In the Matter Of:

# *LONG-TERM CARE PUBLIC INFORMATIONAL HEARING*

*HEARING*

*May 15, 2017*

BEFORE THE

MARYLAND INSURANCE ADMINISTRATION

LONG-TERM CARE PUBLIC INFORMATIONAL HEARING

200 Saint Paul Place, Suite 2700

Baltimore, Maryland 21202

Monday, May 15, 2017

REPORTED BY: Kaleigh Irish, RPR, Notary Public

APPEARANCES:

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TODD SWITZER, Chief Actuary
BOB MORROW, Associate Commissioner, Life & Health
ADAM ZIMMERMAN, Actuarial Analyst III
JEFF JI, Senior Actuary

COMPANY REPRESENTATIVES:
DAVID PLUM, John Hancock Life Insurance Company
TONY HAMMOND, Kanawha Insurance Company (Via Telephone)
SEAN MENDES, Kanawha Insurance Company (Via Telephone)
KRISTEN KIM, Lincoln National Life Insurance Company
(Via Telephone)
PAT KINNEY, MedAmerica Insurance Company
KEITH BURNS, The Prudential Insurance Company of America
JOHN LEMOINE, Unum Life Insurance Company of America
JAKE LUCAS, Unum Life Insurance Company of America

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APPEARANCES (Continued)

INTERESTED PARTIES:

MYRON MILLER, M.D.

NANCY LEIMBACH

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Long-Term Care Public Informational Hearing

May 15, 2017

P R O C E E D I N G S

(Hearing commenced at 10:01 a.m.)

COMMISSIONER REDMER: Good morning. For those of you that are here, my name is Al Redmer. I've got 10:01. And this is our second public hearing on specific carrier rate increases for long-term care insurance in 2017.

For those of you that are on the phone, if you could keep us on mute unless you're going to speak, we would appreciate it, and please do not place us on hold.

Today's hearing will focus on several rate increase requests now before the Insurance Administration in the individual long-term care market.

These rate increase requests come from Kanawha Insurance Company proposing increases of 52.09% to 101.14% phased in at no more than 15% annually, Lincoln National Life Insurance Company proposing increases of 15%, and MedAmerica Insurance Company proposing increases of 9%.

In the group long-term care market, these include requests from John Hancock Life Insurance Company proposing adjustments of 5.4 to 43.1% phased in at no more than 15% annually, The Prudential Insurance Company of

America proposing increases of 15%, and Unum Life Insurance Company of America proposing increases of 15%.

These requests affect about 21,000 Maryland policyholders. 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 we're here to listen and ask clarifying questions from the carriers and consumers regarding the specific rate increase requests.

Before we begin, I would like to provide an update on the MIA's March long-term care briefing. In March of this year, the MIA held a public briefing in which seven new public policy proposals were discussed. These proposals can be found on the MIA's website on its long-term care insurance page.

The MIA accepted comments on these proposals through April the 6th and is presently working internally to analyze the recommendations received regarding each of the seven policies proposed. We will issue an update on the review in the near future.

Finally, I'd like to take a moment to introduce the folks who are here with me from the Insurance Administration.

To my right is our new chief actuary, Todd Switzer. And based on long-term care increase requests and what's going on with the Affordable Care Act, he has picked a timely appointment time to join us. (Laughter.) But he looks good for 35 years of age, don't you think? (Laughter.)

To his right is Adam Zimmerman, who is an actuarial analyst. And then to my left is Bob Morrow, our associate commissioner of life and health. And to his left is Jeff Ji, also a senior actuary.

Also with us from the Insurance Administration, scattered around, is Nancy Muehlberger; with our office of the chief actuary, Denise Sellers; Nancy Egan, Craig Prem, Lindsey Powell, Tracy Imm, Joe Sviatko, and Jeffrey Gross.

I'm going to go over just a couple procedures before we begin. First of all, out in the little hallway, there is a handout that includes all of our contact information on it. Please make sure that you get a copy. If you would like to speak today, we would ask you to sign up on the sheet of paper out there, if you haven't already done so, along with your name and contact information.

Second, this hearing is not intended to be a debate, but a question and answer forum so that we understand the rate increases that are being proposed, why, and also get to hear from the consumers. If -- we hope that you've submitted your comments in writing in advance. We will be posting all written comments on our website, and we will keep the record open until Monday, March 29th, if anybody has any additional written comments to make.

