In the Matter Of:

LONG-TERM CARE PUBLIC HEARING

HEARING

February 12, 2018

BEFORE THE

MARYLAND INSURANCE ADMINISTRATION

LONG-TERM CARE PUBLIC HEARING

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H E A R I N G

DEPUTY COMMISSIONER GRODIN: This is Nancy Grodin. I'm the Deputy Insurance Commissioner of the Maryland Insurance Administration. It's 1 o'clock and we'll get started with our long-term care hearing.

This is our first public hearing on specific carrier rate increases for long-term care insurance in 2018. We're going to focus on several rate increase requests that are now before the MIA today in the individual long-term care market. These include requests from LifeSecure Insurance Company, which is proposing increases of 15 percent; Transamerica Premier Life Insurance Company, proposing increases of 15 percent; Physicians Mutual Insurance Company, proposing aggregate increases of 3 percent to 15 percent dependent upon policy form; John Hancock Life Insurance Company, proposing increases of 10.3 percent to 36.3 percent, dependent upon policy form; and Lincoln Benefit Life Company, proposing increases of 15 percent.

These requests affect about 5,571 Maryland policyholders. If you have not been to one of our hearings in the past, the goal of today's hearing is for insurance company officials to explain their reasons for the rate increases. We will also listen to comments from consumers and other interested parties.

I would like to take a moment and have each of the MIA staff here at the table introduce themselves. We'll start here to my right.

MR. ZIMMERMAN: Adam Zimmerman, Actuarial Analyst, the Office of Chief Actuary.

ASSISTANT COMMISSIONER MORROW: Bob Morrow, Associate Commissioner for Life & Health.

MR. SWITZER: Todd Switzer, Chief Actuary.

MR. JI: Jeff Ji, Senior Actuary from Office of Chief Actuary.

DEPUTY COMMISSIONER GRODIN: Thank you.

There's also some MIA staff in the audience today. We have Nancy Muehlberger with the Office of Chief Actuary. Nancy, if you wouldn't mind just giving a raise to put a name to a face. And I think we have Mary Kwei. Mary, would you just -- who is in our Life & Health unit and the head of complaints.

Joe, you can introduce yourself.

MR. SCANLAN: Joe Sviatkl from Public Affairs.

DEPUTY COMMISSIONER GRODIN: And next to Joe was Lindsay Rowell, another public affairs associate.

All right. Before we actually get started, I'm going to ask the people on the phone to make sure you're on mute and that you don't put us on hold. And I appreciate that very much. The background noise of the phone -- this phone is very sensitive and we'll hear whatever is going on in the background in your office.

Number two, we have a court reporter here today, and so for that reason it's always good to slow down a little bit, speak clearly and up and out. And feel free to interrupt if you haven't heard something or need something repeated. No problem there.

THE REPORTER: Okay.

DEPUTY COMMISSIONER GRODIN: There's a handout on the table that has all of our contact information on it. I encourage you to pick one up.

If you want to speak today, then you need to sign the sheet and indicate that you'll be speaking. I'll only call on people who have signed up today to speak. So feel free to come up if you decide somewhere into the hearing that you'd like to speak and put your name on the list.

Everyone had an opportunity to submit written comments, which will be posted on the MIA's website.

All right. So let me just quickly say the purpose of this meeting is to gave carriers and interested parties an opportunity to share their information. It's an opportunity for everyone to listen and for the MIA to elicit additional information.

I will always ask the MIA panel members if they have any questions after a carrier has testified, but I sincerely apologize for not allotting time for additional comments beyond the MIA questions and comments.

But to this end, we will continue to accept written submissions until Tuesday, February 20th. So if you have additional thoughts in response to the information that's presented today, please submit them in writing by close of business on the 20th. You can submit them to the same address that was on the announcement, which is longtermcare.mia@maryland.gov. We will also post the transcript of today's meeting on the MIA's website. It's on the MIA's website, which is insurance.maryland.gov. You go to the left-hand side, there's a list of quick links, and you'll see long-term care.

Last, I guess, if you are going to speak, before you speak, please state your name clearly and your affiliation. And I've looked at the list and everybody has put their contact information on there, so that's perfect.

The carriers are being called in alphabetical order, and after the carriers have an opportunity to share their information, then we'll go to stakeholders and we'll invite you up one at a time to the table to also give your information.

Lastly, I'd like to say on behalf of the MIA, this can turn into a long afternoon sometimes, so

thank you very much for your time.
And I guess we'll begin with the carriers now. The representatives for John Hancock Life Insurance Company? Thank you for coming today.
MR. PLUMB: Thank you, Commissioner Grodin, for having us and members of your staff.
DEPUTY COMMISSIONER GRODIN: So let me ask the people on the phone, did you just hear that? Anybody?
PUBLIC SPEAKER: Barely. Barely.
DEPUTY COMMISSIONER GRODIN: Okay. Can you put that microphone onto the table? Here, I can push this down. Perfect. I think that should be better now. Thank you for all of that meeting. Okay.
MR. PLUMB: So my name is David Plumb. I'm a vice president and actuary at John Hancock responsible for inforce management of our long-term care business.
THE REPORTER: I can't hear you that well.
MR. PLUMB: Do you want me to repeat that?
THE REPORTER: Yes.
MR. PLUMB: My name is David Plumb from

John Hancock, Vice President and actuary responsible for inforce long-term care management.

I want to start off by saying that long-term care services can cost hundreds of thousands of dollars and that can easily deplete someone's savings, and pooling your risk with others through insurance is a lot more affordable than trying to earmark savings to cover the potential very, very high cost.

So we do have an outstanding filing with the Maryland Department. It covers four individual policy forms that were issued from 2004 through 2011. We requested an average increase of about 32 percent, ranging from 10 percent to 39 percent here in my form. This would impact about 5,000 Maryland insureds.

To me, Commissioner Grodin, I think you mentioned that in total for all of these companies, it was 5,500 Maryland insureds?

DEPUTY COMMISSIONER GRODIN: That's our information, was 5,571 Maryland policyholders.

MR. PLUMB: So 5,000. And these plans have had prior rate increases averaging about 20 percent since 2010. And I wanted to point out that we're not trying to recover any past losses on this business. The increases are needed to cover projected future losses. And for those increases that are greater than 15 percent, we would phase the increases in over a two- or three-year period but no more than 15 percent in any one year, per Maryland regulations. And approving the phase-in for those individuals of increases greater than 15 percent allows us to offer our future inflation reduction landing spot to about 4,000 Maryland insureds. So 80 percent would be fairly custom --

THE REPORTER: You're fading. About 80? Can you just repeat the last thing you said?

MR. PLUMB: 4,000 of our 5,000, 80 percent of our customers will be eligible for the inflation landing slot.

First, I want to explain why we need these premium adjustments. John Hancock first started issuing long-term care in 1987, and this is a very long duration product. Most people buy in their 50s and most people claim in their 80s, and usage of long-term care services and expenses are very difficult to predict for many decades in the future.

Writers of this important product need to be able to adjust premiums to reflect changing experience. If this was not structured as a guaranteed renewable product, which gives companies that ability, and companies couldn't change rates to reflect experience, it's highly unlikely that any carrier would have ever sold this type of insurance, and that would have resulted in millions more people in the U.S. spending virtually all of their savings and then relying on a strained Medicaid program for their care after depleting their assets.

Most of the earlier premium increases in the industry were driven by lower than expected voluntary lapse rates. I think most of the current premium increases John Hancock concluded were driven more by claims and mortality experience.

