope of Met Life's
16	applications for rate increases.
17	MR. REILLY: Good afternoon and thank
18	you for the opportunity to speak about our
19	filings.
20	As a background to our filing, I think
21	it would be helpful to briefly explain the scope

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1	today's hearing.
2	Met Life is seeking approval on two
3	segments of our long-term care insurance business.
4	The first segment includes policy forms associated
5	with the Met Life Insurance Company USA. Policies
6	were issued between 1990 and 2001. The increase
7	that Met Life is requesting on these forms is
8	15 percent. Approximately 3,918 insureds from
9	this business may be impacted by the rate
10	increase.
11	The second segment includes policy forms
12	issued by Teachers Insurance and Annuity
13	Association of America and TIAA-CREF Life
14	Insurance Company, their individual business which
15	Met Life acquired in 2004. After acquiring this
16	business, Met Life did not market or sell new
17	policies associated with future business. These
18	policy forms were issued between 1991 and 2004.
19	The increase percentages that Met Life is
20	requesting on these forms is 15 percent.
21	Approximately 839 insureds from the Teachers
22	business my be impacted by this rate increase.

1	Jonathan will now address the actuarial
2	aspects of the filings.
3	MR. TREND: As previously mentioned, Met
4	Life believes that the applications demonstrate
5	that the requested increases are justified and
6	meet all Maryland insurance requirements for
7	approval.
8	To assist you with your review, I will
9	briefly speak to the applications and why we
10	believe the requested increases are reasonable.
11	I will start by referring you to
12	specific portions of the filings that demonstrate
13	that the loss ratio on the Maryland policies after
14	application of the requested increase will remain
15	far in excess of the minimum loss required for
16	rate revisions under Maryland insurance law.
17	The term loss ratio used throughout our
18	testimony is here defined as the ratio of incurred
19	claims, the moneys we pay to claimants; the term
20	premiums, the moneys we collect from the
21	policyholders.
22	As part of the in-force management of

1	the business, Met Life monitors the performance of
2	the business by completing periodic analyses of
3	persistency rates, how many policyholders keep
4	their policies; mortality rates, how long
5	policyholders live; and morbidity rates, the
6	frequency and severity of claims.
7	The findings from these analyses were
8	used in projecting the future performance of
9	in-force business to determine the effect of
10	experience on projected lifetime loss ratio. The
11	reason we study these parameters is because they
12	bear directly on projected levels of claims and
13	premiums over the lifetime of the policies.
14	As explained in the memorandum, overall
15	actual persistency rates have been higher than
16	that assumed when the policies were priced;
17	mortality rates have been lower than that assumed
18	at pricing; and morbidity levels have generally
19	been higher than that assumed at pricing.
20	The combined result of past experience
21	and future projections based on current
22	assumptions without a rate increase are loss
1	

1	ratios that far exceed the minimum requirements.
2	In fact, the current projected lifetime loss
3	ratios in Maryland range from 117 to 173 percent.
4	This means that our current rate bases have us
5	paying out between \$117 and \$173 in benefits for
6	every \$100 we collect in premiums. Even after
7	rate increases at the levels requested in our
8	applications, the loss ratios for the Maryland
9	policies will range from 111 to 170 percent,
10	again, well in excess of the minimum requirement.
11	It is important to note that our
12	applications do not attempt to recover past
13	losses.
14	Tom will now conclude our testimony.
15	MR. REILLY: Thanks Jonathan.
16	Please be assured that while Met Life
17	believes the requested increases are necessary,
18	justified, and permitted under Maryland's
19	insurance laws and regulations, we also understand
20	that many of these increases may cause some
21	policyholders to consider canceling coverage. Met
22	Life's experience shows that the vast majority of

1	policyholders choose to maintain their coverage,
2	even in the face of rate increases. For all
3	policyholders, including those who may consider
4	ending their coverage because of any of these rate
5	increases, we will offer them multiple options
6	where available to modify their coverage to keep
7	their premiums at a level similar to their current
8	premiums.
9	In addition, currently the rate increase
10	request, we have requested approval and
11	endorsement to provide a nonforfeiture benefit so
12	that all policyholders who choose to stop paying
13	premiums in response to a rate increase can still
14	maintain some paid-up coverage. This means that
15	for these policies, every premium dollar
16	previously paid, minus benefits already received,
17	will be available as a benefit if the insured goes
18	into claim.
19	In closing, we feel the value provided
20	by these coverages is significant, and we are
21	proud of the service we have provided to Met Life
22	policyholders, especially at time of claim. Since

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1	entering the long-term care insurance market, Met
2	Life has paid out over 6 billion in claims.
3	Thank you for the opportunity to testify
4	in support of Met Life's applications. We
5	respectfully request that the administration
6	approve the filings as submitted.
7	This concludes our remarks. We'd be
8	happy to take your questions.
9	MR. REDMER: Thanks for coming out.
10	Sir.
11	MS. LI: Thank you. Mr. Trend, without
12	15 percent cap, what would be the rate increase?
13	UNIDENTIFIED FEMALE SPEAKER: Can you
14	speak louder, please.
15	MS. LI: Without 15 percent cap, what
16	would be your justified rate increase?
17	MR. TREND: It would vary by policy
18	form. I mentioned in my opening remarks our
19	filings address a variety of and policy forms,
20	so it would range, but certainly be substantially
21	higher than 15 percent.
22	MS. LI: So in follow-up, you mentioned

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1	that the rate, the 15 percent rate increase, the
2	loss ratio, lifetime loss ratio moved by only
3	5 percent, 5 to 6 percent?
4	MR. TREND: Thereabouts.
5	MS. LI: Okay. So if Met Life USA
6	policies, they were issued between 1990 and 2001,
7	and the loss ratio is running between 111 percent
8	and 170 percent, so you would expect a cap of
9	15 percent increase in future years; is that
10	correct?
11	MR. TREND: For that block, the Met Life
12	USA block, yes. A loss ratio is extraordinarily
13	more than the minimum requirement, but expectation
14	is that Met Life USA would continue to apply for
15	multiple rounds of 15 percent rate increases, and
16	that precipitates that lifetime loss ratio to
17	something more reasonable.
18	MS. LI: Thank you.
19	MR. REDMER: Thank you.
20	Prudential.
21	THE PRUDENTIAL INSURANCE COMPANY OF AMERICA TESTIMONY
22	MR. BURNS: Good afternoon. Pete Burns.

1 I'm vice president and actuary at Prudential 2 responsible for the rate increase, loss ratio rate 3 increase filing. 4 I want to take the time to thank the 5 Maryland Department of Insurance and Commissioner 6 Redmer for giving me the opportunity to speak on 7 behalf of Prudential and explain why the rate 8 increases are needed as well as to help explain 9 what Prudential is doing to mitigate those rate 10 increases to the policyholders. 11 Prudential is currently seeking approval 12 of average rate increases between 12.8 percent and 13 15 percent for four of our individual long-term 14 care policies that were sold in Maryland between 15 the years 2000 and 2012. We currently have 1,952 16 policyholders in Maryland that own one of these 17 impacted policies. And the average amount of the 18 rate increase is expected to be \$37 per month. 19 Prior rate increases in Maryland that we 20 have sought in the past have not been sufficient. 21 That's why we're here to seek another rate 2.2 increase currently. The prior rate increases have

1	resulted in a vast majority of the policyholders
2	continuing to pay the premium. In fact, we've
3	seen, for each rate increase, we've seen about
4	94 percent of Maryland policyholders continuing to
5	pay that premium without any sort of benefit
6	reduction. Obviously there are some people that
7	are taking benefit reduction as well as some
8	people that are deciding to stop paying premiums.
9	Some of the primary factors, just
10	echoing what's already been said that, you know,
11	the premium increases, the primary factors being
12	voluntary lapse rates, mortality, morbidity and,
13	of course, investment earnings needed for, you
14	know, for the policy reserves has significantly
15	been less than what was anticipated.
16	For Prudential, the primary drivers for
17	rate increases has been around mortality and
18	voluntary lapse rates. And as you know and has
19	been explained, you know, what we see is the lapse
20	of policies, so premiums and the reserves that
21	were set aside need to be sufficient to help fund
22	to pay those claims for the remaining