The transcript of today's meeting, as well as all written testimony submitted, will be posted on the website. The transcript and written testimony will be available on the MIA's long-term care page, as well as the quasi-legislation hearings page. The long-term care page can be found at the MIA website by clicking on the long-term care tab located under the quick links section on the left-hand side of the homepage.

As a reminder, we do have a court reporter here with us today to document the hearing. When you are called upon to speak, please state your name and affiliation clearly for the record. If you are dialing into the hearing through the conference line, again, we ask you to mute your phones. Also, anytime before speaking, if you could restate your name and organization, that would be a big help, as well.

We're going to ask the carriers to come up individually to speak regarding the rate request. We're going to do it in alphabetical order. And then finally, we will ask for comments from any consumers or producers.

With that, let's get started. And first, we have John Hancock.

MR. PLUMB: Over here?

COMMISSIONER REDMER: Yes, sir, thank you.

MR. PLUMB: Good morning. And thank you, Commissioner Redmer and staff for allowing us to participate in this hearing today. My name is David Plumb from John Hancock Life Insurance Company, vice president in charge of the long-term care management program.

I'm going to start off by saying that long-term care, really how important this product is. Long-term care services can cost tens of thousands of dollars, and that can easily deplete someone's savings, and then some. Pooling your risks with others through insurance is much more affordable in trying to earmark savings, in other words, cut costs.

So, we have filed for premium increases on two of our group long-term care policy forms sold primarily from 1998 to 2010, which impact about 8000 of Maryland's insureds. The average rate increase requested is 11%, while the maximum increase is up to 42%.

After the requested increase, our loss ratio for these products would be 85%. And for those increases that are greater than 15%, we would phase the increases over a two or three-year period, with no more than 15% in any one year, per the Maryland regulations.

And approving the phased-in proposed increase to 15% would allow us to offer our future inflation reduction landing spot to 750 of Maryland's insureds. And we'll talk a little bit more about the landing spot in a few minutes. But first, I want to talk about why we've proposed the rate increases.

So, long-term care is a very long duration product. Most people buy in their 50s and 60s, and most people claim in their 80s and 90s. And long-term care usage and expenses are very difficult to predict from decades into the future.

And providers of this product -- and because of that, providers of this product need to be able to adjust premiums to reflect changing experience. If not, I don't think there would be any kind of a market for this type of insurance. Many, many more people would deplete virtually all of their assets on care costs and then, you know, end up relying on Medicaid programs for their care.

And most of the earlier premium increases were due to lower than expected voluntary lapse rates. I think that's pretty much behind the industry at this point, and most premium rate increases are driven by mortality and claims experience.

It's still a relatively young industry, and many companies have just recently started to get a significant amount of claims data at the older attained ages and later policy durations, and that's where the vast majority of claims would happen with this product.

At John Hancock, we're seeing more people than expected living for a longer -- for longer periods of time. We're also seeing a higher rate of claims and longer-lasting claims than expected at those older ages.

I think the rate adequacy and the regulatory consistency are really critical for this insurance policy. It's on a guaranteed renewable basis, which means that premiums can be adjusted to reflect changing experience subject to loss ratio.

We recognize that premium increases may be difficult for many customers and have taken some major steps to help ease the burden on our insureds. We have applied the more restrictive rate stability rules for our pre-rate stability block of business. We have ensured that the resulting premiums on our in-force business are not more than what we're charging for current business premiums. In fact, they're substantially less.

We have provided typical benefit reduction alternatives to mitigate premium increases, such as benefit periods and daily benefits. We're offering a contingent nonforfeiture benefit to all insureds, regardless of whether or not the rate increase triggers the benefit based on the NSE guidelines.

But most importantly, in 2010, we have

pioneered a unique and innovate alternative to offset rate increases for those customers who have automatic inflation increases. We do this by lowering the future inflation increases on a prospective basis. We call this the future inflation reduction landing spot, or landing spot for short.

Past inflation accruals are retained by the policyholder, and only the future accrual rates are reduced. For these two policy forms in this filing, customers who have 5% inflation can fully offset the rate increase of about 43% by reducing their future inflation accruals from 5% to 3.9% to keep the inflation increases that they accrued in the past at 5%.

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 for their policies. Our experience has shown that this really has helped customers retain their coverage.

In our prior experience nationwide, we have seen an average shock lapse of only about 2.5%, where our average rate increases have been about 35%, and much of that result has been due to the landing spot that we offer customers in most states.

