Deposition of:

Hearing

August 20, 2019

In the Matter of:

Long Term Care Hearing

Veritext Legal Solutions
800.808.4958 | calendar-dmv@veritext.com |

MARYLAND INSURANCE ADMINISTRATION

2019 LONG-TERM CARE HEARING

OFFICE OF THE CHIEF ACTUARY

TUESDAY, AUGUST 20, 2019

The hearing in Re: MARYLAND LONG TERM CARE was held on Tuesday, August 20, 2019, at 9:00 a.m., at the Maryland Insurance Administration, 200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202, before Susan A. Kambouris, Notary Public.

REPORTED BY: Susan A. Kambouris

APPEARANCES:

MARYLAND INSURANCE ADMINISTRATION STAFF:

NANCY GRODIN, Maryland Insurance Deputy Commissioner
TODD SWITZER, Chief Actuary
ADAM ZIMMERMAN, Actuary
MARY KWEI, Chief of Life and Health Complaints
ALLISON JONES, Complaint Investigator

COMPANY REPRESENTATIVES:

JOHN LEMOINE, Unum Life Insurance Company of America
JAKE LUKE, Unum Life Insurance Company of America
GUY BERTSCH, Unum Life Insurance Company of America
KEITH BURNS, The Prudential Insurance Company of America
MARIE ROCHE, John Hancock Life Insurance Company of America

INDEX

Long-Term Care Public Informational Hearing

August 20, 2019

P-R-O-C-E-E-D-I-N-G-S

MS. GRODIN: It is 9:00 o'clock. Let's get started. Welcome everyone and thank you for coming today. I am Nancy Grodin. I am the Deputy Commissioner of the Maryland Insurance Administration (MIA) and this is our third public hearing on specific carrier rate increases for Long-Term Care Insurance in 2019.

Today's hearing will focus on several rate increase requests now before the MIA. In the individual long-term care market, these include requests from John Hancock Life Insurance Company, proposing increases of 12.7% to 52.1%, depending upon policy form.

The Prudential Insurance Company of America is proposing increases of 0% to 32.25%, depending upon benefit period and inflation type.

In the group long-term care market, these include requests from: Unum Life Insurance Company of American, proposing increases of 0% to 15% depending on inflation type.

These requests affect about 31,673 Maryland policyholders. The goal of today's hearing is for insurance company representatives to explain their reasons for the rate increases. We will also listen to comments from consumers and other interested parties. We are here to listen, and ask questions of the carriers and consumers regarding the specific rate increase requests. I would like to take a moment to have the folks who are here with me from the MIA introduce themselves. So, I am going to start with Mr. Switzer.

MR. SWITZER: Good morning. Todd Switzer, Chief Actuary.

MS. MUEHLBERGER: Nancy Muehlberger.

MR. SCARFO: Joe Scarfo, from the Public Affairs Office.

MR. ZIMMERMAN: Adam Zimmerman, Actuary.

MS. KWEI: Mary Kwei, Chief of Life and Health Complaints.

MS. JONES: Alison Jones, Complaint Investigator.

MR. PATTY: Michael Patty, Director of Government Relations.

MS. GRODIN: I think that's all of the MIA Staff.

All right. I am going to go over a few procedures that we would like to follow today. First of all, there is a handout that has all of our contact information on it. Please make sure to pick one up. If you would like to speak today, you will need to sign up on the sheet, and include your name, and contact information. So, if anyone came in and sat down, but you would like to speak, feel free to just come on up and add your name to the sheet. We will only be calling the names of those individuals listed on the sign-up sheet and those who RSVP'd in advance to speak.

Second with the exception of the MIA staff, this is not a question-and-answer forum. Comments for interested parties have already been received and reviewed in advance, but we encourage you to continue to submit comments until Tuesday, August 27. The MIA will continue to keep the record open until Tuesday, August 27 for additional written testimony. The transcript of today's meeting, as well as all written testimony submitted will be posted on the MIA's website on the Long-Term Care page, as well as the quasi-legislation hearing page. The Long-Term Care page is found at the MIA Website by clicking on the "Long-Term Care" tab, which is located under the "Quick Links" section on the left-hand side of the Home Page.

As a reminder, we do have a court reporter here today to document the hearing. When you are called up to speak, please state your name, and your affiliation clearly for the record. If you are starting too become a little too soft, we will interrupt and ask you to speak a little louder.

If you are dialing into the hearing through the conference call line, we ask you please mute your phone. Is there anyone on the conference call line right now? So, Mike is the only person on our conference line.

MR. PATTY: Muted.

MS. GRODIN: Please place your phone on hold, as this will broadcast music into the call. I can't stress that enough, please do not put this call on hold, your music will disrupt the hearing.

Also, any time before speaking, if you

could please state your name and organization, it would be of great help. Thank you for that. We will be asking the carriers to come up individually to speak regarding their rate requests. Carriers will be called in alphabetical order, A to Z. Afterwards, interested stakeholders and those dialing in via the conference call line will be invited to speak.

I am now going to turn the meeting over to our Chief Actuary, Todd Switzer, who has a few comments.

MR. SWITZER: Good morning. Thank you for being here. Shortly, the carriers will outline the reasons for the filings. I would also like to balance that with some of the comments that came in from Marylanders. I am glad at least two and I hope more consumers will be speaking. I would like to hear that along with what the companies have to say. One xxx is from a woman in Odenton. Some of the things that are relayed, she and her husband bought the policy, purchased the policy, "for a product you may or may not need to use in the future. So, we will have out of pocket expenses, too. Every time there is a proposed increase, we consider all of our options. The consideration is all the more difficult because of the lack of frequency and the amount of future increases. There is a saying, 'If you torture the data, you can get it to say anything.' I am requesting that you use whatever tools are at your disposal" to outline a few ideas that we may talk about later.