And I want to point out this is still a relatively young industry and a lot of companies have just recently started to get a significant amount of claims experience at the older ages and later policy durations after underwriting has worn off. And that's where the vast majority of claims will happen. So the industry is just starting to get a good picture of what insured life experience is going to be like in the future.

At John Hancock, we're seeing more people than expected living to the older ages where the likelihood of needing long-term care services is higher, and we're also seeing a higher rate of claims for people than expected for those who do make it to those older ages and claims of those older ages lasting longer than what we expected.

We recognize the premium increases may be difficult for many of our customers and have taken some major steps to help ease the burden on our insureds.

We have applied the more restrictive NAIC rate stability rules to all policies, including our pre-rate stability block, although the block in question today is post-rate stability.

We do ensure that the resulting premiums on our inforce business after the rate increase are not more than comparable new business premiums adjusted for benefit and underwriting differences. In fact, they're often substantially less than comparable new business rates.

We have provided the typical benefit reduction alternatives to help mitigate the premium increases such as reducing periods for getting benefits.

Most importantly, in 2010, we pioneered an innovative alternative to completely offset the rate increase to those with fixed automatic inflation increases by lowering their future inflation increases on a prospective basis. We call that the Future Inflation Reduction Landing Spot, for short. Past inflation accruals are retained by the policyholder and only future accruals are reduced.

For the policy forms we're discussing today, if the rate increases requested are approved, customers with 5 percent inflation will be able to offset the rate increase by reducing their future inflation accruals from 5 percent to about 3.3 percent, while keeping the inflation increases they have accrued in the past at 5 percent.

We developed this option to help our customers retain their valuable coverage. We don't want our policyholders to lapse and get little or no value from their policies. Our experience has shown that this has, indeed, helped our customers retain their policies.

Thank you again. I'd be happy to address any questions you have.

DEPUTY COMMISSIONER GRODIN: Any questions from the MIA panel today?

MR. SWITZER: Thank you.

Honing in on one of the forms, Custom Care II, since that represents about 3,000 of the 5,000 members, I just wanted to verify the following, please.

Recognizing that the nature of long-term care, as you know, loss ratios are very low initially and get very high in the end. Sort of target loss ratio lifetime present value, 60 or 60-plus or so. For the Maryland-only business, we see that the original request for this form, the 35.8, is a 14 percent increase. 14.9 approved in 2012. Another one in 2013, 6.7. So the 35.8 would bring a total increase to 66.5.

My question is given that this is in duration between 9 and 14 so that Maryland's actual loss ratio is 9.6 versus unexpected of 13, so about 4 points better than expected. So the driver of the requested increase, trying to pull in all the assumptions as they affect the loss-ratio is less that so far you're off track, it's more that the new assumptions lead to a steeper curve where things will worsen in future years.

MR. PLUMB: That's a really good point. I'm glad you brought it up. We have a lot of other business in our company, long-term care business that was issued many years before in the early '90s primarily, and we are seeing that business age to the older ages and later, and that's where claims are significantly higher than expected. Not a lot of -- this particular policy form has reached those ages yet. And, obviously, underwriting can't wear off in the fist nine years of the policy.

So what we're doing is using the lessons we've learned on our older products to help guide us on the newer products so we can make adjustments earlier and, therefore, not have as high of an aggregate rate increase. You mentioned the aggregate increase for this policy form. It's been a lot higher than that for some of our older forms and we didn't have the ability to use prior forms to help guide us early on in those policies.

MR. SWITZER: Thank you. Last question. So you filed the 5,000 members here. Total Maryland numbers I have, about 27,000. I know there's other filings that have come in. I just want to verify that it's somewhat reasonable to assume that for forms that you have not filed of the 27,000, that those are hitting targets so far. Is that the generally fair assessment?

MR. PLUMB: Well, for the ones that are not covered by this filing, they were either plans that were covered by a couple of prior filings that we are maybe implementing now --

MR. SWITZER: Right.

MR. PLUMB: -- and subject to a phase-in. So we'll be filing for additional amounts on those when our phase-in is closer to the end.

MR. SWITZER: Right.

MR. PLUMB: We don't have any significant block of business. It's better than expected.

MR. SWITZER: Thank you.

DEPUTY COMMISSIONER GRODIN: Do you have any questions from the members of the panel?

(No response)

DEPUTY COMMISSIONER GRODIN: Mr. Plumb, thank you so much. Oh, I'm sorry, Jeff.

MR. JI: After this rate increase, if the assumptions are sustainable, are you looking for additional rate increases in the future?

MR. PLUMB: No. As long as our experience doesn't get worse and our assumptions haven't changed because of our experience, then we will not be asking for additional increases, and that includes a margin of moderately adverse experience. Things can get 5 to 10 percent worse before we can come back on these policies.

MR. JI: Okay. Thank you.

DEPUTY COMMISSIONER GRODIN: Anything else?

(No response)

DEPUTY COMMISSIONER GRODIN: Thank you, Mr. Plumb.

Having been one of the hearing officers here, I'm very sensitive to what the court reporter and the background noise. Would you like us to move your table up?

THE REPORTER: Yes.

(Discussion off the record.)

DEPUTY COMMISSIONER GRODIN: Is it Mr. Peake From LifeSecure Insurance Company?

MR. PEAKE: That's me.

DEPUTY COMMISSIONER GRODIN: Welcome. Have a seat. And please remember to speak up and out. Thank you.

MR. PEAKE: Good afternoon. I'm Kevin Peake, an actuary at LifeSecure Insurance Company and responsible for the actuarial work used in this request. Thank you for giving us the opportunity to speak today.

LifeSecure was formed in 2006 as a life-term care insurance company. This business has expanded over the years to offer additional supplemental health products, but we remain committed to supporting long-term care in Maryland and other states.

We plan to roll out our latest generation of our long-term care line in the next few months. LifeSecure is filing a rate increase on its first generation form, LS-0002. This forms offering comprehensive benefits with a defined lifetime benefit amount. A specific percent of the lifetime amount is available each month to reimburse long-term care expenses.

Three percent and 5 percent inflation options were offered. If inflation was not selected, policyholders are offered guaranteed purchase options. Other available options included lapse protection and money back promise, commonly referred to as nonforfeiture and return of premium, respectfully.

The form was issued from 2006 to 2015 nationwide, 2010 to 2014 in Maryland. Most of the sales were issued 2013 and later. So this is a relatively young block.

This is the first rate increase filing on any LifeSecure form. We are requesting a 15 percent rate increase in the state of Maryland. 15 percent is the maximum allowed at one time under Maryland regulation unless an innovative landing spot is offered. We are choosing to file the 15 percent and reevaluate in a year.

Additional rate increases may be asked for in future years, if necessary. Using the guidelines set by rate stability regulations, the calculated justifiable rate increase averaged 44 percent, making additional rate increases likely. We will review our experience and assumptions each year to see if the conditions warrant a rate increase at that time.

Due to the delayed implementation, the ultimate average rate increase will be greater than 44 percent if experience and assumptions are consistent with what we assumed in this filing.

The rate increase request is necessary due to changes in our expectation of future claims. We recognize our experience that this block is limited. We want to act early to prevent larger future rate increases.

The fully credible industry studies used to price this product have since been updated and show increases in both morbidity -- the rate and severity of claims -- and persistency, or the number of policyholders holding the policy long enough to make a claim. We have no reason to think that LifeSecure experience will vary significantly from the industry's.