1	policyholders that do go on claim in those later
2	years.
3	From the lapse standpoint, when
4	Prudential first got into the long-term care
5	business, for these individual policies, the
6	assumption was closer to around 5 percent, and
7	today it's at 1 percent or even lower.
8	Mortality rates, of course, continue to
9	fall as well, and obviously it's important and has
10	that impact to where there's a lot more
11	policyholders available to claim on those benefits
12	at the older attained ages.
13	Due to the improved voluntary lapse
14	rates and mortality, it is assumed that a
15	significant number of policyholders will remain in
16	force at these older attained ages when they're
17	more likely to go in claim, and of course that's
18	good because that's what the coverage is all
19	about, to provide that coverage when they need it
20	the most. But unfortunately, it was not
21	anticipated that Prudential didn't anticipate
22	the level of policyholders that would be around at

that time and was just not included in the 1 2 original pricing. 3 The current rate increase request is 4 intended to partially but not fully offset some of 5 our adverse experience. We do anticipate that 6 future rate increases will be likely in the 7 future. 8 Also, Prudential understands the challenges that some of the policyholders are 9 In an effort to make this 10 going to face. 11 difficult situation a little bit easier, to help 12 mitigate some of these difficulties, Prudential 13 does offer, you know, with the notification 14 letters, offer a number of options to reduce 15 benefit coverage as well as offering a 1-800 16 number to call in to a customer representative to 17 help handle the situation. The tele-center, I 18 want to point out, is 100 percent dedicated to 19 Prudential long-term care matters. 20 Some of the voluntary options that 21 Prudential offers to mitigate the rate increases 2.2 are, you know, reducing policy benefits, such as

1	daily and lifetime maximums; remove optional
2	riders that provide additional benefits; stop
3	paying premiums and exercise a nonforfeiture
4	benefit. And I will add that Prudential is now
5	offering a nonforfeiture benefit to all of those
6	that let lapse as a result of the rate increase.
7	So those, obviously, are some of the options.
8	I do want to point out that
9	Prudential the majority of Maryland
10	policyholders have some form of cash benefit.
11	That's something that's not always prevalent among
12	other carriers. I want to point this out because,
13	you know, the cash benefit is a little bit
14	different than the typical reimbursement policies
15	or benefits. It pays insureds a daily benefit
16	maximum, or in some cases we have what's called a
17	cash alternative where we'll pay a partial amount
18	of that benefit, but it pays as long as the
19	claimant is benefit eligible and has an approved
20	plan of care in place. With this, the
21	policyholder does not have to submit proof of
22	receiving the LTC services, provided they were

1	benefit eligible before. But the insured will
2	have the option, with this rate increase, that
3	they can offset that 15 percent rate increase by
4	electing to actually, in some cases they can
5	actually get a bigger than 15 percent reduction by
6	electing to reduce to eliminate this cash
7	benefit to keep the same dollar amount that they
8	currently have. It's just an option, it's
9	voluntary, but it's an option to basically say,
10	you know, we'll still pay, we'll still pay for
11	your benefits, but it's going to be under the
12	reimbursement model. You'll need to provide proof
13	of receiving the services. We'll pay up to the
14	daily maximum amount of reimbursements expenses
15	up to the daily maximum amount. So it's an offer
16	to help offset the rate increase.
17	In fact, policyholders, of course, can
18	also elect to pay the increased premium and keep
19	all their existing benefits.
20	As stated in this testimony, Prudential
21	does understand the challenges of the policyholder
22	when rates are increased. Rate increases are

1	needed to help ensure that future premiums in
2	combination with existing reserves will be
3	adequate to fund the anticipated claims. And by
4	providing different options, we will assist
5	policyholders with opportunities to minimize the
6	impact of the rate increase.
7	And we appreciate the department's time
8	and attention to this matter. And we are
9	available for further discussion.
10	MR. REDMER: Keith, thank you. You're
11	lucky. We're getting behind on time, so any
12	follow-up questions will come by email.
13	For you and any of the other carriers,
14	Marie from Hancock mentioned an option that's not
15	available in Maryland, reduction of the inflation
16	index. If any of you are offering anything
17	outside of Maryland that you can't do in Maryland
18	but would like to, we'd like to hear about it, not
19	today, but please follow up with us.
20	Next, Tim from TransAmerica.
21	TRANSAMERICA LIFE INSURANCE COMPANY TESTIMONY
22	MR. KNEELAND: Good afternoon. Thank

1	you Commissioner and all of your staff, and
2	especially the customers that are here.
3	This is a challenging topic, as I'll get
4	into a little bit. I understand that. We get
5	that. In the end, I understand and we understand
6	that our biggest commitment to all of our
7	policyholders is to make sure we pay every
8	qualified claim for the rest of eternity on these
9	policies that are in force. And for us, this is a
10	very serious topic, not just for us but for the
11	industry, because, as the question was asked
12	earlier about what protections are there if an
13	insurance company can't meet its obligation,
14	that's a very serious issue. It's important for
15	us to be able to keep that on the table.
16	I'm going to try to not be redundant.
17	There's been a lot of good information shared here
18	already. I'll make sure I cover the areas that
19	the Commissioner specifically requested. However,
20	I think it's also important to think a little bit
21	about an equally important issue, which is the
22	role that insurance companies take on in this

Page	9	4
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1	capitalistic society that we have.
2	Approximately 25 to 30 years ago
3	companies started working on trying to solve a new
4	issue that was arising: Our baby boomers were
5	aging and they were going to create a whole
6	different set of circumstances that this country
7	had never seen before, and one of them was going
8	to be the care. Well, what's going to happen?
9	Our families don't all live together. Children
10	move away. It's not the same as it used to be.
11	So as insurance companies, many of us, over 120,
12	chose to step up and to be able to start offering
13	a type of coverage that was known at that point in
14	time as nursing home insurance. This evolved to
15	be very expansive and offer a lot of care for
16	chronic care.
17	And we did those things knowing that
18	there's two types of policy forms. One is
19	specific to this issue. One is a noncancelable
20	policy and one is a guaranteed renewable policy.
21	A noncancelable policy says that an insurance
22	company is going to not only guarantee that that

policy will stay in force for the lifetime of the customer as long as they pay their premium, but it also says that the premiums are guaranteed. That is not what these policies are, and our policies were guarantee renewable.

6 The state of Maryland and every other 7 state approved the guaranteed renewable policy 8 form. To my knowledge, there was none or almost 9 no long-term care issued on a noncancelable basis. And I think it's important for us to understand 10 11 that, because without that provision you wouldn't 12 have seen insurance companies, most likely, enter 13 this realm. We would not have taken on this risk. 14 It would have become a completely societal issue 15 rather than an issue that would be solved or 16 attempted to be aided by the private sector. 17 It's also important because as risks 18 come moving toward, things that we haven't even 19 thought about yet, things that may not apply to 20 our oldest customers today or even to my 21 generation -- I'm at the end of the baby boomer

22 generation -- but they will affect our kids. They

1	will affect our grandkids. We want a strong
2	insurance industry that is still willing to take
3	on those risks and to face those and to offer the
4	insurance, but in order to be able to do that, we
5	need to have predictability in this insurance.
6	I mean no disrespect to the people that
7	are impacted by this. Four of our policyholders
8	that are going to have rate increases are my mom,
9	my dad, my mother-in-law and my father-in-law. I
10	never understood just exactly what this meant to
11	those people until I was sitting down with my
12	father-in-law and mother-in-law. As a side note,
13	that's a whole different discussion, as you'd
14	expect, your mother-in-law talking about this.
15	And I talked about the needs, and I talked about
16	the conditions, but I reminded them that we are
17	going to pay every dime on this when that time
18	comes, because for most of our policyholder they
19	don't ever let go of these policies, and they do
20	claim. And it's important that we and all of our
21	other companies are there to be able to pay those
22	claims. And that's why it's such an important