Another woman in Edgewater had a real tragedy in her life where the need for protecting yourself came up. Some of the thoughts are in a very thoughtful 5-page submission. "I planned for this type of situation so as not to be a burden to my family or the State of Maryland and Medicare. In the sense of trying to be priced out and being covered, the increase so far is 145% lifetime. I respectfully request to put a stop to this. How many clients pay premiums for years and never use their benefits? At this rate, no one will be able to afford minimum benefits, much less ones that I contracted for." There is a three-page numerical spreadsheet accentuating how this affects real people in a real way.

As an introduction, we have had several of these meetings, and trying to find solutions, trying to get different facts out each time so that we can have a good discussion, and benefit from each others' vantage points, and along those lines, the last quarter's meeting in May, we talked a little bit about hybrid products. I wanted to expand on that briefly by starting with an exhibit from the NAIC that looked at long-term care information nationwide, and for some of the reasons we are here today, some of the increases put forward have led to this graph or contributed. This is a graph of New Business Premiums for long-term care throughout the country. It shows in 2002, it reached a height, but, since then, it has dropped off. There has been a loss of confidence. People aren't buying. They have heard about what's happened, what has unfolded. All of the product's representatives are closed to new sales.

In yellow -- I will read it to you. Bear with me because I think it is worth reading. About the hybrid products, it will be defined.

"One area of continued growth in the market is with a combination or hybrid products. These products combine long-term care benefits with either life insurance or an annuity." So, it spreads the risks, kind of addresses some of the issues raised here. You are not sure you are going to use the benefit. This insures that your premiums will be utilized. "They can pay out if long-term care is needed, but if it is not needed, there is a death benefit and annuity payout. In cases where an individual uses some, but not all of LTC benefits, the remainder will be payable as a death benefit. This is one of the principal appeals of combo products. If LTC is never needed, there is still a return on the money invested in the premium." That is one thought.

We want to be circumspect of people that are thinking about buying, as well as people who have already bought. This is a little towards the former, but trying to get --

This next exhibit is from an actuarial consulting firm, Oliver Wyman. This shows that versus traditional long-term care products, the hybrid products, this is how much premium volume is over time. Then, in 2015, 92% of the premium is in hybrid products. Hybrid products are a single premium, being up-front premiums that aren't necessarily successful for everyone, but it gained in popularity. This is just another fact of the picture. This is from the Society of Actuaries. This is a study quantifying the fact that the insurance companies were asked to price very far in the future. Not easy to do. When incidents raised, the numbers of claims were offset in this example by 15%. It showed how much that affected their financial condition, and for the standalone traditional products, 15% deviation adverse in the number of claims affected finances by 61%, but for life -- products with life and coupled with long-term care, half that, 30%. Long-term care, coupled with annuities, 7%. So, again, the hedging of the risk of broader coverage, highlighted in yellow, the society actually says, "Long-term care Combos, products that combine the long-term care benefits with either life insurance or annuities are the most promising product solution for this consumer need."

Due to, "The Pension Protection Act of 2006 contains provisions favorable to LTC Combos. Under the

Pension Protection Act, funds can be used to pay for qualified long-term care premiums without creating a taxable event to the policyholder."

Some other thoughts. In the last -- it is more towards the products we are talking about today. It is another study by the Society of Actuaries. This light blue shows how much data the companies had available to them to price. Back in 2000, they had about two million life years. That doesn't mean a lot. Not a lot of real data. They had other sources to go to, but not specifically long-term care. In 2014, it is $28 million, so the point being there is a lot more information, and while consumer confidence in these products has been eroded, it seems based on what we have seen that there is reason to think that given there is a lot more information, empirical hard numbers, that the pricing is better going forward again. This is the opinion of the Society of Actuaries. It is not the opinion of the MIA. We are still evaluating the market. That is one opinion. What this translates into is, again, according to the Society of Actuaries Nationwide data, for business sold in 2000, there is a 40% probability they had need of an increase of about 38%. The business sold in 2007, there is a 30% probability of needing an 18% increase. They are a lot smaller than some of the increases that people in the room have dealt with.

For business sold in 2014, there is a 10% chance of a rate increase of above 10%. So, we hope this is true and that confidence can be restored, because when the benefit is needed, it is a very good benefit, in my opinion.

On the other side, the increases are very difficult and we are all trying to find answers. So, before turning it over to John Hancock, you have my email in the sign-up list. I also have business cards. Any time you would like to contact me, your thoughts are very valuable. They put a real face to --

MS. LAGUNDO: Can I get a copy of that?

MR. SWITZER: I don't see why not.

THE SPEAKER: Just of the presentation.

MR. SWITZER: When we go to Annapolis when we speak to insurance groups and consumers, it is very valuable to bring it home. Thank you very much for your attention and John Hancock is ready.

MS. ROCHE: Good morning, everyone. Thank you to the Maryland Office of Insurance Administration for providing us an opportunity to speak at this important hearing. My name is Marie Roche. I am Assistant Vice-President of Government Relations and Long-Term Care at John Hancock.

First, we truly regret having to take rate increase actions and we recognize that premium increases are extremely difficult for our policyholders, in many instances, to afford. In order to address this situation, we have tried to develop some non-invasive mitigation options, and to provide our policyholders with choices that will reflect later that can impact or mitigate the impact of the rate increase.