Educating our consumers regarding their rate increases and alternatives is very important to us. We describe and illustrate the options available to customers in the notification package. We notify customers at least 90 days before the rate increase takes effect, give them time to make an informed decision, whether to choose the rate increase or to reduce their coverage. And of course, they can also call our dedicated and knowledgeable customer service staff if they have any questions.

So, thank you again for allowing me to address our current filing. This matter is important to long-term care insurance and to all of our customers. I'm happy to answer any questions that you may have.

COMMISSIONER REDMER: Dave, thanks for coming in and being here in person. I appreciate that. I do have one question to understand a little bit about your distribution system. Do you happen to know what percentage of your policyholders have an active current relationship with an adviser?

MR. PLUMB: Yeah, I guess I don't know for sure. If I had to guess, I would say it's probably right around 50 to 60%. And some relationships are more active than others.

COMMISSIONER REDMER: Sure. And you may have stated this and I missed it. What percentage of the folks actually take the landing spot, as opposed to paying the increase?

MR. PLUMB: It's been -- 53% has been our experience, of those eligible for the landing spot, have taken it. And actually, the lapse rate on those people has been even lower than the 2.5% that I gave earlier. That includes everybody.

COMMISSIONER REDMER: Todd, questions?

MR. SWITZER: Not at this time.

MR. JI: I have a question.

COMMISSIONER REDMER: Go ahead.

MR. JI: So, you held four or five filings?

MR. PLUMB: Four or five what? Sorry.

MR. JI: Four or five filings?

MR. PLUMB: We have one filing covering two products on the group side, and then we have one filing covering three products on the individual side, which was the subject of an earlier --

MR. JI: Okay.

MR. PLUMB: -- hearing.

MR. JI: I would like to know, do you have some other filings to file to us in the near future?

MR. PLUMB: Yes. We have recently completed the new claims study that will result in additional increases on our individual block. But we have no plans to file any additional increases on the group block.

MR. JI: Okay.

MR. PLUMB: It doesn't mean we won't, I mean, as long as our experience pans out the pay we expect it to.

MR. JI: Thank you.

MR. MORROW: I have a quick question. You mentioned 53% of the people have taken the landing spot option.

MR. PLUMB: Yes.

MR. MORROW: Over how long a period of time has that --

MR. PLUMB: I guess since we started offering it in 2011, we've had two nationwide major rate increases, so most states, they've had it available to them twice. And each time, 53% of those eligible have taken it.

MR. MORROW: Thank you.

COMMISSIONER REDMER: Adam, do you have anything?

MR. ZIMMERMAN: Just one question. So, regarding the landing spot. If we only -- due to the Maryland statute, if we phased in, would that not be an option available to the consumer, is that correct?

MR. PLUMB: Right. Right, and I can explain that, if you'd like, because I know there's been some discussion of that in prior hearings, whether you can or can't, for the landing spot.

The reason we can't do it is because it's very complicated having 5% from the first X number of years, and then 4.5% for one or two years, and then 4%, you know, keeping track of all that.

Systems are usually built to have one inflation rate over the life of the policy, and we've done a lot of systems work to be able to do a couple of different changes.

But the more changes you do, it just becomes totally unworkable. Even the number of rates that you have to keep up file can be like 16 times what you'd normally have to have, if you keep offering that over and over again.

COMMISSIONER REDMER: Thank you. Anybody else? All right. Dave, appreciate it. Next is Kanawha.

MR. HAMMOND: Yes. Good morning. And I want to thank you for the opportunity to discuss this with people. And I've got with me a couple of our rating actuaries. My name is Tony Hammond. I'm the market vice president for Kanawha Insurance and for Humana, who owns Kanawha Insurance.

Let me give you a little background, if I could. Humana bought Kanawha in -- around 2007. And at that time, we purchased a small block compared to some of the other folks you're going to be talking to today. About 30,000 policies with long-term care insurance. We have about 200 current policyholders in Maryland, and the rate increases that we filed are really addressing the couple hundred percent loss ratios that we look at for the future here.

And we filed for increases, particularly on the inflation policyholders, that would address some of that loss ratio and at the same time try to limit the increases to 15% a year, but do it over multiple years. So, I realize the increase may sound large, but the idea is that we would implement it over several years.

Some additional background is, when Kanawha was purchased by Humana, reserves were at a -- several hundred million local, and we've spent over billion dollars in reserves to the overall book of business since then, trying to address the loss ratios for the book business and the risk that was being assumed. At the time, that was not really known.