The sources of the assumptions used in this request were the same as original pricing. By that I mean, for example, the morbidity assumptions come from the same study done by the same consultants that published the morbidity study used at pricing. The only difference is the date the study was performed. Ideally, this consistency helps to isolate the impact of the changing environment over time and shows us expectations have, indeed, gotten worse.

Under the new expectations, the lifetime loss ratio on these policies is 80 percent. With this rate increase, it would be 73 percent. The pricing loss ratio was 60 percent.

LifeSecure is sensitive to the financial impact on policyholders and offers options to help its policyholders cope with the rate increase. A policyholder may reduce their benefit amount, reduce or remove inflation, or remove any other rider.

Finally, if a policyholder purchased the life protection rider, they may, of course, exercise that option for a paid-out produced benefit, meaning no future premiums for any increase or otherwise would be due.

We encourage policyholders to keep their long-term care policy. We believe it provides great peace of mind, knowing that if you need long-term care, you won't have to bear the cost burden all on your own.

Thank you again for allowing us to participate in this hearing.

DEPUTY COMMISSIONER GRODIN: Thank you. Are there any questions for our panel?

MR. SWITZER: Thank you. I understand that this filing affects about 153 Marylanders. The original request was for a 30 percent increase. And I wanted to verify the following, that given it's in early duration, the expected loss ratio of the nationwide actual, for every $100 of premium, about $5 in claims, and expected -- this is from Exhibit C -- of about 550 versus Maryland's own experience, recognizing credibility as an issue, at $17 out of a hundred on the loss ratio. So the pricing in the proposal was mainly based on nationwide experience as opposed to Maryland-specific?

MR. PEAKE: Yes. We used nationwide because, obviously, the credibility issue is state-by-state. I think that's it.

MR. SWITZER: And just again, I heard you say that the main reason for giving the relatively new entrance into the market for updating the request in the rates is updated actuarial studies?

MR. PEAKE: Yeah.

MR. SWITZER: Thank you.

DEPUTY COMMISSIONER GRODIN: Jeff?

MR. JI: I see this product is fairly new, so I know you mentioned that you used the assumption from the concerning forms. So when you do the filing, how do you validate the reasonableness of your assumptions? Because this is fairly new. Will you share light on that?

MR. PEAKE: The consultant data is fully credible, so we trust that. With regards to our assumptions, we can look at what we have and knowing it's not credible. So far, persistency in the ultimate duration is tracking with our current assumption, so that that's a way of validating it. Morbidity, I think, it is too early to say either way.

MR. JI: So how often are you updating those assumptions?

MR. PEAKE: It typically coincides with pricing a new product. I guess it's a little chicken-or-the-egg thing. Do we come out with a new product because there's new assumptions or do we look at new assumptions because there's a new product? A little bit of both.

And the consultants published these studies on their own. I think every four years is the morbidity study I'm thinking of. So when those come out, we took a look at those.

MR. JI: Okay. Thank you.

DEPUTY COMMISSIONER GRODIN: Thanks very much for your time.

I have Lincoln Benefit Life Company. Is the representative for Lincoln Benefit Life Company on the phone?

MS. SONG: Yes.

DEPUTY COMMISSIONER GRODIN: Thank you.

MS. SONG: My name is Xiaoyan Song.

DEPUTY COMMISSIONER GRODIN: Hold on. Let me --

MS. SONG: I am the actuary responsible for putting together this filing.

DEPUTY COMMISSIONER GRODIN: And would you please spell your last name.

MS. SONG: Song, S-O-N-G.

DEPUTY COMMISSIONER GRODIN: Okay. Thank you. All right. Ms. Song, go ahead.

MS. SONG: The subject filing policy form is LB-7000, and this policy form was issued in

Maryland from 2004 to 2006. The above policy forms and riders are no longer issued, marketed in any states.

Lincoln Benefit Life is requesting a rate increase of 15 percent on this policy form, and this is this second rate increase request on this one. And the first rate increase, 15 percent rate increase granted by State of Maryland on March 2, 2016 and implemented on June 17, 2016. So this is going to be the second 15 percent rate increase on the subject policy form.

As of 2016, there's going to be 75 policies impacted by this rate increase, and this rate increase is a flat 15 percent on the base rates, which does not vary by policy form or issue age.

Experience determination rates for the inforce policies and policies in claim status are lower than expected, resulting in expected loss ratios which would not be sustainable under the current premium. So this is the main reason we request the rate increase.

DEPUTY COMMISSIONER GRODIN: And Ms. Song,

you said that's based on claims status, correct?
MS. SONG: Yes. It's because our average length of stay is higher than expected. So termination rates, including both lapse and mortality, are lower than expected, the original pricing. And also the average lengths of stay, which is the duration for saying on the claim are longer than the original pricing. So those two reasons combined are resulting the subject rate increase.
And, of course, we encourage policyholders to maintain their coverage, so the company offers different options to help policyholders to maintain the coverage which includes, for example, the daily benefit amount reduction and some other benefit adjustment such as lengthening the elimination period or shortening the total maximum benefit period. And for people who don't have the nonforfeiture rider on the policy, the company is going to provide a contingent on nonforfeiture benefits without consideration of the triggering percentage.
I think that's it. And thank you for allowing me to participate in this public hearing.

DEPUTY COMMISSIONER GRODIN: Thank you, Ms. Song. We'll just see if anyone from the MIA has any questions for you. Todd?

MR. SWITZER: Thank you, Ms. Song. I see that, as you noted, that the one increase was approved at the 15 percent and the original requested increase was for 35 percent, getting us up to a lifetime increase about 55 percent.

I saw that Maryland's actual loss ratio so far is 2.5 percent. The nationwide is 9.9 and the expected at this duration is about 31. So touched on this theme before. My question is were the assumption changes driven by actuarial studies or internal things you're seeing on these 75 people so far? Or what was the impetus of the assumption changes, please?

MS. SONG: The assumption change was based on the company's internal experience studies together with the most recent updated Society of Actuaries Experience Study on long-term care policies.

MR. SWITZER: Thanks. And I gather that Maryland's LTC membership is about 28 percent of your national LTC business. Is that close?

MS. SONG: Maryland -- how do you come up with the number?

MR. SWITZER: I had it from Attachment Q7. We can work this out later through SERFF if it's not readily available. That's fine.

MS. SONG: I'll have to look into this.

MR. SWITZER: Yeah, that's fine. Thank you very much.

DEPUTY COMMISSIONER GRODIN: Jeff, anything?

MS. SONG: All right.

MR. JI: Yes. Ms. Song, Todd already mentioned from the prior rate increase finding you are looking for a total of 35 percent rate increases --- rate increase. Can you tell us, how did you decide that amount, 35 percent rate increase total?

MS. SONG: Okay. Yes. The original request was 35 percent and Maryland approved partial -- give us a partial rate increase in 2016, which was 15 percent. That 35 percent is something that can help the company, the project maintain sustainable loss ratio for a few years and basically letting me take a look at our experience projection.

So after the, you know, the initial request, we started in 2015, and our loss ratio based on the 2016 for the lifetime projected loss ratio is 97 percent. With the proposed 15 percent, the lifetime loss ratio is reduced to 91 percent. So the eventual price and target on this policy form is about 60, 65-ish, 65 percent-ish.

So with the request rate increase, the projected lifetime loss ratio is not -- we are not targeting to bring down the loss ratio, projected lifetime loss ratio to the original pricing level. However, based on the emerging experience, we see the trend that the termination, the lower length of that termination and are the higher length of stay which give us, you know, the future, have a higher than expected future claim cost projection. And also, we are considering the impact on the policyholders, requesting a larger percentage rate increase put on a huge burden on the part of the holder.