First, I would like to summarize the two submissions currently pending before the MIA. The policies that were sold were sold during the period of 1991 and 2007. Both submissions were submitted on July 16th, 2009. The first filing consists of 13 policy forms. We were requesting a rate increase of 87.3% and the range is 48.3 to 109%. The other filing consists of three policy forms where we request an average increase of 22.4%. The range of individualized increases requested would be 12.7 to 26.1. These filings will impact, approximately, 15,400 Maryland Insureds.

I wanted to make sure that it is clear that we are not trying to recover any past losses with these submissions. Rather, the increases are needed to cover projected future losses.

And I just want to take a brief moment to explain why premium rate adjustments are and have been needed. Long-term care is a long-duration product. Most people buy in their early 50's, but most don't claim until their late 80's. Long-term care services, usage, and expenses are difficult to predict for many decades in the future. Most of your earliest premium increases in the industry were due to lower than expected long-term lapses, while current premium increases are driven by claims and mortality experience. What we are seeing today is that people are expected or are living much longer than originally expected. This means that there is a higher likelihood that long-term care events are happening, and what we are doing, we are seeing the claims lasting a lot longer than originally anticipated.

What I would like to do now is talk about some of the mitigation options that we try to make available. Again, we think it is very important that our policyholders keep their coverage because of the likelihood that they will need long-term care services or care in the future. We do understand that every mitigation option is, in fact, a benefit reduction, but, again, we think it is very important that our policyholders have choices in the face of a rate increase.

John Hancock offers the standard benefit reductions that are common in the industry, including reducing the daily benefit from benefit care, increasing the elimination period, and dropping occasional riders.

In addition to these typical ones, in 2010, we pioneered a mitigation option that could completely offset the rate increase for those individuals with fixed compound or simple inflation. What we did is, we lowered the future inflation increases on a perspective basis. We called this the Future Inflation Reduction Landing Spot or Landing Spot, for short. Just, again, how this works is for people who have inflation, their index, whether it be 5% or 3% is lowered to a lower amount in the future. So, past inflation are accruals that are retained, and, again, only future increases would be impacted. This option allows policyholders to obtain the core value of their coverage and plan design, while maintaining their current premium level. This change only, again, impacted future benefit increases, and does not decrease the current benefit.

Again, putting our customers first, many regulators have asked, what is next? All right. What are the next time of mitigation options that can be offered? So, again, we develop the next generation of actuarially equivalent mitigation options called Shared Cost. Like the Landing Spot, the Shared Cost is actuarially equivalent. That means there is no gain or partial surrender in the reduction of benefits. An election of the Shared Cost Option will also, like the inflation of Landing Spot, set the rate increase. This option is particularly beneficial for older policyholders who may have paid years of premiums. That's because the ratio of future benefits to future premiums is higher for the individual. The Shared Option or Shared Cost Option has two components. The first is the current benefit -- maximum benefit amount will be reduced by a shared cost percentage. Then, the customer agrees to pay the Shared Cost percentage, similar to co-insurance, for every claim in the future. Again, this option has the ability to greatly reduce the customers out-of-pocket expenses so they can retain the value of the policy.

Again, we recognize that these options are a reduction in benefits, but we do believe they provide our customers with viable options for those individuals who can't afford the premium increase or do not want a lapse in coverage. In addition, if an individual does, in fact, want to lapse their coverage, and stop paying the premium, we will provide them with a new paid-up policy, and the new paid-up policy will have a policy limit equal to 150% of premiums paid less any benefits received.

In order to make the Landing Spot and Shared Cost Option available to our Maryland customers and satisfy the Maryland annual 15% premium limitation, we have recently proposed annual phase-in for two to three years based upon public experience. While this isn't quite enough, it is substantial enough for us to offer these options. Note, when small increases are approved compared to the needed increases, we aren't able to make these options available due to the complexity of administering and pricing several innovations.

So, with that, again, I want to thank you for allowing me to speak today and addressing the filings, and I will be happy to answer any questions that the administration might have.

MS. GRODIN: Thank you.

MR. SWITZER: We very much appreciate you have been active trying to find alternatives that you have outlined. You have drafted most options out there. Some of these that we heard from consumers, one that outlines benefits is hopeful, but it's not what they bought, obviously, and there is some reluctance. No one is saying it's an ideal solution. We have also heard it is a little different. When rate increases are put forward, that a high percentage take the increase and renew. That's a little bit -- in considering that, I think they do have some hardship, and there is a reluctance to walk away from premiums. So, my question is: You mentioned that you do not recoup past losses, only future losses. I think it's important for buyers to know inasmuch detail as possible how the company is sharing the pain of this. So, my question is: When you said you only recoup for future losses, can you give a little more information as specific as you are able to along the lines of, does that mean for the life of these policies, the expectation is to lose money, or to -- including investment income over the long term of the product, is it a break even? Is there anything you can build on along those lines as far as consumers dealing with premiums and sharing this product going forward?

MS. ROCHE: Mr. Switzer, I apologize, I am not an actuary, so I hope I get this correctly. Again, as indicated, we are not trying to recoup past losses. In fact, we have exhausted voluntarily numerous losses over time. We voluntarily apply the NAIC Rate Stabilization Tenants, including new business caps, so that, for example, no individual who would obtain a rate increase would pay higher than what a new business person would be paying if they were writing new business. The other thing is, I think that we can provide the MIA a more-detailed response on this in writing that can be added to the filing, but I do think that the information could vary based upon policy theory. I think there is far less expectation that we would ever break even on the older policy series, but that may not be as true in the newer policy series, but what I want to assure the MIA, long-term care is not a profitable business. Generally, we would not expect to make, you know -- I would even say marginal, significant profits on even the newer policies.