But Humana has really stepped up to the bar, so to speak, to make sure that we're covering the liabilities that exist there. In fact, most recently, we added a large amount to reserves at the end of last year. We've received a recent increase of 15% that was approved, I think, December of 2015, implemented during 2016.

We initially filed another 15% increase December of 2016 but, in discussions with the department, have decided on the current increase filing that we have out there that would be actually multiple years at 15%. And if there are any questions about that, I'm happy to answer.

MR. ZIMMERMAN: Hi, Tony. This is Adam Zimmerman. Could you explain the logic about what the additional consumer protections that would be built in, allowing this phased in rate increase?

MR. HAMMOND: Do you mean in terms of the options that we offer in lieu of the rate increase?

MR. ZIMMERMAN: Yeah. In particular, the inflation -- the inflation buy-down that was filed in the rate request.

MR. HAMMOND: Right. And would you like to address that, Sean? I'm going to let one of our rating actuaries address that because he's the most familiar with it.

MR. MENDES: Yeah. So, this is -- I'm Sean Mendes. And with the buy-down, what we were offering was that -- we wanted to implement a larger rate increase, or have a higher rate increase applied to the multiyear 15% increase. And then if a member has inflation, they could just fully avoid all of those rate increases by just -- by dropping their inflation coverage, but keeping whatever their accrued daily benefit is at currently.

Because most of our policies have been in effect for over -- for long-term care, for over 12 years, meaning that's about -- I think it's 180% - that's just from off the top of my head - that their daily benefit has accrued.

So, they may get more benefit on a -- keeping their premium stable where they're at, and keeping their daily benefit at the exact level that it's at currently for the remainder of their policy.

MR. HAMMOND: So, if I can summarize it, what we've offered is that they could keep their current daily benefit, whatever it has accumulated to, without paying any additional increase of premium.

And there would -- but there also would be no longer any inflation. The inflation rate would basically drop to 0% on these policies. And then, of course, we have the standard. If they want to change out the benefits, if they want to change elimination periods, the standard nonforfeiture for RPU is always available.

COMMISSIONER REDMER: And what's the -- what's the projected loss ratio if you get the increase?

MR. MENDES: Well, there are -- I think it's about 190%.

MR. HAMMOND: 185.6, I am told. We will make sure we validate that. But about 186.

COMMISSIONER REDMER: And what was the projected loss ratio back in 2007 when Humana bought you?

MR. HAMMOND: Well, I'm not sure I can answer that question. I do know in general, we were told that there is a -- and I'll call it a 10s of million-dollar problem that might come to roost in 10 years. And certainly would not describe to us as having to add a billion dollars in reserves, that would be for sure.

MR. JI: So, how often do you -- do you experience studying? Do you use -- do you do that in-house, or use outside consulting firms? You know, what do you notice from your experience?

MR. HAMMOND: We currently have in-house actuaries, and we have a external consultant, Milliman, who reviews a lot of our work, certainly peer reviews it, and also helps give us some guidance on how to do both the projections, the rate filings.

We use some of their models for doing the reserves and reviewing the reserves. We also have worked with Long-Term Care Group on doing some peer review of some of our reserve processes.

MR. JI: How often do you update your assumptions?

MR. HAMMOND: I'm not sure I can say exactly. It seems to be about every three years or so that we're -- you're talking about how often do we renew the assumptions for the reserves, or for the rates?

MR. JI: For rates, reserves, both. I

think you probably use the same study for both sides, right?

MR. HAMMOND: Yes, we're using the Milliman data, as well as we look at the society studies that come out.

And we update the reserves about every three years, I would say, the assumptions on the reserves, we actually unlock for the active life reserves. But we're constantly looking at that every year and reviewing it for appropriateness. And they've been updated recently.

MR. JI: Okay. So, would that change your overall rate increase target, based on the new assumption?

MR. HAMMOND: Our original filing, okay, had lower loss ratios than what our current assumptions would show, yes.

COMMISSIONER REDMER: Okay. Anybody else?

MR. MORROW: One last question. This is Bob Morrow. You mentioned that you're looking at a 15% rate increase over a number of years. Currently, how many years does that plan to be?

MR. HAMMOND: Five years.

MR. MORROW: Okay, thank you.

COMMISSIONER REDMER: Todd? (Mr. Switzer shook his head.) Tony, thank you very much. I appreciate it.

MR. HAMMOND: You're welcome.

COMMISSIONER REDMER: Next, we will go to Lincoln National.