So at this time we are requesting a smaller amount, 35 percent, and we'll continue to monitor the experience and we'll request future rate increases if the experience worsened in this box.

MR. JI: Thank you.

DEPUTY COMMISSIONER GRODIN: Thank you, Ms. Song. Any other questions?

(No response)

DEPUTY COMMISSIONER GRODIN: Thank you, Ms. Song. You can put your phone back on mute. Appreciate your time.

MS. SONG: Thank you so much.

DEPUTY COMMISSIONER GRODIN: Our next company is Physicians Mutual Insurance Company and Mr. Lehman. Did I get that right?

MR. LEHMAN: Lehman.

DEPUTY COMMISSIONER GRODIN: Lehman. And would you please spell your name for the court reporter?

MR. LEHMAN: Sure. My name is Mark Lehman, L-E-H-M-A-N.

Good afternoon. My name is Mark Lehman, Assistant Vice President and Actuary in charge of the management of Physicians Mutual Insurance Company's long-term care business.

I'd like to thank Deputy Commissioner Grodin for the opportunity to discuss our long-term care filings currently pending with the Maryland Insurance Administration.

Commissioner Redmer extended the same offer a year ago, and I was happy to attend and discuss the long-term care filings that were pending at that time. And last year's hearings, I mentioned that with Maryland's 15 percent regulatory cap, Physicians Mutual would have requested rate increases averaging 119 percent taken over multiple years.

I also mentioned in an effort to achieve equitable rates nationwide, Physicians Mutual would continue to request long-term rate increases until Maryland premium rates became equitable in relation to premium rates in other states.

The currently pending filings represent Physicians Mutual's continuing efforts to achieve equitable rates in Maryland.

Physicians Mutual sold long-term care insurance in the state of Maryland from 1999 to 2007, and currently provides coverage for just over 250 Maryland policyholders. Physicians Mutual ceased long-term care sales nationally at the end of 2012 and currently provides coverage for over 25,000 policyholders.

We understand how difficult rate increases can be for our policyholders and appreciate the opportunity for further detailed discussion regarding the company's decision to file for the rate increases requested. We will speak to the factors that led to the need for the rate increases. We will also discuss the options being made to our policyholders to help mitigate the impact of the rate increases.

DEPUTY COMMISSIONER GRODIN: Would you like for him to slow down a little bit?

MR. LEHMAN: Am I going too fast? Sorry about that.

DEPUTY COMMISSIONER GRODIN: Yes. It really doesn't sound natural. Slow it down a little bit.

MR. LEHMAN: I appreciate that.

Included will be a brief discussion

surrounding the services provided by the company's customer support center to assist our policyholders in making informed decisions about their long-term care coverage.

The need for the rate increases continues to be driven by four key assumptions that, despite being based on actuarial science and data available at the time, have not materialized commensurate with the policy forms' original pricing assumptions. The four key assumptions are morbidity, mortality, lapse rates, and interest rates. As has been seen across the industry, the experience realized in relation to these four elements has caused the premiums originally charged to the policyholders to be less than what is needed to fund even the claims expense, let alone any administrative costs or other factors.

Morbidity rates have been higher than what were originally priced into the products, primarily as a result of policyholders remaining on claim status for a longer period than what was originally assumed. The proliferation of assisted living facilities has caused much of this increase.

Mortality rates have been lower than what were originally priced into the products. This is a good thing. However, while lifespans are now longer, we have not yet been able to cure many of our chronic diseases. The result for long-term care insurance is that more policyholders are living longer with their chronic diseases and filing more claims which, in turn, drives the aggregate claims expense even higher.

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

Finally, the lengthy period of sustained low interest rates has played a role in the underperformance of the company's long-term care block of business.

Physicians Mutual is requesting rate increases in Maryland that average between 0 and 15 percent across the company's four pending filings. These rate increases take into account Maryland's 15 percent cap on long-term care rate increases. Without the regulated cap, rate increase requests in Maryland would have averaged 92 percent, taken over multiple years.

Physicians Mutual believes it is important to be transparent with our policyholders and to inform them of the total rate increases needed to ensure that funds are available to pay claims. This is the approach we have taken in states that do not have a regulated cap on long-term care rate increase requests. This approach allows the company to provide clarity to the policyholders on the ultimate cost of their long-term care coverage, giving them the information needed to make the best decisions going forward for their individual situations.

Because Maryland has the 15 percent cap on long-term care rate increase filings, Physicians Mutual anticipates filing for rate increases until the premium rates in Maryland are equitable relative to premium rates in other states.

It is significant to note that the rate increases Physicians Mutual is targeting across the entire block of long-term care business are not at levels that generate any profit to the company, but simply strives to move premium revenue to a level that allows the company to continue to pay policyholder claims. All of the expenses associated with supporting our long-term care business are being absorbed by the company and no profits are expected to be generated from our long-term care business.

We feel that even with the rate increases, our long-term care policies provide a great benefit to our policyholders. It appears that our policyholders agree as our experience is that 80 to 85 percent of our customers have chosen to pay premium increases rather than altering their benefits.

We do understand that rate increases may put a burden on some of our policyholders. To assist with this, Physicians Mutual has several benefit reduction options available to enable policyholders to maintain the premium expense at or near current levels. Benefit reduction options include reducing monthly benefit amounts, reducing the length of benefit periods, increasing the length of elimination periods, removing attached riders, or combinations of any of these options.

For policyholders who feel that they no longer need or no longer can afford long-term care insurance, a nonforfeiture option is provided. This nonforfeiture option represents a paid-up policy with benefits equal to the total premium value paid by the policyholder.

To assist our policyholders in making the best decisions given their individual circumstances, Physicians Mutual has established a dedicated long-term care customer service team to answer any questions our policyholders may have and to review possible alternatives. Our rate notification letter encourages our policyholders to call and discuss their options and the policyholder response has been very positive.

Again, I want to thank the Maryland Insurance Administration for providing the opportunity to participate in the hearing today. I'd be happy to take any questions you or your staff may have.

DEPUTY COMMISSIONER GRODIN: I'm going to start out with a question. Out of curiosity, the 92 percent over multiple years, do you have with you today what that would have looked like? How many years it would have taken you to implement 92 percent, and would it have been constant increases or would they have varied?

MR. LEHMAN: So we've had this rate increase going on for a couple of years now in other states. For states that have approved the entire amount up front, it was spread over a three-year period. Because of Maryland's 15 percent cap, we have anticipated another -- it's going to depend again on policy form and benefit attribute, but at least another four or five years for rate increases.

DEPUTY COMMISSIONER GRODIN: So typically for 92 percent, it's over three years?

MR. LEHMAN: Over three years is what we've done for most -- most states. Yes.

DEPUTY COMMISSIONER GRODIN: Okay. Thank you. Todd?

MR. SWITZER: Thank you.

ASSISTANT COMMISSIONER MORROW: Actually, Nancy, can I follow that up?

DEPUTY COMMISSIONER GRODIN: Sure.

ASSISTANT COMMISSIONER MORROW: Because I think mine might dovetail your question.

MR. SWITZER: Sure.

ASSISTANT COMMISSIONER MORROW: You mentioned that the rates here in Maryland are not equitable in comparison to the other carriers. Does that follow up her question? Why are they not equitable?