MR. SWITZER: Thank you very much.

MS. GRODIN: Anything else? Thank you very much. Next, we have Prudential, with Keith Burns.

MR. BURNS: I am Keith Burns, with

Prudential Insurance Company. I am the Vice-President and Actuary. Thank you very much for having me and the opportunity to share the reasons for the long-term care rate increases.

So, Prudential is currently seeking approval for a number of rate increases on our Individual Forms. I will mention these and I just want you to know that the first increase is expected to be -- upon approval, it would expected to be implemented shortly thereafter, and followed by a second increase as listed.

For example, we have varied this by four different buckets. Our first bucket is considered No Automatic Inflation. It goes with a lifetime or unlimited benefit period or a 10-year benefit period, and, for that, there are ILTC1 and 2 products. We are asking for two 15% increases. Then, for ILTC3, as well, and our product that is referred to as ILTC3R, we are not seeking rate increases for that at this time.

For No Automatic Inflation, but with less than a 10-year benefit period, we are seeking two 50% increases for ILTC1. For ILTC2, it is 15%, followed by

6.9%. For ILTC3, it is 10% and for the first year, 0%. For ILTC3R's, we are not seeking increases.

For our last two buckets, we are seeking 15 and 15 for older products, and that's for products with Automatic Inflation regardless of what period.

Prudential is bearing the rate increase amounts by the presence or absence of inflation benefits and by the length of the benefit period. This is intended to better match our emerging experience and our loss ratio expectations with the requested amounts. So, based on the merging experience, we believe that the larger rate increases are needed. We do believe that larger increases than what we are asking for are needed; however, the increases are limited as required.

Prudential is seeking premium rate parity across all states. So, for example, our ILTC2 no inflation with less than 10-year benefit period, we're asking for 15% followed by 6.9% to get a total of 22.9% over two years. So, that's intended there to get to the national rate level. That's why the second one was capped at 6.9. That will get us to the same we are seeking nationwide. For other examples where we are seeking two 15% increases, those are some examples where we are not reaching the national level anticipated. We would come back and ask for additional increases.

So, then, I will talk a little bit, too, about some of the needs. I just mentioned in some cases, we will need to seek future rate increases. As an example, for our ILTC1 product, which is our oldest individual product, the cumulative rate increases that we are speaking nationwide is, roughly, 350%. What has previously been approved in Maryland is 75. So, we are still in need of a 158% increase. For this filing, we are asking for 32%. This impacts 614 policyholders. The Inforce Annualized Premium for that block is about $1,990K. The ILTC2 increase is roughly 237%, which we have received 51% previously in Maryland, and are still in need of 123%. I should mention these are averages. We have about 215 policyholders in that product line representing $691K Inforce Annualized Premiums. For ILTC3's, the proposed increase is 146%. We received the nationwide, of which 31% has been previously approved in Maryland. There is still a need of 88%.

There is about a little over a thousand of policyholders for that product, representing about $3.2K in premiums. Then, for our ILTC3R Product, we are seeking about a 76% nationwide, of which 15% has previously been approved. Additionally, we need about 53%. That represents 46 policies. That represents about $126K in Inforce Annualized Premiums.

So, that these cumulative rate increases are consistent with increases nationwide, as mentioned. They total 1,892 policyholders in Maryland that have been impacted.

Prudential's justified rate increases reflect the company's experience with voluntary lapse rates, mortality, and morbidity.

Current policyholder experience reflects that the ultimate voluntary lapse rates are between 0.5-1.25% for most of Prudential's Individual business. That compares to what was originally assumed in pricing between 1.5%-6.0%. In addition, mortality experience is also lower than originally expected. Due to the lower voluntary lapse rates and mortality, it is projected that a significant number of policyholders will remain inforce during their older attained ages, when they are more likely to go on claim.

Morbidity experience for Prudential's Individual business is also higher than expected. Our deep dive studies of experience were conducted in 2017 and late in 2018, which identified a significant need to strengthen the claim costs, which impacts the active life reserves. We also needed to increase the claim termination rates on our Individual products due to lower claim termination rates, and this resulted in a strengthening of our disabled life reserves.

Prudential understands that premium increases can be challenging for policyholders. In an effort to ease the situation, Prudential's policyholders notification letters for the first time will offer an inflation landing spot that will offset the 32.25% increase experienced. But those policyholders with automatic inflation, the landing spot will offer policyholders automatic inflation riders to keep the current inflated benefits, but decrease the going forward inflation rate between 1.0% and 1.8% depending on the policyholders' product and the period option they have. Approximately 90% of the Maryland policyholders will have an inflation landing spot offer.

The 10% of Maryland policyholders that do not currently have automatic inflation will be given options of notification letters to reduce other policy benefits, that which will be the standard options of reducing the benefit periods or eliminating riders. All policyholders will have the option to stop paying premiums and exercise their paid-up non-forfeiture benefit that is available to all insureds regardless of their issue age or the size of the rate increase.

All policyholders are given the option to pay the increased premium and maintain their existing benefits.

The notification letter will include a toll-free number to ask questions or request additional benefit reduction options not shown in the notification letter. The customer service representatives in the call center have been trained to handle rate increase situations. The call center is 100% dedicated to Prudential Long Term Care matters.