1	discussion, not just for us but for our country.
2	When I talked to my father-in-law, we
3	too offer the same landing spot as John Hancock
4	does. We cannot offer it in Maryland, but it is
5	why we're an outlier and why we ask for the full
6	amount that we feel we need on this block of
7	business, either 65 or 70 percent. Because we
8	feel that, just as me sitting down talking to my
9	mother-in-law and father-in-law, we have to be
10	transparent. We have to tell you everything that
11	we know at this point in time. And we said if you
12	can allow us to have these rate increases, we will
13	not come back for additional rate increases unless
14	things deteriorate beyond this point.
15	And the challenge is is that as we look
16	at the things that have impacted and we look at
17	the things that have changed, when we first sold
18	these policies, they were sold in the early in
19	the late '80s, and I was one of the people selling
20	those policies for the first 20 years of my
21	career. And we went and we looked at the
22	facilities that were being covered back in the
1	

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	late '80s and early '90s, and they were cold	
:	sterile wings on hospitals or nearby hospitals,	
	and they've evolved, and I'm glad.	
	I'm at the end of the baby boom era.	
!	It's quite likely that my wife and I or one of u	S
	will be in one of those facilities, and we're gla	ad
	that they're much nicer than they ever were, but	
	it also is impacting behavior. That's something	
	that hasn't come up in the discussions. Yes,	
1	people are living longer. Yes, morbidity is	
1	getting worse. Yes, people keep their policies.	
12	But the other thing is they think about claiming	
1	different. It's a different discussion to go in	to
1	an assisted living facility or one of the very	
1!	nice facilities that exist today than it was bac	k
1	when perhaps your parents or your grandparents	
1'	were looking at these facilities. So it's	
18	important for us to be able to understand that.	
19	In addition to being transparent and	d
2	I'm really excited, Commissioner, that you start	ed
2	off by saying that your desire and the governor's	S
22	desire is to be transparent. That's why we filed	d
1		

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customers need to know everything that we know today. Is this is it? I don't know. We don't know what a million hundred-year-olds are going to look and act like in this country. I wish we did. Maybe we don't want to know. But the reality of it is is things are going to continue to evolve. People are likely to continue to live longer. Will there be quality of life or will there just be more longevity? We don't know, and those are factors that we have to keep on our toes. We have people that wake up every day just thinking about how do we make sure that in addition to the \$1.7 million that we pay every day in claims because we are still selling new policies, we are still trying to help the states fix this problem we want to be able to make sure that for the next 70 years while we're paying these claims we are on top of it and we know the best information that is available at this point in time.	1	what we filed, because we believe that our
4 Is this is it? I don't know. We don't 5 know what a million hundred-year-olds are going to 6 look and act like in this country. I wish we did. 7 Maybe we don't want to know. But the reality of 8 it is is things are going to continue to evolve. 9 People are likely to continue to live longer. 10 Will there be quality of life or will there just 11 be more longevity? We don't know, and those are 12 factors that we have to keep on our toes. 13 We have people that wake up every day 14 just thinking about how do we make sure that in 15 addition to the \$1.7 million that we pay every day 16 in claims because we are still selling new 17 policies, we are still trying to help the states 18 fix this problem we want to be able to make 19 sure that for the next 70 years while we're paying 20 these claims we are on top of it and we know the 21 best information that is available at this point	2	customers need to know everything that we know
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8 it is is things are going to continue to evolve. 9 People are likely to continue to live longer. 10 Will there be quality of life or will there just 11 be more longevity? We don't know, and those are 12 factors that we have to keep on our toes. 13 We have people that wake up every day 14 just thinking about how do we make sure that in 15 addition to the \$1.7 million that we pay every day 16 in claims because we are still selling new 17 policies, we are still trying to help the states 18 fix this problem we want to be able to make 19 sure that for the next 70 years while we're paying 20 these claims we are on top of it and we know the 21 best information that is available at this point	6	look and act like in this country. I wish we did.
<ul> <li>9 People are likely to continue to live longer.</li> <li>10 Will there be quality of life or will there just</li> <li>11 be more longevity? We don't know, and those are</li> <li>12 factors that we have to keep on our toes.</li> <li>13 We have people that wake up every day</li> <li>14 just thinking about how do we make sure that in</li> <li>15 addition to the \$1.7 million that we pay every day</li> <li>16 in claims because we are still selling new</li> <li>17 policies, we are still trying to help the states</li> <li>18 fix this problem we want to be able to make</li> <li>19 sure that for the next 70 years while we're paying</li> <li>20 these claims we are on top of it and we know the</li> <li>21 best information that is available at this point</li> </ul>	7	Maybe we don't want to know. But the reality of
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18 fix this problem we want to be able to make 19 sure that for the next 70 years while we're paying 20 these claims we are on top of it and we know the 21 best information that is available at this point	16	in claims because we are still selling new
19 sure that for the next 70 years while we're paying 20 these claims we are on top of it and we know the 21 best information that is available at this point	17	policies, we are still trying to help the states
20 these claims we are on top of it and we know the 21 best information that is available at this point	18	
21 best information that is available at this point		fix this problem we want to be able to make
	19	
22 in time.		sure that for the next 70 years while we're paying
	20	sure that for the next 70 years while we're paying these claims we are on top of it and we know the

1	In conclusion, we get the challenge. We
2	get how big an issue this is. We get that this is
3	more than an inconvenience, and that's why for us
4	flexibility and all of the options that all the
5	other carriers have talked about, we have provided
6	all of those. We've gone above that in that we
7	also understand that quite often as an issue for
8	not just the insureds, I spend a lot of time each
9	quarter on the phones taking they don't let me
10	talk, but listening to the calls that come into
11	the claims center to understand what are the
12	issues for our people, for our customers, because
13	this is a difficult time, and quite often it's the
14	daughter-in-law that's making these discussions.
15	And so for us not only do we have to be able to
16	provide flexibility and transparency, but we have
17	to provide education in a usable form.
18	So we've created a website that is
19	specific to every state so that every insured in
20	that state can go in and identify themselves and
21	make their own decisions, or better yet, in a
22	confidential setting that is secure and only

1	available to them, they can sit down with their
2	family members and they can make a decision about
3	what are the best options for us.
4	Historically, under 3 percent of our
5	people ever took nonforfeiture, which means they
6	just say, I want a paid-up policy equal to my
7	premiums. Most of our people, the vast majority,
8	pay the increase. Many of them will change their
9	benefits. We want to make sure they do it with
10	full knowledge, which is why we provide cost of
11	care information across the country as well as
12	allowing them to get online and set an appointment
13	with one of our many very well trained call center
14	people after they've been able to review this
15	information with their family and decide what's
16	best for them.
17	We would like the Commissioner and the
18	staff to think about our filing and consider it
19	beyond the 15 percent, allowing us, even though
20	we've offered to implement it over the course of
21	five years, to be able to allow our customer to be
22	able to make downgrade decisions with all of the

1	facts that they have.
2	MR. REDMER: Thank you, Tim.
3	UNUM.
4	UNUM LIFE INSURANCE COMPANY OF AMERICAN TESTIMONY
5	MR. MONAGHAN: Good afternoon and thank
6	you for having me. On behalf of UNUM, thank you
7	for having this hearing, Maryland Insurance
8	Association and everyone participating. We
9	appreciate it.
10	My name is Matt Monaghan. I'm the vice
11	president and general counsel of UNUM's closed
12	block operations. The business unit is comprised
13	of products that we no longer sell, and not
14	surprisingly long-term care is one of them.
15	Long-term care policies represent about half of
16	our overall closed block of business.
17	Just following up on Tim's point, our
18	outstanding need for the filing that we have
19	pending is actually 99 percent for folks with
20	compound, uncapped inflation and 68 percent for
21	folks with simple uncapped inflation. We have
22	filed for both of those groups at 15 percent, and

1	we appreciate and expect that's the direction we
2	can see, so as a result, we will need to file
3	again in the future. And I'll be able to speak to
4	the landing spot issue, too, because we have
5	addressed that previously in your department.
6	We exited the individual long-term care
7	market in 2009. We exited the group long-term
8	care market in 2012. Most, the vast majority of
9	our long-term care policies were sold between 1989
10	and 2012. We have approximately a million
11	long-term care insureds nationwide. In Maryland
12	we have approximately 4,300 Maryland individual
13	long-term care insureds, and we have approximately
14	16,000 individuals who are insured under UNUM
15	Group's long-term care policies that are issued by
16	Maryland employers.
17	As context for today's hearing, the
18	total number of Maryland policyholders who would
19	face a premium increase if our pending request is
20	granted would be slightly less than 2,500.
21	And there are six policy forms, and to
22	save time, I won't get into all that unless you

1 make me.