MR. LEHMAN: Yes. So again, our end goal is to have the exact same premium rates in all states, but, obviously, we have state-based regulation. So we have seen the gamut of state approval. So we've seen the states obviously approving the entire amount of the rate increase and other states approve 15 percent if they have a cap.

So Maryland, in relation -- and I can provide this data if we need it for filing. I may have already done that. But Maryland, for the -- out of the four filing, the filing with the largest block of Maryland policyholders, Maryland's current premium rates are in the bottom half compared to the other states.

ASSISTANT COMMISSIONER MORROW: Thank you.

DEPUTY COMMISSIONER GRODIN: Todd?

MR. SWITZER: I see that the filings affect about 258 Maryland members. I see that in the past, five rate increases have been approved. So with this one it would bring the accumulative increase to over double, 20 percent increase.

I see in Exhibit 2 that Maryland's actual loss ratio is 32 percent, and based on our own modeling of what an ideal curve would look like at about duration of 15, we would think that 32 would have been call on track, would be about 52.

So is it a similar situation that the driver is not that you're off track yet, but you expect to soon be off track loss ratio-wise in the near future?

MR. LEHMAN: I think it's a combination of a few things. We have four filings pending with Maryland, and some of them you are correct. We've have five rate increase approvals.

MR. SWITZER: I was focusing on the most populated one.

MR. LEHMAN: Yeah. Okay. The most populated, yes, we've had the five rate increases in the past. We also varied the rate increase by benefit attributes. So for the policies that have lifetime benefits and inflationary options tied to them, that curve is much steeper than what we have originally priced, and that is why we are requesting a rate increase.

For policyholders with limited benefit periods or no inflation, the requests are much smaller. In fact, on that block it might not be any.

MR. SWITZER: Thanks.

DEPUTY COMMISSIONER GRODIN: Anything, Jeff?

MR. JI: So all of these four filings are for your business in Maryland; is that right?

MR. LEHMAN: It is everything but I believe two policyholders in an extremely small policy form, which we're not taking rate increases on.

MR. JI: Okay. Thank you.

DEPUTY COMMISSIONER GRODIN: Thank you.

MR. LEHMAN: Thank you very much.

DEPUTY COMMISSIONER GRODIN: All right. We have Transamerica Premier Life Insurance Company. Mr. Gugig, you're going to make the presentation? And would you please also, when you sit down, spell your name for the court reporter.

MR. GUGIG: The good news is nobody has ever accused me of having volume that is too low.

Good afternoon. Thank you, Deputy Commissioner and MIA team. My name is Michael Gugig -- that is G-U-G-I-G -- and I am Transamerica's Vice President of State Government Relations and an associate general counsel.

On behalf of Transamerica, I'd like to thank the MIA for its careful consideration of the pending rate increase filing on a block of long-term care insurance issued by Transamerica Premier Life Insurance Company. We also thank the MIA for inviting us to participate in this hearing. We agree with Commissioner Redmer's prior statements that transparency with our customers is paramount and we believe that hearings like this serve that purpose very well.

On the phone are two of my colleagues who will address the substantive issues relating to our filing. First, let me introduce Tim Kneeland, who is Transamerica's business leader for long-term care.

Tim, can you hear me?

MR. KNEELAND: I can, Mike. Thank you.

DEPUTY COMMISSIONER GRODIN: And can you spell --

MR. GUGIG: Absolutely. It is Tim K-N-E-E-L-A-N-D. And my other colleague is Brad Rokosh. That is R-O-K-O-S-H, who is Transamerica's lead long-term care actuary. So they are both on the phone to talk about the substance.

So with your permission, Deputy Commissioner, I'll ask Tim to jump in and take point on the presentation. We, of course, will answer any questions that you or your team have at any point during the presentation.

DEPUTY COMMISSIONER GRODIN: Thank you. Okay. Mr. Kneeland, go ahead.

MR. KNEELAND: Thank you, Mike. Thank you, Deputy Commissioner. We appreciate the time and certainly understand the importance of this issue and understand that it is a, at best, a difficult situation that the industry, the regulators, and our customers find themselves in with the evolving data that we have seen in this block overall as an industry.

I'm going to try to shorten my comments down. What I will say in many states, and since there were many people before me with other companies that gave very good information, I don't want to be redundant, so I'll start with we have two filings. One is a free rate stability filing, which covers 158 of our customers that are in the state of Maryland. And that filing, while you had mentioned is 15 percent to, again, as has been mentioned before with full transparency, in any other state the filing would have been for 97 percent, and I'll come back to the reasoning why in a moment.

And then there's a small, only four policyholders that are with a rate-stabilized block of business, and that filing is for 65 percent, both on Transamerica Premier Life Insurance Company. The reason, as you've heard with one of the other companies, we follow the same methodology in that our ask for every state is impacted by the -- the prerate stability business is impacted by our previous rate increases and those states' approvals in those filings.

Maryland has approved previous rate filings on that legacy block, and we appreciate that. It does mean that versus a state that would not have approved those, all of those filings, yours is a smaller, a smaller increase. And I just do want to point out that because of the 15 percent regulation that you have, or cap that you have, I think it would be fair to say that we will be filing several more increases over the coming few years to be able to reach the parity that we also are trying to reach in the different states.

I would like to back up for just a moment and offer a few comments about how the industry has found ourselves here and our commitment and our thoughts about this business.

First of all, we are one of the few companies that while we have a very large block, quote, biggest block of this business out there, we also are one of the few companies that continue to write new products, and that is in Maryland, the state of Maryland as well, and it is important for us, I think, to observe that. While it may seem a long time since many of our policyholders bought these policies in the 1990s, when this business was started, it was a very young industry. It was very limited data, and companies and consultants alike worked to try to use our best estimates of all of the data and all of the assumptions that would allow us to price a product that would give us the best starting place for a guaranteed renewable policy form back all those years ago. And I think that's important to point out for a couple reasons.

One is for the private sector, the insurance company sector, to be able to work well the way that it's intended in a capitalistic society. It's important that we have a structure in which to operate that we can take on new risks. And when these risks did start showing themselves to the baby boomers, although the facilities and the treatments were much different back then, there was over 150 companies that tried to take this on and did our best to be able to price these products accordingly.

Over time, many things have changed. They've all been mentioned earlier: Morbidity, mortality lapses, and interest rates, although interest rates do not account as part of the loss ratio calculation in asking for the rate increases.

It's important to understand that because really, today, the data has evolved to the point where with all of those things changing and evolving over time, it is critical that as both Transamerica and as an industry we do receive the rate increases that are necessary to be able to protect the blocks and, more importantly, protect all our customers.

We, as a very active company in the discussions with the NAIC at the national level in trying to find what is the right way to add some consistency and predictability to this industry while respecting the fact that we do have a state regulatory symptom is very key because we do not want to see more issues with companies in receivership or going to the guaranty association. Our commitment, and we think most of our peer commitments is to be able to continue to solidify these blocks as required to be able to make sure that, most importantly, we can pay every claim that has been promised to our customers over these 20 and 30 years. And so we reach this point today where we are at all the different states asking for these rates.

We would ask you to consider our rate filing this year, and we want to make sure as a part of our commitment to transparency to our customers that while we can't proceed with any predictability, absolute predictability the results of our future filings, we would ask that we're able to communicate that we did not receive what we had anticipated asking. We will be filing for future rate increases as time goes by.

And, of course, as many companies have mentioned, the policyholders will have options to be able to deal with those rate increases if they choose to change their benefit structure to be able to avoid part of the rate increase. And, in addition, as in any filing, we do have a provision for the nonforfeitures so that if people choose to no longer take their policy, they will receive a policy that will, in essence, allow them to have benefits equal to the amount of the premium that they paid over time, understanding full well that that's not the best solution.