Prudential is committed to evaluating our experience on an annual basis. The process to review experience and set assumptions at Prudential is not taken lightly. It starts with gathering detailed policy by policy experience data, voluntary lapse rates, mortality and morbidity, and comparing to pricing expectations. The actual to expected results are analyzed for trends and compared to current assumptions. Industry data is analyzed as well where applicable and available. The assumptions are discussed within internal management for an overall review and actuarial soundness of methodology, judgment and experience updates. Once management is in agreement, an approval process begins starting within our business unit management and goes through several levels of assumption and insurance risk oversight committees within the company. All actuarial assumptions are ultimately approved by the company's Chief Actuary.

I should note that the evaluation basis change in 2018 resulted in a $946 million increase in the active life reserves. This reflected the increase primarily because of the increase in morbidity as a result of the 2018 experience, as I mentioned earlier. In addition, the disabled life reserves were increased in 2018 by $36 million. The asset adequacy testing reserves were also increased by $1 billion.

In conclusion, Prudential is committed to doing the best it can to help protect the policyholders' financial futures in Maryland and nationwide by responsibly pricing and reserving for our products. We appreciate the Administration's time and attention to this matter. Are there questions?

MS. GRODIN: Thank you.

MR. SWITZER: Another consumer letter that came in -- I will summarize -- the Governor's office and the percent has reached 42% so far. They say, "If people in Maryland are being hurt by the insurance, so there doesn't seem to be much protected from such outrageous increases. It appears what your answer would be to that. You mentioned a lot of points. Is there anything you can add, it will be appreciated.

MR. BURNS: We recognize it's a very difficult time for everybody, and nobody wants to be here, and going through this, especially the policyholders. We understand the frustration is obviously very well known industry wide. Policyholders, there are definitely a lot of losses along the way from the original, as we pointed out earlier, primarily due to the lack of information. We are committed to sharing in the losses. We could be asking for higher rate increases, but we don't have a specific formula necessarily, but we do look at that, and we get senior management's buy into what the requested increases should be, but they are definitely lower than what are actuarially justified. We are doing the best we can to make sure we understand what is going on. As we mentioned, Prudential has put forth a lot of reserves. We don't expect to get all of that back in increases by, any stretch, but I guess one things I should point out, the effort that we gave in 2017-2018 was to really try to the get a much better understanding what our experience is showing us. We feel very -- never say never. We do feel very confident in those assumptions and we hope that we that we have a much better understanding.

MR. SWITZER: Thank you.

MR. ZIMMERMAN: When were these products offered?

MR. BURNS: When were they offered?

MR. ZIMMERMAN: Yes.

MR. BURNS: Between 1999 and 2012.

MR. ZIMMERMAN: Okay. Do you have any information related to the original assumptions related to the voluntary lapse? I see a note between 1.5 and 6.0%. 6% seems high. So, I assume, is that based on the early pricing of the 1999 Policies?

MR. BURNS: Correct. That was the highest. It did vary by things, like, inflation. So, I think the lapse rate for that particular product was between 4.0 and 6.0%.

MS. GRODIN: Thank you very much. We have three representatives from Unum, two are going to be speaking.

MR. LEMOINE: Good morning, everyone. On behalf of Unum, we want to thank the Maryland Insurance Administration for holding this hearing. We want to thank each of you listening in and participating today.

My name is John Lemoine and I am the Assistant Vice-President and Legal Counsel to Unum's Closed Block Business Unit. Also with me today is Jake Lucas, Chief Long-Term Care Pricing Actuary, also in our Closed Block Business Unit. That unit is comprised of products that Unum no longer markets, including our long-term care business. Unum exited the individual long-term care market in 2009 and exited the group long-term care market in 2012. The vast majority of our policies were issued between 1989 and 2000. Today, Unum has just under 900,000 long-term care insureds nationwide. This includes, approximately, 3,600 Maryland Individual Long-Term Care Policyholders, and, approximately, 13,000 insureds covered under group long-term care policies issued to Maryland employers.

As context for today's hearing, this pending rate increase is focused on our group long-term care business. That business is divided into two segments. One segment is made up of group policies sold prior to 2004 or so. The other segment is made up of other policies sold after 2004, up through 2012, when we discontinued marketing long-term care business.

We, at Unum, take our commitment to our long-term care policyholders very seriously. We have a team of 180 professionals dedicated to providing customer service, and administering benefits for these policies. Our top priority is to meet our obligations to each of our customers, including providing benefits in their time of need. During 2018, we paid over $426 million dollars in long-term care benefits nationwide and over $11 million dollars in long-term care benefits to Maryland policyholders.

Another priority of our's is to manage all of our insurance products to insure the financial stability of our operating company both for the short-term arising and for long-term sustainability. It is extremely important not only for our long-term care policyholders, but all of our policyholders.

When Unum entered the long-term care business in the late 1980's, we determined our prices using the best available data at that time, applying assumptions and predictions about how the future experience can develop. Unfortunately, like many in the industry, our actual experience in the years and even decades since we issued these policies has turned out to be significantly different than the actuarial assumptions used to set original prices. The examples include the individuals covered under our long-term care policies are living longer, and holding onto their coverage longer than originally anticipated, leading to more claims being made than had been said in our original assumptions. Once individuals are on claim, they are staying on claim longer than expected and investment returns on the reserves to pay claims continue to be significantly lower than originally projected given the sustained low interest rate. Due to the adverse development of these factors, we have suffered significant overall losses in our long-term care business. We continue to monitor and evaluate the experience of our long-term care business and take appropriate steps to support that business as we are charged to do under regulatory and actuarial standards.

Most recently, in late 2018, Unum completed a comprehensive review for our reserves and assumptions, which resulted in Unum taking a pre-tax reserve strengthening under generally-accepted accounting principals of $750 million dollars and a pre-tax statutory reserve accounting of $170,000.00. We are making significant contributions to support this business.