2	Our commitment is to all of our
3	policyholders, our long-term care policyholders,
4	not only in servicing the policy, administrating
5	the policy during its lifetime but also, and most
6	importantly, at time of claim. And that's why
7	it's critically important that we secure the
8	necessary rate increase, to allow us to meet all
9	of our obligations. And I'll get into that in
10	more detail in a moment.
11	During 2015, we paid over 390 million in
12	long-term care benefits nationwide. Another
13	priority of ours, though, of course, it has to be,
14	is to manage all of our insurance products to
15	ensure financial stability, the financial
16	stability of our operating company for both the
17	short-term horizon and also for long-term
18	sustainability in the 25 years before our
19	long-term care claims peak.
20	So, you know, people talk about results
21	and what's the company done last year, what's the
22	company doing next year, but really it's a 25-year

period before the claims peak, and then it will be 1 2 another 20 years for them to run off. And that's 3 why rate increases are vital, a vitally important It doesn't mean there aren't other 4 element. 5 elements, but it's a vitally important element to 6 our strategy. 7 In the late 1980s when we entered the 8 long-term care business -- we heard this from 9 others -- we priced our products based upon the best available information at that time. We had a 10 lot of expert actuaries look at all the different 11 12 factors and come up with an actuary assumption 13 that made sense in slight of experience to date. 14 Unfortunately, like everyone here, all 15 the carriers here and actually every long-term 16 carrier that I know, our actual experience is 17 vastly different than what we had expected. And 18 you heard some of the elements of that from other 19 folks, and I won't get into it in detail, but I 20 will tell you that as a result our long-term care 21 block has suffered significant overall losses and will well into the future. And that would be the 2.2

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1	case, just in light of the multiple pricing
2	factors involved, that would be the case even with
3	an increase in interest rates.
4	In 2006 when the financial reality of
5	long-term care rate increases I'm sorry, the
6	economics of our long-term care business became
7	clear to us and credible, we began filing rate
8	increases, long-term care rate increases. Our
9	goal in seeking long-term care rate increases
10	is I'll tell you what it isn't first. It's not
11	to return the block to a state of profitability,
12	not in the slightest. It's also not to recoup
13	past losses. We've had plenty of losses and will
14	continue to. We're not looking to recoup those.
15	Instead, our goal is aimed solely at moving our
16	long-term care block to a point of
17	self-sustainability to ensure that over that long
18	horizon that I spoke of we will have enough in
19	reserve plus expected premium to meet all of our
20	claim obligations and to pay as many of our
21	expenses as we can.
22	With that in mind, our current planned

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1	rate increase nationwide represents only
2	approximately 28 percent of what we could seek as
3	actuarially justified under our given facts, given
4	scenarios.
5	Here in Maryland because of the
6	15 percent annual rate increase cap, our current
7	request is made in smaller fractions, and we are
8	taking an incremental approach in Maryland, and we
9	appreciate working with your department.
10	I mentioned earlier that we would be
11	seeking 99 percent for compound uncapped inflation
12	and 68 percent for simple uncapped inflation.
13	Nonetheless, even without seeking limited I
14	shouldn't say limited because they are still
15	significant, but even with us seeking far less
16	than we could actuarially justify, we totally
17	appreciate the impact to our customers. I have
18	relatives like Tim there, and we've had many
19	conversations about it.
20	So at UNUM we've come up with our
21	version of a landing spot. We've talked about it
22	in other forums, and we've talked about it with

1	the department. The way that our landing spot
2	works is essentially it's an impact-mitigation
3	option. So the rate increase applies, but it
4	provides you options to ensure that your premium
5	doesn't increase.
6	The way ours works is, first of all, the
7	rate increase that we have pending on this block
8	of old individual long-term care policies, it only
9	applies to our customers that have our richest
10	coverage. It's 5 percent uncapped compound
11	inflation or 5 percent uncapped simple inflation.
12	And the way our landing spot works is they can
13	avoid the rate increase they don't avoid the
14	rate increase, they avoid the premium increase by
15	agreeing to adjust their inflation adjustment on a
16	going-forward-only basis from 5 percent to
17	3.2 percent. And what that means is all of the
18	benefits that increases that have accrued at
19	5 percent for as many years as they've had the
20	policy and paid the premium will lock at the point
21	of accrual, at the point that they elect that
22	landing spot, so they have credit for all of

1	those. But on a going-forward basis, their next
2	and their following subsequent rate increase would
3	be at the adjusted benefit would be at
4	3.2 percent on a going-forward basis.
5	In Maryland, because of the 15 percent
6	rate cap, we talked to the department, and what we
7	have done here and what other departments have
8	done as well is they have said: We want to have
9	that option available for our consumers. Can you
10	offer it and allow them to not have their premium
11	increase on this rate increase, but also give them
12	a guarantee that their premium won't increase for
13	any future rate increases up to your relative
14	need, which we discussed is 99 percent of policies
15	with an uncapped compound and 68 percent for
16	policies with uncapped simple inflation? So
17	that's what we're offering our customers, if you
18	approve it. You approved it on our last filing,
19	which provides them a premium increase not only
20	for that rate increase but all future rate
21	increases up to 114 for compound, and 82, I
22	believe, for simple. So that's how our landing

1	spot works. And of course the folks who accepted
2	our landing spot at our last round of rate
3	increases aren't subject to their premium
4	increasing with this rate increase.
5	Forty-three states have approved our
6	landing spot to date. We've seen a high election
7	rate, and that's something that we feel pretty
8	good about. It's been well received by our
9	customers. Also, whether you're faced with a
10	landing spot or not, our customers are always able
11	to adjust their other benefit features to reduce
12	their premium. It might be that they have a
13	financial issue in their life, they need to make
14	adjustments, and we're always willing and able to
15	do that for them, whether it's reducing the
16	benefit period, adjust the benefit levels,
17	whatever it may be.
18	And then also, in conjunction with our
19	long-term care rate increases being introduced, we
20	allow each of our customers a nonforfeiture
21	option. So if our customer says, Look, I don't
22	want to pay premium anymore, what we do is all the

1	premiums they've paid up to that point in time is
2	available in a pool for them as a benefit, if they
3	meet the definition of qualified benefits under
4	our long-term care policy.
5	We at UNUM feel very, very strongly that
6	no policyholder faced with a rate increase should
7	surrender their coverage. You can't replace the
8	coverages that we're talking about in this filing,
9	and we think we've offered and we provide
10	reasonable alternatives at various levels of
11	affordability to allow our customers to keep their
12	coverage.
13	We acknowledge this is extremely
14	difficult for everyone, but most difficult for our
15	customers and other consumers. We're going to
16	continue to do everything that we can to provide
17	reasonable alternatives to manage affordability
18	and to make sure that we're there to meet every
19	one of our obligations and administrate the policy
20	at the time of claim.
21	So thank you very much.
22	MR. REDMER: Thank you, Matt.