And I would like to add just one last comment, that in order to be able to deal with these difficult questions, we have created a website that we provide for each state that is specific to the state, and then as the policyholder comes into the website that's specific to their own situation, they can go in and understand what their options are for the future and can also go in and schedule a time with one of our highly-trained call center reps to be able to walk them through their options as they consider this with their families.

So thank you. And Brad Rokosh, our lead

pricing actuary, is on the line with me so that if you have some specific questions from an actuarial perspective, he'd be happy to answer those as well. So any questions?

DEPUTY COMMISSIONER GRODIN: Thank you, Mr. Kneeland. Any questions?

MR. SWITZER: Thank you. I'm looking at the filing that has the most enrollment, about 160 members. I see that three increases were granted in the past, 20%, another 20% and a 15 percent. And as you stated, the needed initial filing was for 97 percent. So accumulating all of that would have been a tripling the rate.

Similar question. I saw that with this business being at about duration 28 or so, Maryland's actual loss ration is 26.8, the nationwide actuary loss ratio is 40.8, I would expect that this duration, based on our estimates, that the loss ratio you want to have at this point in time to be around 60.

So once again, is it a case where the loss ratio hasn't yet gotten to an A, A to E above 1, but it's that the assumption changes, lead you to believe

that in the near future it will?
MR. KNEELAND: Brad, why don't you go ahead and take that and I'll add any color, if needed.
MR. ROKOSH: Sure. This is Brad. Yeah. Our lifetime loss ratio is less than 60. Majority of that, future experience is attributed to our assumptions based on mortality, or morbidity and mortality changing in the future. So that has been matching our total experience.
So the big driver of why we're lower, not near the 60 percent, Maryland has a high population of 5 percent compound policyholders, so they're a little lower than nationwide. So they have a higher percentage than the nationwide average. So it's just driving down the current cumulative loss ratio for those policies.
Our A&E is actually higher. If you look at our Exhibit 2, which I'm not sure if you're looking at our filing, but our A&E for actual current claim experience is slightly higher than one overall. So we are trending higher than our original expectations even at these younger policy durations.

MR. SWITZER: Okay. I'll look back at the loss ratios. Thank you.

DEPUTY COMMISSIONER GRODIN: Any other questions for Mr. Kneeland?

MR. JI: Yes. This is Jeff Ji. I have a quick question. Just follow up with Todd's question.

When I look at your filing, the experience in Maryland, is it better than nationwide? And also your projections are lower in Maryland too. I'm talking about that period of stabilization per that. You also have a 158 policyholders inforce in Maryland, and I would like to know how do you incorporate these facts in your pricing in Maryland?

MR. ROKOSH: So in Maryland we do -- this is Brad again. So we do, due to the credibility concerns on Maryland, since we only have 158 people, we do price or rate our policies on a nationwide basis where there's approximately 19,000, or basically 20,000 policies currently inforce. So we do it on an aggregate nationwide just from a credibility standpoint.

So overall, a lower experience that you're seeing in Maryland is just policy distribution characteristics, that we do expect the overall maximum rate increase to be -- the maximum lifetime loss ratio to be in excess of, with the 15 percent, be around 127 percent. And for the nationwide, I'll have to double check with that.

MR. JI: Yeah, yeah. Your number is right. Hundredth and the 8th. Maryland, the lifetime loss ratio is 121, so I'm looking for --

MR. ROKOSH: 121.

MR. JI: Yeah. Yeah. I saw that's better lifetime loss ratio. Even they are not off too much.

MR. ROKOSH: No, it's not off by too much but it's still way worse than 6 percent, what we price for. We're not trying to recoup any past losses on these products, as you can see from the maximum justified rate increase on his policy form, which is close to, I think, 380 or close to 400 percent, if they can justify it. But we're only justifying the 97 percent.

MR. GUGIG: Can I add one more point on

that one?

DEPUTY COMMISSIONER GRODIN: Yes. Of course.

MR. GUGIG: Just to note that when we're talking about loss ratio in these conversations, it's really claims versus premium. The load for expense and administration cost is not included there. So that would be in addition. I just wanted to make sure that was clear.

MR. JI: Thank you.

DEPUTY COMMISSIONER GRODIN: Mr. Rokosh, are you going to make a separate presentation or are you just available for questions?

MR. ROKOSH: No. I'm just available for questions.

DEPUTY COMMISSIONER GRODIN: Okay. Bob? Okay.

ASSISTANT COMMISSIONER MORROW: So someone brought up interest rates. So I'm curious. This is a Maryland question, but I guess if you want to address it on a larger, broader scale, that would be great, too.

It's widely expected that the Federal Reserve is going to raise rates maybe two or even three times this year. I assume that the impact is to your investment income. Can we expect to see any lessening of the rate reduction, of the rate increase requests next year, the year after if those rate increases go into effect?

MR. KNEELAND: I'll take that, Brad. I think the answer kind of gets back to the loss ratio that we have asked or that we have -- Brad has discussed.

If we were in a position where we were asking for rate increases that were taking us back to a point of possibility, I think that that probably is a doable ask to be able to deal with those differently in the future.

I think the concern is that since we -- the loss ratios are using a defined statutory rate, those loss ratios continue to be a concern for us, and that even with a 15 percent increase, we're still looking at a 15 percent or, excuse me, 121 percent loss ratio. So as Brad mentioned, we aren't looking at getting back or filing to get back to a position of profitability on this business. We're really trying to lessen our losses. And at 121 percent, clearly, it's just our way -- it's just the impact, or part of that is the impact that the 15 percent cap in Maryland kind of drives.

So the answer would be no, we wouldn't anticipate that an increase in our investment rate or reinvestment rate on our assets would create a situation where we would be asking for less rate increases on this particular filing.

ASSISTANT COMMISSIONER MORROW: Okay. But could it potentially impact more positively some of the newer blocks, younger blocks?

MR. KNEELAND: Yeah. I think -- I'll give my answer, Brad, and you can give the actuarial answer.

You know, because the loss ratios are driven by statutory interest rates, those aren't going to float on those old policies the way that the new business is. However, when we set about doing this rate increase overall, our calculations really started with a -- from a gap perspective, from an accounting perspective for the way we record earnings. And we looked at a gross present value of trying to find out what number do we need to be able to break even on this block? That number would be impacted by changes in interest rates.

So there's a potential that as we see our newer blocks that are being written today and we look at our needs in the future, that all of those things, including interest rates, would be taken into consideration, although on our newer business we aren't in the position that we look forward to trying to just get those back to break even. Ultimately, we would expect the business to be able to make a profit as well.

I'm sorry for interrupting, Brad. Do you have something to add to that?

MR. ROKOSH: No. I think you covered it all. I think on the older blocks that I just wanted to mention, our pricing interest rates was more in line with 7 or 6 1/2 percent you're looking at. So those are significantly higher than the current treasuries that we're seeing on the alternative market.

So I emphasize what Tim mentioned on the newer blocks, I guess, that potentially might have an impact turning on how much profit we're making or the ultimate margin that we have in those products. So I'm good.

DEPUTY COMMISSIONER GRODIN: Okay.

MR. KNEELAND: I think just one more point, and I'm sorry, but the policies that we're selling today I think it's not just interest rates. The clear value and one of the reasons why we still are committed to selling new business in that space is that we have now 30-some years of data and we know a lot more about what this business looks like. While things continue to evolve, we do feel good and are very actively working on making sure that our new business rates reflect the most current data that we have so that we can give a better estimate today of what the long term costs of these products should cost.