Another component of managing this business is our responsibility to seek rate increases based on our experience in actuarial analysis. As a result, we are seeking rate increases on our long-term care nationwide, including our long-term care policies in Maryland. Here in Maryland, because of the state's 15% per year rate increase cap, this current rate increase request is for 15% on coverages that include inflation numbers and 6.8% on coverages under our older cohort of launching group long-term care policies that do not include inflation. We anticipate returning to ask for additional increases in the future. Assuming no changes to our current actuarial analysis, as Maryland 15% annual cap remains in expect, we expect to ask for 15% increases for multiple future years on inflation coverages which may range from 3 to 9 additional increases depending on various matters, including the type of inflation, coverage, and funding.

Going forward, we will continue to monitor and evaluate the experience on our long-term care business. If experience develops adversely to our current projections, we may not need to return to Maryland for adjusted increase requests beyond those we currently anticipate.

We, at Unum, recognize that long-term care rate increases present many of our customers with a significant challenge in maintaining their coverage. Insureds base the rate increase on group long-term care coverage have the option to adjust their coverage on a go forward basis to mitigate the impact. These adjustments are available in the overall plan parameters of the group policy under which the insured has coverage. It includes, for example, changing level of care, reducing the benefit period, or adjusting daily benefits. Also, we provide each of our impacted insurers with the ability to select a non-forfeiture option, where they may choose to no longer pay premiums going forward, but, nevertheless, maintain long-term care coverage in an amount equal to total premiums paid. We understand that many long-term care insureds are going to maintain coverage despite the necessity of rate increases and we believe these options offer reasonable alternatives to our insureds at various levels of coverage.

In closing, we do acknowledge how difficult long-term care rate increases can be to our policyholders. We will continue to serve our customers as effectively as possible by continuing to monitor and manage the financial condition of our long-term care business by offering reasonable alternatives to insurance, manage affordability as to those rate increases, and by providing quality service during the life of the policy, including, most importantly, at the time of claim. Thank you. We would be happy to answer any questions the administration has.

MS. GRODIN: Thank you.

MR. SWITZER: If you would respond to the following consumer?

MR. LEMOINE: The excerpt is, they are drawing from second quarter earnings, July 31st, where statements along these lines were shared. "We have continued to deliver strong statutory earnings and cash generation. This has enabled us to maintain strong and table capital metrics, while consistently returning capital to our shareholders. This quarter that means that along with the $100 million of share repurchases, we also raised our dividend by just under 10%."

MR. SWITZER: Noted that for 5,000 of these members, this is the first increase in 14 years. I was just looking at the 2018 Risk-Based Capital Position at 832%. That seems strong, and the dividends that were paid in, the benefit context, and how would you respond to the thought expressed by one of our Marylanders and why, now, for an increase? I know it is a hard question. If you could just answer that?

MR. LEMOINE: Thank you for the question. We do special appreciate the question and concern raised. So, the numbers that were quoted from the quarterly and annual statements are at the enterprise level. These policies are at the individual trade entity level. We are charged statutorily and financially accounting standards to manage our businesses at the line of business level, and, so, this block of business has been put into loss recognition status. We don't anticipate future profits on the block as a whole. Historically, we have lost over $2 million dollars in statutory earnings, and the rate increases that we are requesting for us across the whole block are 43% of what we could ask for under the standard accepted actuarial principles. So, we are making adjustments to try to mitigate what we need to ask for, but at the end of the day, we are responsible for the premiums that we charge are neither excessive, or inadequate, or unfairly discriminatory. We have done studies of the premiums to be provided are responsible.

MR. SWITZER: Thank you.

MS. GRODIN: Thank you very much. On the list, I have two more individuals who would like to speak, both policyholders. I am going to apologize in advance. Miss Lagundo?

MS. LAGUNDO: So, I think that my submission was given to all of the long-term care companies or, at least, my company prior to the meeting. I am not going to go through reading the thing.

I had a tragedy in my life that made me want to get long-term care. Back in 2002, I signed on for long-term care with John Hancock. I had a rate increase in 2009 of $2,126 and some odd cents. Then, I stayed there until 2016, I think, but in the end, the most important thing is --

MR. SWITZER: Can you rotate it?

MS. LAGUNDO: So, overall, since the time I bought it, the rate has increased by 197.4% in addition to my original premium. It is almost, like, triple the amount. I don't really understand when you give these options to lower your premium back down -- every year, I get one of those statements saying, if you want to keep your current coverage, that is what the increase is going to be. But if you reduce your benefit period to 10 years -- mine is lifetime, by the way -- we will keep it down to $3,800.00. It will go up, but not as much. If I reduce the daily benefit, which is how much it pays out per day, then, it will go up a little bit more, but if you reduce both, it will be this. So, if I would have reduced that, what would happen next year when I get my letter? Is it going to be another reduction I have to pay to keep the rate next year down or am I going to get charged 15% more next year? I mean, it can go on, and on, and on forever. I am trying not to be a burden to anybody, my children, or anybody. I don't know the law as far as -- I think in Maryland, you have to exhaust all of your assets to pay for nursing home care prior to anything kicking in with Medicare. Is that true? My neighbor is in that situation now. His daughters had to liquidate all of his assets, because Medicare will not cover or Medicaid, whatever it is, until all of his assets are gone. I mean, he just happened to slip on the ice, and get a bruise, and, then, get a blood clot to his brain. He was still a very active person. Things can happen. That is why we get the coverage. I feel like reducing my benefit period to 10 years isn't an option. I am still only 62 years old. So, if something happened to me tomorrow, like that, I could remain in a nursing home for 20 more years. So, then, not only would I have spent 10 years worth of policy, but, then, after that, I have to still liquidate to stay in there longer. When does it all end? When is the increases going to stop? If you have not made this policy with these particular terms for years, then, the amount of people holding this type of policy out of the total number of Maryland, we have to be a very small percentage. This was almost 20 years ago this policy was issued. I guess I am just trying to understand when you say we are going to ask for additional increases in the future, one you wanted at 76%, the next year you wanted 83% more. Is that 83% more on top of the increases you have already gotten or 83% more total? There is a lot I just don't understand. As you can see, I do my math. If this keeps going up by 2023, my premiums will be almost $7,000.00 a year, which is 318% increase, not just 318% of the original amount, but it's a increase of that much. So, when do the increased stop for my type of policy? I have a lot of questions.