1	Appreciate it.
2	For the policyholders, thank you for
3	your patience. We'd like to hear from you. And
4	let start with Lee Harrington.
5	COMMENTS BY LEE HARRINGTON
6	MR. HARRINGTON: This is Lee Harrington.
7	MR. REDMER: Would you mind coming up
8	here and speaking up.
9	MR. HARRINGTON: My name is Lee
10	Harrington. My carrier is John Hancock. I've
11	been to this is the second of the meetings I've
12	been to, and I'm hearing from all the carriers all
13	of the reasons that the rate increase should be
14	accepted.
15	I'm now retired. Before I retired, I
16	was with a company that was supported by
17	dues-paying members. We did quite well. The
18	executives got good raises, got bonuses. We had a
19	chauffeur-driven car. We had Christmas parties
20	for the staff every year. And that was all well
21	and good. Due to some bad financial decisions,
22	the company came on hard times, but we didn't

1	raise the dues for our members. The company cut
2	back on expenses.
3	I'm not hearing anything about that from
4	any of these carriers. I'm not saying you should
5	or you shouldn't, but it sure would be nice to
6	hear that you're sharing in this burden that we
7	all have on making up the differences.
8	MR. REDMER: Thank you, Mr. Harrington.
9	I appreciate that.
10	Mr. Lyon.
11	COMMENTS BY ROBERT LYON
12	MR. LYON: Thank you. My name is Robert
13	Lyon, from Gaithersburg, Maryland. The company
13 14	
	Lyon, from Gaithersburg, Maryland. The company
14	Lyon, from Gaithersburg, Maryland. The company I'm dealing with is Genworth. I appreciate the
14 15	Lyon, from Gaithersburg, Maryland. The company I'm dealing with is Genworth. I appreciate the opportunity to be here today to hear from you
14 15 16	Lyon, from Gaithersburg, Maryland. The company I'm dealing with is Genworth. I appreciate the opportunity to be here today to hear from you people and have myself heard.
14 15 16 17	Lyon, from Gaithersburg, Maryland. The company I'm dealing with is Genworth. I appreciate the opportunity to be here today to hear from you people and have myself heard. I'll start generally speaking that I
14 15 16 17 18	Lyon, from Gaithersburg, Maryland. The company I'm dealing with is Genworth. I appreciate the opportunity to be here today to hear from you people and have myself heard. I'll start generally speaking that I think we're all here today to offer our opinions.
14 15 16 17 18 19	Lyon, from Gaithersburg, Maryland. The company I'm dealing with is Genworth. I appreciate the opportunity to be here today to hear from you people and have myself heard. I'll start generally speaking that I think we're all here today to offer our opinions. Everyone, of course, is entitled to offer

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1	as it may, what I'm about to say, I will stand by.
2	I've heard repeatedly today from the
3	insurance carriers and thank you for being
4	here that people have chosen to retain their
5	policies, pay the premiums without reductions in
6	benefits. Very frankly, I don't think we have a
7	choice. Given what we've all heard from the
8	carriers, what we've all experienced, what we've
9	read in the newspapers, escalating costs are such
10	that we have no choice but to cut back,
11	realistically. So in order to keep any kind of
12	long-term care health insurance at all, we're
13	going to be forced to continue to pay these
14	premiums. I just don't think we have a viable
15	alternative.
16	The greatest impact to people, I
17	believe, is to us senior citizens, retired. I
18	think we are very vulnerable. We're on fixed
19	income. All you have to do is read the papers
20	yesterday to see and hear that we are getting no
01	
21	help from Social Security. Didn't get any last

1 So we have to come up with this money this year. 2 someway, somehow. This, of course, is going to be 3 hard. 4 Many of these policies were purchased a 5 number of years ago, and after just a few years 6 the premiums were raised because the long-term 7 insurance providers, in my opinion, didn't do an 8 adequate job in making projections. 9 These are professional. They say that the insurance product is relatively new, 40 years. 10 11 I guess I and them, with all due respect, have a different definition of new. Forty years seems to 12 13 be enough time to get it right, if I may. 14 Candidly, again, this looks to me, my 15 opinion again, frankly, as do-overs for these 16 organizations. In fact, I'll just take it one 17 step further. It looks to me like, to a large 18 extent, we consumers are providing a consumer 19 bailout for companies that made inadequate, poor 20 choices, decisions, business models, whatever. Ιt didn't work out for them. It seems to me there's 21 2.2 an extraordinary burden placed on us consumers

1	now, and again my term, my opinion this is a
2	consumer bailout.
3	Without going into too much detail, my
4	wife and I have had policies with Genworth for 12
5	years. The last three years the rates have gone
6	up 15 percent. That's a cumulative increase of
7	52 percent with no end in sight. Genworth has
8	told us very clearly that we can expect these
9	increases to continue for the foreseeable future.
10	I'm trying to cut this short for other
11	folks.
12	I will say in closing, I read a recent
13	editorial in the Washington Post that addressed
14	the recent and terrible actions, performances of
15	Wells Fargo. I think you all read that or are
16	aware of the situations. That editorial stated,
17	and I quote, "The definition of ethical business
18	is to figure out how to make a profit honestly
19	even when conditions beyond your control create
20	temptations to do otherwise." I'm not pointing
21	fingers. I'm making a comment that I think
22	certainly can apply to the current situation we're

1 in.

2	I don't know where we citizens are going
3	to get help. The insurance companies benefit from
4	the second largest lobbying organization in the
5	country. That's the insurance lobby. We
6	individuals, absent help and clearly today I'm
7	learning a little bit more about the help we are
8	getting from these folks, and I thank you.
9	Candidly, it's a little bit late in coming. I've
10	learned facts today that I've never had access to
11	before. So I thank you for that.
12	We can write to our government
13	officials. We have no other opportunity, no other
14	advocates, government officials, and I have
15	addressed more than I'm going to name or number
16	today. It's a poor time to be addressing
17	government officials today.
18	I thank you for your time. I thank you
19	for the information I received today. I'm leaving
20	with more facts than I had before, and I hope this
21	kind of transparency and information will be
22	provided to us in the future.

1 Thank you. 2 MR. REDMER: Thank you, Mr. Lyon. 3 Is Evan Richards here? Evan just stand 4 I known you didn't want to speak. Evan is up. 5 here representing Senator Kathy Klausmeier, local 6 state senator. Thanks for coming. Thanks for having me. 7 MR. RICHARDS: 8 MR. REDMER: I should make you speak 9 anyway. 10 (Laughter.) 11 Mr. Brown. 12 COMMENTS BY JOSEPH BROWN 13 MS. BROWN: Good afternoon. My name is 14 Joseph Brown, and my wife and I are both 15 policyholders of Genworth, which started out as GE 16 Capital Insurance Company. We traveled over here 17 from Centreville today. I wouldn't have known 18 about this hearing except that I was on the 19 website looking for the new Medicare supplement 20 policies, and I happened to catch this, and we 21 felt it was important enough to drive over here 2.2 from Centreville today.

1	I would have to say the one thing that's
2	a little disappointing is I'm not sure that the
3	Maryland Insurance Administration seems to have
4	too much concern for the consumer. It seems like
5	the insurance companies are going to rule this
6	thing. So I hope I'm wrong about that, but
7	there's some things going on there.
8	The one thing that certainly is
9	disappointing is that I would think that the
10	insurance company should be notifying their
11	policyholders that they're filing for an increase.
12	This is now the fourth year in a row that Genworth
13	has done that, and this is the first time I even
14	knew that they had filed it ahead of getting a
15	letter that said, Oh, we hate to do this, but
16	we've just got to raise the rates. It seems to me
17	we should have notification so if you want to
18	attend hearings or make comments we would know
19	about it, and that's part of the consumer
20	protection part of this whole process.
21	There's a lot more to insurance than
22	just actuary. That's all we want to hear about is

1	actuaries' facts and figures. But as a company,
2	they have a marketing function. They have finance
3	functions. They have a lot of other functions,
4	not just actuaries.
5	When we bought our policy in 2004, it
6	was indicated to us that we could save money by
7	buying at an earlier age I was 59, my wife was
8	57 we'd have lower premiums, and so that worked
9	out really well. GE touted that they were the
10	leader, in fact they pioneered long-term policies
11	starting in 1974. And their literature says that,
12	"While we may have to raise premiums, we have
13	never done so in 25 years." That was five years
14	before we bought our policy, so it was 30 years by
15	the time we bought our policy. And for the first
16	ten years, that seemed to work okay, and then we
17	had a policy increase in '13 and in '14 and in
18	'15 I think I'm wrong. '14, '15, and now '16,
19	and now we're looking for '17. So that whole
20	philosophy went right by the board.
21	Well, GE decided that they were going to
22	sell or turn it over to Genworth, which was a

