Prudential

The Prudential Insurance Company of America
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**Written Testimony of**

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**Before the**

**Maryland Insurance Administration**
**Maryland Long Term Care Rate Increase Hearing – May 15, 2017**

The Prudential Insurance Company of America (Prudential) is currently seeking approval for a 15% increase on a Group Long Term Care Insurance Plan, referred to as GLTC3, sold in Maryland by Prudential beginning in 2002. The proposed rate increase request is accordance with the 15% cap stated in Maryland Regulation COMAR 31.14.01.04A(5). Based on emerging experience, we believe a higher rate increase is needed and justified. There are 2,126 policyholders in Maryland that own an impacted policy. The average amount of the increase is $14 per month.

The prior rate increase that we have implemented as approved by the MIA has not been sufficient, which is why we are currently seeking another rate increase. A large majority of the policyholders have paid the prior increase., while some have opted to continue their coverage with lower benefits in lieu of paying the increase, and very few policyholders have stopped paying their premiums.

| | **Nationwide GLTC3/3.5** | **MD GLTC3/3.5** |
|---|---:|---:|
| **Accept rate increase, no benefit changes** | 83.9% | 92.7% |
| **Reduce Benefits** | 12.8% | 5.1% |
| **Lapse \ Exercise non-forfeiture** | 3.3% | 2.2% |
| | 100% | 100% |

The primary factors driving the industry's need for Long Term Care Insurance premium increases reflect deterioration in insured experience relative to original pricing assumptions including voluntary lapse rates, mortality and morbidity rates. Investment earnings on the accumulated policy reserves have been significantly less than anticipated due to the historically low interest rate environment over the past decade. Prudential's rate increase needs evolved around our experience with voluntary lapse rates and mortality.

LTC insurance is a lapse supported policy, meaning that the premiums were developed assuming the reserves that were set aside for those policyholders that lapse will help fund the remaining policyholders when they go on claim. Current policyholder experience reflects that

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the ultimate lapse rate is around 0.7% which compares to 3.0% that assumed in the original pricing.

Mortality rates continue to fall, leading to more policyholders living to older ages where LTC claims are most prevalent.

Due to lower voluntary lapse rates and mortality it is assumed that a significant number of policyholders will remain inforce during their older attained ages when they are more likely to go on claim. Which is good, as this is what the coverage is intended for, but was not anticipated at this level at the time the policies were originally priced. The current rate increase request is intended to partially, but not fully, offset this adverse experience, therefore additional future rate increases may be needed.

Prudential understands that these rate increases can be challenging for some policyholders. In an effort to ease the situation for policyholder's and to help mitigate the impact of a rate increase, Prudential's policyholder notification letters will offer a number of alternative options to the rate increase and an 800 number to ask questions and request more information. The customer service representatives in this call center have been trained to handle rate increase situations. The call center is 100% dedicated to Prudential Long Term Care matters.

Policyholders will have voluntary options to help mitigate the rate increase, which include:

- Reduce policy benefits such as the daily or lifetime maximums and\or remove riders that currently provide additional benefits, subject to available plan design options chosen by the group at the initial contract date.
- Stop paying premiums and exercise the non-forfeiture benefit (available for all insureds regardless of the size of the increase)

An impacted policyholder can also elect to pay the increased premium and maintain all their existing benefits.

As stated in this testimony, Prudential does understand the challenges to the policyholder when rates are increased. Rate increases are needed to help ensure the future premiums, in combination with existing reserves, will be adequate to fund the anticipated future claims. By providing a number of options, we assist policyholders with opportunities to minimize the impact of a rate increase. We appreciate the Department's time and attention to this matter and are available for further discussion.