MS. GRODIN: So, I was wondering, Miss Roche, if you would be available after the meeting to spend a few minutes --

MS. ROCHE: We can chat.

MS. LAGUNDO: I don't want to reduce my

benefits. I don't want my children's inheritance to get -- I have worked hard to maintain what I have for them. This is not the only thing I have gotten to get my affairs in order. I have a lot of life insurance and everything to make sure my house is paid for. I don't want to take up a bunch of time.

MS. GRODIN: We will make time for you after the meeting. If you will stay a little afterwards, Miss Roche.

MS. LAGUNDO: Do I minimize or X out?

MS. GRODIN: Ma'am, thank you.

MR. SWITZER: Thank you.

MS. GRODIN: Our last speaker today is Miss Konrad. Welcome.

MS. KONRAD: Thank you. Good morning, Deputy Commissioner and Mr. Switzer, and, certainly, the gentlemen that are here from Unum, thank you very much.

I am a long-term care policyholder with Unum. I bought that policy for my husband -- actually, two policies, one for my husband, one for me in 2003-2004. I am a retired State of Maryland employee.

I worked for the State Treasurer for the Department of Housing and Community Development, and legislative auditor. I bought those policies through the State of Maryland's Employee Benefits. The policies were not subsidized like our health insurance policies. I certainly felt at the time that the budget and management had vetted this company, and that I would find something that would protect me, like you, in the future. So, I am appealing today for you to consider this increase. I understood that you initially came in for a 26.7% increase. Now, it is 15%. I don't quite understand that, but I am really asking that you consider this, and understand the burden that I think it's putting on policyholders. I am surprised this room is not filled with policyholders. I was the one who looked at those Earnings Call Reports for the second quarter, and your CEO, Richard Paul McKenney, says your financial position is strong, and you are increasing dividends to the shareholders, and not only that, you are repurchasing shares, $100 million dollars in just that one quarter. So, I am asking Deputy Commissioner, and, certainly, Commissioner Redmer, who are you protecting? Are you protecting their shareholders or are you protecting the policyholders? I say that because I then look at your Unum Website and noted who your shareholders are. They are large constitutional investors who should understand this risk of these kinds of policies better than anybody, certainly any of your policy holders. I don't quite understand it all, the reserves and the risks.

Interestingly, today, in the Washington Post, they are reporting the business round table report of 192 CEO's, and they are saying that big businesses of this country are saying that their focus can no longer be solely on shareholders, their focus has to be on -- or they have to balance the needs of the shareholders, their customers, employer, suppliers and local community. I ask that you please consider their customers and not just their shareholders.

My premium has increased 60% since 2013, 6 years. All of you State employees understand how much your salaries have increased. Take a look at how much my pension has increased. It is infinitesimal compared to these increases. Again, I point back to 2003-2004, when I bought that policy, because it was part of the benefit package that the State of Maryland offered.

My last two comments really has to do more with the procedures of all of this. I got a notice on July 31st, 2019. I had signed up for these notifications with the Maryland Insurance Administration. I got a notice on July 31st about this hearing, and asking if I wanted to make a comment, to have those comments submitted by August 13th. I am retired, but I do have other things that I do. That is not a long period of time, and, particularly, if you are, as a policyholder, you are trying to consult with and financial advisor, and understand what it is that you should be thinking about. It doesn't give much time. I honestly think, at least, 30 days. In my comments, I said 60. I think, at least, 30 days notice should be given to policyholders so they have a chance to figure stuff out, and look at stuff, and Google things. I also feel that Unum -- you know, I get really concerned, and I think one of the reasons why I am speak here today, I just get these notices of increases until I signed up for this on your website for these notification. I just get these notices of increase just appear in my mailbox. What happened? What is going on? Which leads me -- so, I think you, too, are obligated, and I will go back to the CEO's of the business round table, and the obligation not just to shareholders, but the customers to, at least, say to your customers, we are going to the State of Maryland and we are going to be asking for a rate increase. This is the process that you need to do if you want to appeal that. I think that's only fair, not just get a bill.

So, the other thing that I have heard a little bit about this today, and I read, again, in the Earnings Report and the testimony of Steve Zabel, the Chief Financial Officer, who said that the second quarter in the Second Quarter Earnings Report, the company updated the reserve assumptions for Long-Term Care Policies in the third quarter of 2018, and, also, made assumptions for future rate increases. Where is that? I don't know that. How can I honestly make a decision in the next few months about what to do with this policy and I have no ideas what is going to happen in the next 5 or 10 years? How can I decide, really, at this point, I can't afford it anymore, and, so, I am going to have to take the non-forfeiture benefit. I am blind. You know all of the assumptions that have been made. You know, apparently, from what I gathered today, you do understand how many increases there were. You said 15% creases for multiple years, 3 to 9 years. That hadn't been provided to the policyholders. It is not right. Anyway, thank you for the time.