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1	division of them all along at that time. And
2	Genworth, they put out the literature saying
3	basically the same thing, we maintain, we plan to
4	maintain. And I have all the literature. I can
5	show it to you guys if anybody wants to see it.
6	It says in 2013, yeah, we're going to keep the
7	policy "Our goal has been to price our
8	long-term policy so that the premiums will remain
9	at original levels." Right in their marketing
10	literature. Okay?
11	Now, by 2015 they changed their story,
12	but they also sent us a notice back in 2013 when
13	they took over and talked about how great Genworth
14	was, and they talked about integrity and
15	compliance and sharing knowledge. Last year, when
16	the 2015 increase came in and I take exception
17	to what your senior vice president said about how
18	great your people are.
19	Having had two increases in a row, I
20	want to know where are we going with this? What's
21	the future? So I called the call center. You'd
22	think you were talking to the wall when you say,

1	Well, what's the future? What are we looking at
2	down the road? What's coming? Is this it? Is it
3	one year? Two years? They couldn't tell me. So
4	we went back to our agent who took the sold us
5	the policies and said get us some information. He
6	couldn't come up with anything either.
7	So, I mean, you hear the story today,
8	this is 15 for ever and ever and ever, so just
9	count on it for every year. Right? So Genworth's
10	credibility, from what they have on paper, down
11	the tubes.
12	Now Genworth is a freestanding company,
12 13	Now Genworth is a freestanding company, but it's in the process of bought by the Chinese,
13	but it's in the process of bought by the Chinese,
13 14	but it's in the process of bought by the Chinese, so who knows what that's going to bring.
13 14 15	but it's in the process of bought by the Chinese, so who knows what that's going to bring. But Mr. Jeffrey Immelt was the chairman
13 14 15 16	but it's in the process of bought by the Chinese, so who knows what that's going to bring. But Mr. Jeffrey Immelt was the chairman of General Electric and he was when I bought my
13 14 15 16 17	but it's in the process of bought by the Chinese, so who knows what that's going to bring. But Mr. Jeffrey Immelt was the chairman of General Electric and he was when I bought my policy and he was when he just sold off GE to
13 14 15 16 17 18	but it's in the process of bought by the Chinese, so who knows what that's going to bring. But Mr. Jeffrey Immelt was the chairman of General Electric and he was when I bought my policy and he was when he just sold off GE to Genworth as part of that whole GE Capital thing.
13 14 15 16 17 18 19	but it's in the process of bought by the Chinese, so who knows what that's going to bring. But Mr. Jeffrey Immelt was the chairman of General Electric and he was when I bought my policy and he was when he just sold off GE to Genworth as part of that whole GE Capital thing. He only makes \$37 million a year, plus all his

1 buy? I don't see them doing anything to mitigate
2 these increases. Where's the accountability
3 there?

4 And then the actuary that gave the nice 5 presentation, he talked about the shortage of 6 revenue, but he also said it doesn't all have to come from policy increases. I haven't heard 7 8 anybody say where you're getting any of the other 9 money for these increases, from any other part of 10 the company. Most of you have other lines of 11 insurance that maybe you have to kick in from 12 But I don't hear anything about that. there. 13 That's, like, totally ignored. It's all on the 14 backs of the policyholders.

15 I find it strange that you quoted such 16 high rates of retention, because I can tell you 17 right now, we were looking at a 52 percent --18 52.1 percent compounded rate, that's for three 19 It compounds at 52.1 with a 2016 increase. vears. 20 Now, if you compound a 2017 increase, if you get 21 that, we're up to 75 percent. We're approaching 2.2 double what we originally signed up for. So how

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1	in the world can you guys sit there and think that
2	the consumers can absorb this? Social Security
3	got zero last years. This year we got an
4	increase, .003. You know what that amounts to?
5	About five bucks a month. And you're going up 200
6	and some dollars. It's just not sustainable,
7	so
8	Oh, the one thing I keep hearing about,
9	the lapse rate, it seems to me that that's what

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10 you really like, and then you get to keep all the 11 money. And everybody wanted to tout that they 12 give you this optional limited benefit. You had 13 my money since 2004. You're going to give it back 14 to me. What about all the interest you earned on 15 that? There should be some interest accrued on 16 that money if you're going to give it back to me. 17 So there's a lot of things in there where the 18 consumer needs some help, and I hope the 19 commission will look at that. And I would love to 20 talk to the senior vice president for Genworth 21 after, if she wants to talk to me. 2.2 MR. REDMER: Thank you, Mr. Brown.

Marshall Fritz.

1

2 COMMENTS BY MARSHALL FRITZ My name is Marshall Fritz. 3 MR. FRITZ: 4 I'm a consumer. I have a Genworth policy which 5 I've had since 2003. 6 Last spring I gave testimony and put it on the record, and basically everything in my 7 written testimony then and oral testimony still 8 9 holds. I have some additional thoughts that, as I reviewed the last week or two, to update, and I 10 11 will put that written on the record. Thank you 12 for allowing a week to do that. 13 The thing I want to focus on from 14 today's discussion is, Ms. Li, you mentioned in 15 terms of the process, that in the steps that you 16 will be looking at pricing assumption experience 17 not realizing why as one of the steps. Well, let's go back a couple of decades, because what's 18 19 happening now really is based on what happened two 20 decades ago. And this is what we're hearing from 21 the insurance companies as well, the lapse rate. 2.2 Well, you could say it was accidental

1	that their actuary simply didn't give a good
2	rendition way back. However and I thank
3	Mr. Zimmerman for telling about the new
4	regulations. I wouldn't have known otherwise. In
5	there, under the 1997 proceedings, third quarter,
б	paragraph 1351, however they identify it, which
7	was prior to my policy issuance, suggested that
8	the industry was well aware that the policyholders
9	were holding onto their policies. I'll quote,
10	"Although the first generation of long-term care
11	insurance policies had higher utilization than
12	expected," he said that "underwriting practices
13	have evolved substantially," and he opined, this
14	is the person who entered in the record that "now
15	companies have better data and use less aggressive
16	termination assumptions." So that's 1997, third
17	quarter proceedings, paragraph 1351.
18	Well, here's the problem, folks. If in
19	1997 they knew that people were holding onto their
20	policies and not self-terminating them, then why,
21	for my policy in 2003 and other policies since
22	then, were they assuming a termination rate or a

1	lapse rate of 5 percent like the chief executive
2	officer, Mr. Tom McInerney, stated in 2016 to the
3	Pittsburgh Post Gazette? He said that "Fewer than
4	1 percent of customers annually drop their
5	policies and give up their right to future
6	benefits, when actuaries had assumed a lapse rate
7	of at least 5 percent based on the history of
8	their other products, such as life insurance."
9	Well, one can understand back in the
10	'90s, early '90s, but after the insurance industry
11	recognized this, and this is in the record, why in
12	the world did this stay into the analysis? In
13	other words, perhaps we should have had a higher
14	premium rate a decade, decade and a half ago
15	perhaps, okay, to be fair, with realistic
16	assumptions. But given this knowledge, it almost
17	seems like fraud on the part of the insurance
18	industry to ignore their own findings, and then
19	when the rates are approved by the state, they're
20	supposed to give their assumptions, and the state
21	should have known this also, because Maryland
22	participates on NAIC committees.