MS. KIM: Good morning, Commissioner Redmer and Maryland Insurance Administration staff. My name is Kristen Kim, and I am the actuary at Trustmark Insurance Company that is currently administrating the closed block of Lincoln National long-term care policy.

On behalf of the Lincoln and Trustmark, I would like to thank you for providing me with the opportunity to present information concerning the two long-term care forms, HR2500AA and HR2950AA, which was issued by Lincoln National Life Insurance Company.

Before I dive into the details behind the rate increase filing, I would like to provide some background regarding the two long-term care forms, HR2500AA and

HR2950AA. These forms are very similar products that were issued in the early 1990s. It was issued from 1991 to 1996 nationwide. And then, subsequently, Lincoln ceased marketing the product and then transferred the administration of the business to Trustmark in 1997.

There were approximately 5900 policies that were issued nationwide, of which 550 policies were issued in Maryland. Currently, we have about 1700 in force nationwide, and then about a 148 -- actually, 148 policies in force in Maryland. These policies were issued with benefits that were not currently available, readily available, in the current marketplace.

Our in force policies comprises of approximately half. With lifetime benefits, about 40% of the policyholders purchased 5% cost of living adjustment benefits, and then we have about 9% of insureds with return of premium benefits.

Since these are closed block of business, they are pre-rate stability business. Our requirements are to meet the minimum lifetime loss ratio of 60%. Our current nationwide projected lifetime loss ratio, which is adjusted to account for Maryland premium levels, is well above 60%. It's actually 85%.

For this round of rate increases, we are requesting an increase of 15%. We understand that the significant increase is a challenge for the insured, so our strategy for the block is to request gradual rate increase and continue to monitor the business annually to determine further need.

We would like to point out that our current -- our rate, even if we get 15% rate increase, will provide better benefits with lower premiums than long-term care products that are currently offered in the marketplace.

This rate increase is necessary, mainly due to initial pricing assumptions in the early '90s not being met. In fact, as we all know, the lapse and the mortality assumptions, along with morbidity assumptions, were far too aggressive during the initial pricing of the -- pricing of the products.

In order to soften the impact of the rate increase to our insureds, the company will provide two alternative options in lieu of the rate increase. The one option is the paid-up coverage that will provide paid-up insurance with no further future premium required.

Another option is reduction in policy benefits, anywhere from lowering daily benefits to reducing benefit periods.

We currently do not offer any inflation landing spot options in lieu of the rate increase in Maryland or any other state. However, we do offer the option for the insured to remove the benefit.

In order to improve communication with our policyholders about their options in connection with the rate increase, we invite the policyholder to call our customer service to further discuss their personalized options that will allow the current policy to meet coverage and financial needs.

I would like to close by again emphasizing that the lifetime loss ratio required for these closed block of business is 60%, and we are currently projecting 85% lifetime loss ratio. The requested rate increase is primarily designed to mitigate or reduce the losses and not to be profitable for the company.

It is in our both policyholder and company's interest to continue to monitor the business and create a financially stable business that will have adequate funds necessary to pay current and future claims. We look forward to continuing with Maryland Insurance Administration in the rate increase process. Thank you again for giving me the opportunity to speak today on our pending rate increase.

COMMISSIONER REDMER: Thank you, Kristen. Any questions for Kristen?

MR. JI: I would like to know your credibility standard when you do the -- when you generate the assumption. Can you explain that a little bit?

MS. KIM: Yes. So, what we did is we hired Milliman to review our block of business, and then what they did is they used their Milliman long-term care claim database, and they incorporated our -- you know, our block of business doesn't have as many policies in force, so they used a little bit of our data, but then we used most of the Milliman long-term care claims data to come up with the morbidity assumption.

MR. MORROW: This is Bob Morrow. I just want to make sure I'm clear on the alternatives. You mentioned there were two alternatives. One was to elect paid-up coverage. The second was reduction in policy benefits. And then you also -- but you also -- you also mentioned you could remove cost of living adjustment, is that correct?

MS. KIM: Correct, yes. So, when we do remove the cost of living adjustment, what we do is we just keep the current benefit amount. So, if they accrued several hundred, then that's basically what we're going to calculate the premium at and make sure that it doesn't accrue any further adjustments going forward.

MR. MORROW: Okay. Thank you.

COMMISSIONER REDMER: Anybody else? All right. Kristen, thank you. Next is --

MS. KIM: Thank you.

COMMISSIONER REDMER: -- MedAmerica.

MR. KINNEY: Will you hear me if I talk loudly without the mike?