DEPUTY COMMISSIONER GRODIN: All right.

Thank you, Mr. Kneeland and Mr. Rokosh. Thank you, Mr. Gugig.

MR. GUGIG: Thank you very much, Commissioner.

DEPUTY COMMISSIONER GRODIN: At this point, I'd like to take just a moment to assure everyone that any written -- any and all written submissions are reviewed carefully and thoughtfully. Nothing goes unread and nothing escapes our discussion when we are in our offices talking about these issues. And to this end, our chief actuary, Todd Switzer, is just going to spend just a few minutes talking about some consumer letters that we've received in response to these issues.

MR. SWITZER: Thank you. We received several letters. I wanted to mention and thank Sally Leimbach, Mr. Irving Cohen, Mr. Richard Clarke, Mr. Harry Lambert, and Mr. Morton Zetlin.

In reading those, a few thoughts of themes that give us a little more window into the process and what's been happening lately. So I'd like to do that.

As you know, we are seeking in the

actuarial team to protect the consumers, to protect the insurers. And looking at it from the consumer perspective, I mean, we've seen that it's not uncommon, as you well know, to see -- recalling one recent increase for a 310 percent increase staggered over time, but large increases. We've seen consumers and consecutive 15 percent increases multiple years. We recognize that and wanted to bring out that in the last three months in the rate filings that we've reviewed, for five carriers that represent about half of the 129,000 Marylanders that have long-term care coverage, we found reason to reduce the request materially. That's been in the review and is available to see.

We do review the earnings that the companies are making on the premiums that they have received in addition to all of the factors that have been laid out here today.

On the insurer side, we started -- the insurance industry started about the late '70s. As you know, really took off in about the '80s, and had about 38 carriers offering long-term care coverage.

And we're down to 13 that are offering new business. In about a month, we'll see our 25th LTC carrier leave -- State Farm.

So what is numerically behind that, we've seen the 2016 loss ratios for the whole market. We've estimated in Maryland about 91 percent -- 91 cents, $91, although to be a hundred, paying for long-term care claims if administrative costs are only 15 percent. And that's just illustrative and it's losing money. And we saw Penn Treaty in 2007, a long-term care carrier, as you know, fail, go bankrupt, affecting 900 Marylanders. So we're trying to find that right balance. And these are some of the things we're looking at and scrutinizing and pouring over every assumption that we get to find the right balance.

So I hope that brings out some of the points before we hear specifically from some of the consumers. Thank you.

DEPUTY COMMISSIONER GRODIN: Thank you, Todd.

I have one more person who is signed up to speak who is here with us today. Mr. Cohen? Thank you, sir. If you don't mind coming up to the table.

MR. COHEN: Sure. My name is Irving Cohen. I'm a resident of Maryland, a resident of Montgomery County for 50-plus years, and I represent myself.

I have been involved in matters dealing with long-term care but I have a business interest in the long-term care other than the policies my wife and I took out in 1997, which we thought at the time was prudent. We started to question whether or not they were prudent. That's something different.

I'm glad we heard nothing today about General Electric, the problems that are taking place. It's threatening an icon, American industry today, and I hope there's no runoff to Maryland policyholders for the policies that they were involved with. But I think there's a warning there to all of us that financial presentations need to be taken with a large grain of salt.

I spent many of my earlier years at a major accounting firm as an auditor and I'm also a person in the tax department. And people in companies can do things and do a lot of things. And as somebody once said to me about a consolidated balance sheet, it's like a bikini - the interesting parts are always hidden. And that's an important thing to keep in mind when looking at financial data. What is not being shown is important.

I cannot help but ask from looking at the files that I saw with respect to my policies, there was nothing in them at all to speak of. No questions going back and forth. No letters. No questioning of assumptions. No questioning of data. I'm not an actuary. I don't hold myself out to be, but I have a certain common sense.

When I started in my 50s paying premiums, I didn't expect that they were going into a social security lockbox. No, I never thought that. But I did think it would be more kind to a reserve set up with life insurance policies. And there's been really, except for the few moments recently, any discussion about what happened to that money?

You mentioned you look at financial statements, but do you dig down behind those the way a lot of regulators of utilities do? They look to see what the money was spent on. They look to see were their dividends going up to a parent corporation. They look to see if there were inappropriate expenses dealing with mergers and consolidations. They look to see whether or not reasonably good decisions were made. Because what I see here is that there's only one goose here that's going to lay an egg that's supposedly is going to be golden, and that's the policyholder. I don't see anything at all going the other way.

When my carrier offers me the opportunity to exchange my lifetime benefit policy for a benefit equal to the aggregate of the premiums I have paid since 1997, I go and I say, Well, what does that really mean? I've paid in over for my wife and myself $100,000 in premiums. Last year, the premium was $17,000 for the two of us. The year before that, it was $16,000 for the two of us. But what am I getting if they give me my $100,000 back?

Well, it's interesting to know. Once, the sort of average cost in Maryland of long-term care was

$350, $375, $400 a day. I don't even get a year back to pay for that. And I've paid in money since 1997. What happened? How was it invested? Was it invested at 1 1/2 percent or was it invested in negative or was it not invested at all?

And to lay insult to injury, the carrier is off the hook financially if I accept it because, presumably, they can come up with $100,000 in a multibillion dollar corporation. But no, I don't get anything. I have to walk away from all the premiums I have paid. And maybe that's the reason you're seeing the lapse rates low, because people have five, six, seven, 10, 15 years invested in your company. They didn't realize it any more than I did that I'm even below a shareholder in terms of my priority to your assets.

And there's something wrong here, and the something to me that seems to be wrong is that this administration, the regulators haven't laid out what the risks are in the policy design. And who is going to assume those different risks? You can look at my policies and you will see no warnings at all as to how the structure of the policies is made, as to what the risks are.

If this was a prospectus before the SEC, somebody would be in jail by now because there's no warning. There's a comment. There's a line that says oh, the premiums may go up. And when the person who sells you that policy is with a wink and a smile, oh, they've never gone up. They've never gone up because they only have two years' experience when you buy the policy.

I wasn't told that there wasn't no actuarial data behind this. I wasn't told that my reserves don't exist. They've been petered away somehow. Nobody here talked about the reserves. Oh, the interest rates are not important. Well, I'm sitting there. I'm saying if the interest rates are not important, that's because the principal doesn't exist.

I don't understand. I'm not a very bright guy sometimes, but I don't understand. When I read the letters that come in here -- and this is about the third or fourth time I'm testifying on this thing.

But when I read the -- and I read them. These are not people who are making $200,000, $300,000 a year. These are everyday people who try to do what I did, protect themselves from going on "welfare," i.e., Medicaid. Protect themselves from their children having to scrape while they're paying for their grandchildren's educations. Take care of Mom and Dad. They're trying to protect their families. And at the end of the day -- I'm now in my late 70s -- and I look 10 years from now at a 15 percent increase in premium, it's going to be $68,000 a year. Tell me, how many people out there do you think can afford to keep that policy going? The people that can afford it are the people who don't need it.

So, of course, now all of a sudden after you've collected all that money for all of those years, you're going to offer to give it back to them without any interest, without any compounding. Did anybody ever hear of compound interest? And I'm not talking about investing in the stock market to get a 6 percent or 8 percent or 10 percent return. Gosh, you could have bought long term government bonds in the

'80s. There aren't too many people out there who bought 20-year bonds, but there were a hell of a lot of insurance companies that did because they knew they had to match a future liability against a current asset.