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1	So what we're looking at, folks, is
2	something that should have been seen a long, long
3	time ago. It's not just Mr. McInerney saying in
4	2016 we just discovered it. No, this goes back a
5	long, long time before, and so it appears to me
6	that this is actuarial fraud to know it and then
7	ignore it. And so the state is partly complicit
8	and partly handicapped, because you look at the
9	rate increases, you got the numbers, you got the
10	numbers, yes, it justifies. However, when you go
11	back to the basic assumptions, it looks like these
12	insurance companies knew more. So who is being
13	penalized? The consumer is now being penalized.
14	It didn't have a good estimate upfront, and now
15	we're being hit by infinite successive increases.
16	So that's not fair, and the burden is on the
17	consumer, not on the industry it seems.
18	And the officer from Genworth said that
19	there was a 48 percent the gap was 48 percent I
20	think, 48 percent increase justified. So what is
21	not clear from that is is that saying that if they
22	got three years or three years plus in a row of

1	15 percent increases, that would basically knock
2	out anything they're expecting for long-term need
3	for more revenue, or saying, oh, no, in three
4	years we'll come back and say it's 90 percent more
5	we justified, because we don't really have to tell
6	you what we need today. And this is one of the
7	problems with the knowledge, the transparency.
8	As I understood it and we're seeing
9	today, they don't have to tell MIA exactly how
10	much on the long-term, and they come in at
11	15 percent or 13 percent, and that's this year.
12	And so I recall two years ago someone on your
13	staff said, Well, they don't tell us. Maybe now
14	they're saying more, but a couple years, they just
15	don't tell us what they really need. So if that's
16	the case, you really don't know what long term is
17	coming up, and the consumer doesn't, and so we
18	never can figure out what this all means. So even
19	if someone were to downgrade their policy to the
20	same premium this year, what does it mean for the
21	year after and the year after and the year after?
22	So the consumer does not know about what

1	the overall justification would be even if there's
2	a cap. And there again, the question is: Does
3	the cap help or not help? But when you don't even
4	know what the horizon is, none of us are in good
5	shape to make decisions about what's really going
6	on with the industry.
7	And I'm concerned about the loss ratio
8	being revealed on a case-by-case basis, because
9	then so much would be hidden that the consumer
10	would never understand basically what your
11	decision-making is doing.
12	So those are some things that came up
13	from oh, and Genworth said they employed the
14	best estimates at the time of pricing,
	Dest estimates at the time of pricing,
15	quote-unquote, from Ms. Edwards. Well, it doesn't
15 16	
	quote-unquote, from Ms. Edwards. Well, it doesn't
16	quote-unquote, from Ms. Edwards. Well, it doesn't appear to me, based on this 1997 NAIC finding
16 17	quote-unquote, from Ms. Edwards. Well, it doesn't appear to me, based on this 1997 NAIC finding compared to Mr. McInerney's interview a year ago
16 17 18	quote-unquote, from Ms. Edwards. Well, it doesn't appear to me, based on this 1997 NAIC finding compared to Mr. McInerney's interview a year ago in the press. It can't be, because in 2003, for
16 17 18 19	quote-unquote, from Ms. Edwards. Well, it doesn't appear to me, based on this 1997 NAIC finding compared to Mr. McInerney's interview a year ago in the press. It can't be, because in 2003, for me, they knew that the retention rate was quite

1	as long-term care insurance. Life insurance
2	people decide as they go along whether it's
3	appropriate to hold. Long-term care, they hold it
4	until they need it. Okay. So that's a big part
5	of what I want to bring up.
6	And the regulations, I'm a little
7	confused between Maryland already having a 58/85
8	loss ratio for long-term policyholders versus the
9	NAIC saying 60 percent. I'm a little confused for
10	long-term. But that's a minor little difference
11	or so. But there's nothing in your website about
12	the regulation. There's nothing saying, We're
13	considering regulation. And that's a lapse. If I
14	hadn't
15	MS. GRASON: We actually exposed them
16	for public comment on our regulation page. If you
17	want to reach out to me personally, my contact
18	MR. FRITZ: Mr. Zimmerman, in answering
19	some questions of mine, clued me into its
20	existence, so I looked at it.
21	MS. GRASON: Good.
22	MR. FRITZ: Otherwise, I wouldn't have

1 known because I thought the website really didn't 2 say what's going on behind the scenes. Maybe I 3 missed something, but --4 MR. REDMER: And as a reminder, there's 5 a sheet with our contact information for anybody 6 that's got follow-up questions or comments for us. 7 MR. FRITZ: Reading the regulation for a

8 layperson may be difficult. I had to wade through 9 it and realized that a long-term policy, section 10 20 and 25.1 don't apply. So it looked like 11 something that applied, but I had to read very 12 closely.

13 Also, in a recent article in U.S. News, 14 May, 2016, written by Maryalene LaPonsie, 15 "Out-of-Control Premium Hikes for Long-term Care 16 Insurance," she put together comments from others, 17 and it said, "All but nine states have adopted a 18 long-term care insurance rate stability 19 regulation." Well, I don't see rate stability in 20 the Maryland regulations, but then we don't know 21 what the Maryland regulations really are. In 2.2 other words, it's not transparent what parts of

1 the regulations apply to us. You know behind the 2 scenes, but I didn't see that in the website easy 3 to detect.

4 Okay. So then it goes on to state, 5 "Rules limit company profits. The long-term care 6 insurance model regulation was first modified to 7 include rate stabilization provisions in 2000." I 8 don't see anything in Maryland, and it says --9 well, it says, "While 41 states have adopted a rate stability regulation, only 11 have published 10 11 the most recent amendment." I don't see any rate stability in what we're discussing. I see caps of 12 13 increases, but not rate stability, unless 14 nonforfeiture concepts means rate stability. 15 MS. LI: Mr. Fritz, you can reach out to 16 us. We did adopt rate stability. That's the 17 58/85 rule. 18 Ah, okay. But again, that's MR. FRITZ: 19 not -- as I looked on your website, I didn't see 20 that. It might be there, but I didn't see it

21 easily. And then you have to explain to consumers 22 what that means.

1	Okay. Then it goes on, "Some state
2	insurance commissioners are working with companies
3	to reduced rate increases for these plan holders
4	as well," long-term plan holders. "When
5	Pennsylvania residents were hit with rate
6	increases this year, Genworth customers who were
7	facing premium increases that averaged 80 percent
8	and were as high as 130 percent were able to
9	significantly reduce their costs. Premium
10	increases were limited 20 or 30 percent," although
11	it doesn't say to 20 or 30 percent, "depending on
12	the type of policy, and customers who agree to
13	concessions such as lowering their daily benefit
14	or shortening their benefit period can further"
15	well, somehow it gives the impression in
16	Pennsylvania that there was a negotiation that
17	limited the overall increase upcoming. In other
18	words, not the 15 percent cap but the 48 percent
19	foreseen increase perhaps. So the question is:
20	If Pennsylvania can somehow negotiate with the
21	insurance company again, this is not crystal
22	clear, but it does come from a press article in

1	U.S. News could that be done in Maryland?
2	MR. REDMER: All they did was implement
3	a cap that's higher than our cap.
4	MR. FRITZ: Oh. So the 20 to 30 percent
5	annually, even though 130 percent possible. Okay.
6	But again, that's not clear.
7	So I want to leave the impression about
8	that what's really unfair is how this all started,
9	got us into this situation where we don't know the
10	horizon of what's in the insurance companies'
11	expectations about long term, and we're coming
12	from a situation where the lapse rate was really
13	faultily implemented, even when they seemed to
14	have known it. And so that's really wherein the
15	consumers are stuck. And it's a big problem what
16	all this means and whether we have truth from the
17	companies and what it means for truth from the
18	state in trying to deal with a company that
19	couldn't give us a realistic basis for their
20	premium.
21	MR. REDMER: Thank you, Mr. Fritz.
22	Gilbert Cohen.

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1	COMMENTS BY GILBERT COHEN
2	MR. G. COHEN: Gilbert Cohen. My wife
3	and I have products of John Hancock bought in '92.
4	I got through the Public Information Act
5	John Hancock's documents to the state.
6	MR. REDMER: Can you speak up a little
7	bit, please. Can you speak up a little bit.
8	MR. G. COHEN: Sure.
9	MR. REDMER: Thank you.
10	MR. G. COHEN: I used the Public
11	Information Act to get documents that John Hancock
12	sent to the state. I noticed that in every
13	document starting in 2011 they quote, "These
14	policies are no longer being sold in the market."
15	So the number of policies should have decreased
16	every year. They did for two years, and then they
17	went up. I don't understand that. But are you
18	selling the policies or not? For John Hancock,
19	are you selling long-term care?
20	MS. ROCHE: We're currently selling
21	long-term care, yes.
22	MR. G. COHEN: Well, your documents to