MS. GRODIN: Thank you. Miss Conrad, would you like to have a few minutes after the meeting is over?

MS. KONRAD: Sure, I would love to.

MR. SWITZER: First of all, thank you. Along the lines of what is being done, I just want to go over a few things. We get these 500-page filings, some of the things. There are variances. One is, there is a lot of national dialogue among actuaries and others about what to do. We are trying to stay plugged in to that. There is one in Texas that has a restricted present value. They want to drag it through. It is a method to say what is fair going forward. Minnesota has one that is called, "The If You Make Up Approach," if you knew what you know today. It has a scale of how much companies should shoulder of the deviation. We don't agree with all of that. We don't think it goes far enough. That's one thing we are trying to do.

Another is some questions voluntarily have said -- people knew that the regulators knew that things were going ary quite a while ago, the '80's, '90's. Some didn't take action for quite a while after that. Some have voluntarily said, yeah, we delayed, so we will reduce what we are asking for. We consider that. I bring this up.

Another at the top of the list for me is the life of these policies in 50 years. For people who bought in the past, those premiums aren't used for years, as you know. They are sitting there and they are invested. In the '80's or so, bonds were yielding 8% or so. So, we would like to know where the money is when earnings were good and they are not or 3% or 4%. Bring that money into the picture, because there is a lot of gravitation looking towards the claim. In my opinion, not enough looking at the investment earnings. We also have to see in numbers, not just words, and kind of material ideas. What is the company expecting? Where are they expecting to land in terms of the life of this policy, in terms of not just claims, but investment income, are you expecting to break even? Break even is used pretty loosely. Are you going to loose money? Are you going to make a little? I think everybody -- I will leave it at that. But exactly what, because we need to know whether it is important for us to determine. I will wrap it up. We can talk later if you would like. In the case of correction, if you get a huge increase, there is a cap, but you can't get it all at once. There needs to be gradation. We talked about that. Some companies will say file, they want equity for two policyholders that really needed to have those conversations. That leads to some of the things. We go through every assumption and try to get a full view, and consider all of the perspectives. Does that answer your question of what protection is?

MS. KONRAD: I do have one follow-up question. That is, so, these companies go to all of the states with their rate increases and are all of the states experiencing the same level of increase that Maryland is?

MR. SWITZER: I would say, yes. There are not many states that have a cap. Some states, in one, filing the request is for -- it is an outlier. The request is 200% and it is approved. I think the answer is, yes. Anything different, Adam?

MR. ZIMMERMAN: No. I agree. If we go to every state in our cap at 15%, oftentimes, if you look at the amount approved in every state, Maryland is generally in the lower 50%, given our cap. It is not pointed our that not many states have any kind of cap in regulation or anything like that. So, they could go in for the full request, 200 or 300%. The full request may not be approved, but some states may approve way larger than what Maryland has approved.

MS. LAGUNDO: I have a follow-up question. When these companies come in and ask for the rate increase, you cap it at 15%. They want 80-some percent or whatever. Do you approve it for more than one year or is it just a one-year increase you are approving 15%

and they are asking for 83%?

MR. SWITZER: Well, one, it is not a guaranty that we will approve. In 2018, the increase we approved was over a two-year period, something like 12%. The most that --

MS. LAGUNDO: Because I have got charged 15% more every year, '16, '17, '18, and '19. If you capped it at 12, somebody is not billing me correct.

MR. SWITZER: Yes, that's for specific carriers. That was for 2018. You are right. Sometimes, we do approve 15. The most that we have found support to approve in terms of a time span is two years. Typically, you are asking for 32%, two 15's. We will approve $275, we will approve a 10 and a 5, something along those lines, so that there is some predictability for the consumers. That's how it goes.

MS. LAGUNDO: In order to know what you approved for my long-term care company, I just have the letter that states, you know, we are going to ask -- I know we have said 83%. Now, we are going to ask for an additional 30% in future years. I don't know what that means.

MR. ZIMMERMAN: So, the issue that arises because Maryland is capped, they ask for 50%. The cap is 15. So, then, next year or two years down the road, if they do a new assumption study that shows their assumptions are worse than before, people are still continuing to hold onto this policy, the 50% they ask for now deteriorates to something else. It is like trying to get caught up. So, that's one issue with the cap, potential issue. The obvious issue is that it provides 15% max increase, but you could get stuck in this rut where you had just discussed where it seems indefinite.

MS. GRODIN: We will stay after the hearing.

MS. LAGUNDO: You guys are going to stay. I do have a question based on that.

MR. SWITZER: We also have a website, as you know, where you can see the rate filings, if you want to, all of the back and forth, once it is approved, see what was decided, whether it was one year or two year.

MS. LAGUNDO: I have tried to go on and

look at the testimony and decisions, but, I mean, there are pages, and pages, and pages. I don't know what class number my policy falls into, and it is, like --

MR. SWITZER: The last legislative session in Annapolis before the bill that got passed where the carriers would provide you your form number so that you don't have to fight for whether the hearing applies to you.

MS. LAGUNDO: Right, okay.

MS. GRODIN: I want to thank everybody for coming today and for those of you on the phone. As I said earlier, we are going to keep the record open until Tuesday, August 22nd for additional written testimony. Thank you again.

(Hearing concluded at 10:17 a.m.)

State of Maryland:

County of Baltimore, to wit:

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

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

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

As witness my hand this 6th day of September, 2019.

Susan A. Kambouris

SUSAN A. KAMBOURIS

Notary Public

My Commission Expires:

May 17, 2021

t

u

v

w