So where was the matching going on here? You certainly knew that for somebody in their 50s you were going to have significant claims. And the loss ratio numbers you just pointed out for people who probably average in their 60s are minuscule compared to the pot of money that was paid in. I don't understand. I really don't understand. And I think you all, as the regulators, have an obligation to set up a policy. Who has the risk of this? Who has the risk of that? And how are we going to allocate the risk?

Right now, as we sit here today, the ultimate risk here is borne by the taxpayers in the state of Maryland. Because when the people don't have the coverage and they spent down their money -- and believe me, there are lots of lawyers out there who will teach them how they can spend down their money without going outside their family economic unit -- the policy will have lapsed and the taxpayers of the state of Maryland are paying the freight for all of this. There's something wrong, gentlemen. And I'll leave my comments on the record.

But all I'm saying is I'm upset because there's a lot of people out there who can't afford to pay $17,000 a year. I would prefer to put that $17,000 a year for my children to go to the University of Maryland, but I can't. I have nine grandchildren. Their parents have to pay schooling at some university. And even in-state tuition in Maryland might make your hair stand on end.

I'd rather pay it there, but I'm trying to protect myself and I'm finding the cost is extraordinary. It's unreasonable.

Someone talked about equity? Where the heck is the equity here? You're taking the money, you're running with the money, and then you say oh, there isn't enough to pay the losses. Well, where's the principal that you acquired all these years? So you go back to the goose and then you complain too many of the gooses are dying on us, so we don't have to enough premium dollars now. It's circular reasoning. There's something wrong.

Thank you for giving me the opportunity.

DEPUTY COMMISSIONER GRODIN: I have a question for you as long as you're here. I'd be interested to know what is your personal reaction to the options given, you know, to keep a similar premium rate if the inflation protection --

MR. COHEN: I dropped my premium protection rate -- my rate. I dropped it this year. I dropped. You know why I was able to drop it? I had the foresight, whatever it's worth, to buy $100-a-day pay, and I paid it all up front from day one from Unum. And I called Unum to see -- my wife didn't. Are you increasing her -- do you have a case here before them now? And they said no. So I'm wondering if Unum in Portland, Maine can figure out how to write a policy that doesn't have to have all these increases and how to manage the money, why in the hell can't these other people, who are much bigger than Unum, much smarter presumably? But maybe those people up in Maine aren't very smart. They're just frugal.

DEPUTY COMMISSIONER GRODIN: So you took advantage of an option that was given to you to keep your premium at a more level --

MR. COHEN: Only by dropping that and I increased the number of waiting days. I said I can afford to self pay a little bit. I'm a lucky guy, though. I mean, I didn't make 2, 3, $400,000 a year but I'm comfortable. But $17,000 a year and 10 years from now it's 68,000 compounded when my room rate would have only gone up to 400 because that's only compounding at 1 1/2 percent roughly. There's something wrong here.

I think I know where it is. Called bait-and-switch some people say. You'll read the letters that you'll get. People have only been in this thing for seven years. I've been in since 1997. It's only since 10 years ago I retired that I really started to pay attention, and I'm saying someone is getting screwed here. Pardon the expression. It's got to be the duck that's supposed to be laying these golden eggs.

DEPUTY COMMISSIONER GRODIN: Did anybody else have a question for Mr. Cohen?

MR. COHEN: I'll be glad to talk to anybody, and I can talk for hours on this.

MR. SWITZER: Not a question but a couple comments.

MR. COHEN: Sure.

MR. SWITZER: Thank you very much. Some of the things that we -- we do look at all the assumptions that you lined up, and I recognize that it's not -- it may not be as easy to get at it. At certain points the filings is approved, all the questions that are asked and all the back-and-forth and we can maybe help at least clarifying --

MR. COHEN: But why isn't that in my file if it's my policy?

MR. SWITZER: Well, when a filing is submitted and before it's approved, which is usually a fairly lengthy process, there is a lot of back-and-forth that is accessible to you and anyone to see what kind of questions that are asked and maybe we can help with that.

But some of the things that we consider and that I think relate to what you're asking is when we figure all those things and the investment income, some of the companies, if they project a lifetime loss ratio and we have verified that it is, we agree that it's based on sound assumptions, it's not to get their loss ratio from 150 to 60 to get it to a hundred or to break even. And there are cases like that where kind of sharing, as you allude, why we're in this state between the consumer and the company, that's one case where a break-even scenario.

And when experience is given, whether it's credible or not, we ask for Maryland only. We want to see how Maryland people are affected. We're interested in credibility, obviously, and nationwide experience. But Marylanders. And the projections can't be a black box, and we have to see the change from an actual to projected. It's clearly every assumption leads to a logical progression. I just wanted to mention that.

MR. COHEN: That's not the only piece that moves here.

MR. SWITZER: True.

MR. COHEN: Premium payment, what happened?

MR. SWITZER: Right, and that's what we're saying --

MR. COHEN: Again, it wasn't like social security when it went to a digital and nonexistent lockbox. It went someplace and it appears on somebody's balance sheet. I know how to read balance sheets. I can tell you that. I know how to read cash flow statements, and I think I have enough experience to know where things get hidden. And I participated in writing fancy footnotes that obfuscate everything.

But we're dealing with common, everyday working people. They don't have the capability or the money. They don't have the ability to hire the fancy lawyers and the fancy accountants and the fancy actuaries to go out and pull these things apart and do alternative modeling, to do alternative assumption changes. And I know from my own experience, you can change one assumption a little bit but it has an impact that's tremendous.

MR. SWITZER: Yes.

MR. COHEN: I don't know if you all go through the modeling at all to see it.

MR. SWITZER: We do.

MR. COHEN: I don't know, but when I look at my file, I don't see anything. I don't even see letters going back and forth, never mind the data. I can't read -- I wouldn't know how to analyze the data. I'm not smart enough. I'm not an actuary. I took one statistics course in college.

But you see, the everyday guy here has to rely on you all to say it's fair. That's your charge.

MR. SWITZER: Yes.

MR. COHEN: And I would suggest that your first charge is not to the companies; it's to the policyholder. And I understand if the company goes under, the policyholder has maybe nothing. So I understand the tension that exists.

DEPUTY COMMISSIONER GRODIN: Thank you, Mr. Cohen.

MR. COHEN: Thank you.

DEPUTY COMMISSIONER GRODIN: I have nobody else on the list who signed up to speak, so I think we can close the meeting and go off the record. I'd like to thank everybody for coming today.

MS. ORNDORFS: Are you going to people on the phone?

DEPUTY COMMISSIONER GRODIN: Did you RSVP that you would like to speak, ma'am?

MS. ORNDORFS: I submitted a letter. My name is Kathleen Orndorfs.

DEPUTY COMMISSIONER GRODIN: So your written submission was received, and we appreciate that written submission. We also had a list of people who RSVP'd to speak, and I don't believe your name was on that list. But we do have your letter and we appreciate that very much.

I want to thank everybody for coming today, and we'll go off the record. Thank you very much.

(Hearing concluded at 2:25 p.m.)

STATE OF MARYLAND)
COUNTY OF HARFORD)

I, Linda Bahur, a Notary Public of the State of Maryland, do hereby certify that the above-captioned proceeding took place before me at the time and place herein set out.

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

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

____
Linda M. Bahur
My commission expires 8/27/2019

Dated February 22, 2018

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