1	the state says you do not sell long-term care in
2	this market.
3	MR. REDMER: What it might be is some
4	companies have a closed block, so they don't sell
5	these policies anymore, they sell different
6	policies.
7	MR. G. COHEN: The statement just says
8	they do not sell a policy.
9	MR. REDMER: Yep.
10	MR. G. COHEN: And the question to the
11	state is when they, John Hancock, presents these
12	possible rate increases, don't you have to know
13	how much the active reserves are? Don't you put
14	that in the formula to see what they're asking
15	for?
16	MS. LI: Yes, they give me the formula.
17	MR. G. COHEN: In their document, it
18	says, and I quote, "Active life reserves have not
19	been used in this rate increase demonstration."
20	So it's either yes or no. I mean, if you need
21	that document, if you need that figure, it's not
22	in the paperwork that they're sending you, so I

1	have a hard time understanding how you can look at
2	a rate increase without knowing what their
3	reserves are.
4	And another quote from their documents,
5	"John Hancock is limiting the magnitude of the
6	increase at 100 percent, particularly at the older
7	ages." Who else is using these policies? My wife
8	and I are in our mid 80s now. Are we looking
9	forward to a 15 percent increase from now until we
10	die? Is that a possibility? And no one can
11	answer that question for me either.
12	So with that, I'll let someone else
13	talk.
14	MR. REDMER: Thank you. Thanks for
15	coming, Mr. Cohen.
16	Irving Cohen.
17	COMMENTS BY IRVING COHEN
18	MR. I. COHEN: My name is Irving Cohen.
19	I'm not related to Gilbert Cohen, I don't think.
20	Could possibly. There's probably only three
21	Jewish families in the world.
22	(Laughter.)

1 I'm a resident of Montgomery County, 2 proudly, for the last 45 years. I gave testimony 3 in April. 4 This agency is charged with protecting consumers by assuring their treatment of 5 6 consumers, assuring that insurance is available at 7 fair prices. The failure of the agency to 8 publicly respond to a lot of the questions that 9 were raised in April only feeds the narrative being expressed by many of the policyholders in 10 11 their written comments already submitted for the 12 record that they feel the agency is acting as a 13 rubber stamp, not my words but their words. 14 They're protecting the profits, expense structure, 15 and underwriting assumptions of the various 16 carriers. 17 As I didn't last year, I want to ask the 18 agency the follow questions, which I won't ask for 19 an answer today, but I would hope that over some 20 period of time these answers should be made

21 public, because I don't think these are just my

22 questions. What is the cost and actuarial

1	structure supporting the existing policies over
2	all the years, all the years since the policy was
3	purchased? Mine were purchased in 1997. My
4	premiums were around \$4,000. They're \$14,000 now.
5	Who is bearing the risks and the rewards
6	of performance with respect to the various
7	elements of the policy structure? There was
8	absolutely no discussion by the carriers. These
9	policies have multiple layers of risk, and that
10	risk is apportioned between the policyholder and
11	the carrier. And frankly, at the end of the day,
12	it's apportioned to the citizens of the state of
13	Maryland, as I'll make that point later.
14	So once we have an analysis of what the
15	assumptions were at the beginning and now what
16	they are when they're coming in, how do we
17	understand the differentials between the
18	assumptions and what's really happening?
19	And in exercising its powers here, how
20	does the agency meet its goal regarding reasonable
21	premiums and fair treatment of consumers as to how
22	it allocates the risk?

1	Hard questions, but certainly right now
2	it appears to me and to many others in this room
3	that all that risk is being allocated to the
4	consumer. How does the agency determine who reaps
5	the reward and who pays for it? To what extent is
6	there an investment risk or other strictly
7	business risk that, in all fairness, does not get
8	passed on to the policyholders?
9	Take the example of a very regulated
10	industry, electrical generation, or transmission
11	now. There are certain costs that don't go into
12	the rate base. They're just thrown out. A lot of
13	them are legal and accounting costs to get
14	additional rate increases that are denied or
15	construction costs that weren't necessary because
16	of errors in judgment by management, or sometimes
17	it's management's compensation. But here there
18	doesn't seem to be any discussion of what is fair
19	to compute the policy differentials on.
20	To what extent are administrative costs,
21	with emphasis on compensation of senior
22	executives, intercompany transfer of funds and

1	just transfers of assets, assets that maybe belong
2	in the reserves of the long-term care, because
3	those are good assets, whereas good assets get
4	transferred out and bad assets get transferred in?
5	I don't know.
6	My grandmother used to say follow the
7	gelt, follow the money. And that's what we're not
8	doing, we're not following the money. We're
9	looking at statistical data. I would suggest to
10	the Commission you need some very good cost
11	accountants who understand costing, and also maybe
12	some financial accountants who understand really
13	the underlying financial buttress of all of these
14	policies, not the statistical part, but how do
15	they really work in the marketplace? Why does a
16	company undersell the premiums at the beginning to
17	get the fish hooked and then comes here and wants
18	increases because they set the premiums too low?
19	The simple discussion we had early on
20	was simple. It doesn't assume it assumes a
21	perfect world, a perfect world that does not
22	exist, where everybody is honest, everybody wants

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1	to do the greater good. Well, I know most
2	financial executives the greater good is "my
3	paycheck." It isn't what you pay for your
4	insurance.
5	Clearly, then, the policyholders are the
6	least able to sustain most of the risks that are
7	involved here, because they insured upon the
8	knowledgeable and sophisticated insurance company,
9	and the policy and the premium structure was
10	blessed by this agency. So most of the people
11	here depended upon the experts, and this agency
12	being their expert.
13	So I also asked the question: What
14	other statistical models are available? Does the
15	agency simply accept the model presented by the
16	companies statistician? Do they question the
17	assumptions? Do they do any sensitivity analysis
18	on the assumptions? I haven't heard any of that.
19	The documents I requested from the agency I never
20	got and I didn't even know they existed until
20 21	got and I didn't even know they existed until today, if any sort of analysis was done. So I've

1	I really wonder if the agency views
2	itself as a regulator in the same way as those
3	agencies that are out there ruling on rate
4	increases in other industries. And I got a sense
5	that, since you talk about the statute saying,
6	well, we've got to be sure the company lives,
7	because if the company doesn't live, then the
8	policy dies. Well, you know, the same thing was
9	said about the automobile industry not too long
10	ago, and the United States taxpayer picked up
11	hundreds and hundreds of millions of dollars so
12	that the new shareholders of General Motors, which
13	included the federal government, made a killing.
14	The time is overdue for the agency to
15	really respond, and I was glad to hear today there
16	is movement in that direction, because we need to
17	know that the agency is really looking out, not
18	just for us in this room or the policyholders but
19	to the citizens of the state of Maryland. Does
20	everybody who pays taxes in Maryland really have a
21	dog in this fight? They do, because when the
22	policies are terminated and the formerly insured

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1	person runs out of savings and runs out of assets
2	or hires some really smart estate planning or
3	elder lawyer to pawn off their assets to the
4	family members within the five-year rules, guess
5	what? They qualify for Medicaid. Well, who pays
6	for the Medicaid budget? All of us pay for that.
7	And that budget we already know can consume the
8	entirety of every penny that we pay now to our
9	state and our federal government.
10	So I really don't have anything else to
11	say. It's late in the day. Thank you very much
12	for the chance to talk.
13	MR. REDMER: Thank you for your
14	participation.
15	We have to clear the room. Once again,
16	on behalf of the Maryland Insurance
17	Administration, we appreciate your attendance and
18	participation.
19	As a reminder, our contact sheet is here
20	for any follow-up questions or comments.
21	And thank you again.
22	(The hearing was concluded at 3:53 p.m.)

1	CERTIFICATE OF SHORTHAND REPORTER NOTARY PUBLIC
2	I, Cari M. Inkenbrandt, Registered Professional
3	Reporter, the officer before whom the foregoing
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5	foregoing transcript is a true and correct record of
6	the proceedings; that said proceedings were taken by
7	me stenographically and thereafter reduced to
8	typewriting under my supervision; and that I am
9	neither counsel for, related to, nor employed by any
10	of the parties to this case and have no interest,
11	financial or otherwise, in its outcome.
12	IN WITNESS WHEREOF, I have hereunto set my hand
13	and affixed my notarial seal this 1st day of November
14	2016.
15	My commission expires:
16	July 2, 2017
17	
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20	NOTARY PUBLIC IN AND FOR THE
21	STATE OF MARYLAND
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