COMMISSIONER REDMER: No.

MR. KINNEY: Commissioner Redmer, Insurance Administration staff, and guests, thank you for the opportunity to appear regarding our long-term care rate increase filings. My name is Pat Kinney. I'm managing actuary of the long-term care pricing at MedAmerica Insurance Company.

Today's hearing involves our requested 9% premium rate increase on our Simplicityii product. This policy form was issued in Maryland from June 2008 to April 2014 and covers 180 individual policyholders in the state.

Our current request is a followup to the 15% rate increase filed by the MIA in December 2015. If accepted by the administration, the current 9% request will bring our accumulative rate increase in Maryland up to the average 25% that MedAmerica has determined is necessary to certify the rate stability on this policy form.

In addition to our Simplicityii product, MedAmerica also has rate increase requests pending with the administration on our other legacy products. Simplicity, which was issued in 2005 to 2008 and premiered -- what we refer to as series 11 and prior, which was issued in 1996 through 2005.

MedAmerica has submitted written testimony for the public hearing on October 27th of last year regarding our rate increase request for simplicity. Our premium rate filing was more recently submitted on April 27th, and the administration actuarial team has just begun its review of that file.

Our later generation products, known as FlexCare and Transitions, were priced and approved in 2010 and after and are not in need of rate increases at this time. None of these policy forms is being marketed any longer in Maryland or any other jurisdiction. In early 2016, MedAmerica ceased sale of LTC policies nationwide.

However, we remain committed to providing promised LTC benefits to the over 100,000 people across the country, including over 400 in Maryland, who rely on us to continue their coverage long into the future.

We believe the premium rate increases are necessary now to ensure our ability to pay LTC claims in the long-term. Like most insurance carriers who sold LTC policies, MedAmerica has experienced significantly unfavorable changes in policy persistency, morbidity, and interest since the time the earlier generation policies were priced and issued.

The adverse experience threatens the financial health of MedAmerica, especially since we are a monoline long-term care company. There's no other insurance products to offset projected shortfalls from long-term care coverage.

We acknowledge that there has been one product 15% increase on our Simplicityii policy form, two prior 15% rate increases on our simplicity policy form, and a cumulative 39% increase on the policy forms during the years 2010 through 2014.

In each case, including the current rate increase filings, larger premium rate increases were and are actuarially justified and supportable under loss ratio and rate stability regulation.

Although MedAmerica recognizes that annual rate increases are limited to 15% per the Maryland regulation, the actuarial memorandums associated with our rate filings present the experience analysis of projections justifying the full rate increases we believe to be necessary.

We feel that this transparency provides consumers with a more complete picture of financial risks to the company. If the administration were to accept rate increases greater than 15%, the company is prepared to offer multiple year phases and increases and will consider other options that may be available to reduce the impact on our consumers.

We understand that the administration is considering policy proposals that may allow for phased-in increases in the future. MedAmerica supports the idea of allowing phased in rate increases, whether or not they are accompanied by alternatives such as landing spots.

Allowing a carrier to phase in actuarially justified premium rate increases over several years gives the insured definite knowledge of future rate levels. The consumer can then make a decision about appropriate affordable future benefit levels with the advantage of more complete information about future premiums than the present regulatory structure employs.

Like the administration, MedAmerica is also concerned about consumer protection. Our rate increases are determined so that the company is sharing the cost of rate increases with consumers and is not attempting to cover past losses. We need to place our closed block long-term care products on a more sound financial footing for the future.

Similar to prior increases, MedAmerica is offering insureds affected by the premium increase the option of reducing their policy benefits to provide flexibility of choice to those insures who wish to maintain a premium level reasonably similar to what they were paying prior to the rate increase.

Furthermore, MedAmerica is offering a petition on forfeiture or CNF benefit to all insureds affected by the rate increase, which means that a policy that lapses premium payments due to the requested rate increase remains eligible to receive some level of paid-up benefit in the future.

To help consumers navigate their options, make premium payments, accept the reduced CNF benefit, or claim a benefit reduction option that best suits them, our insureds are encouraged to call our toll-free customer service phone number because each policyholder is unique, and MedAmerica works with each person individually.

We continue to pride ourselves on providing quality claims service to our insureds. Each claimant is assigned a dedicated personal care adviser who establishes a relationship with the insured and their families to ensure the very best service and support when they need it most.

Over 90% of claimants surveyed has said their experience with MedAmerica is above average or excellent, and our average time to pay claims is 36 days. We believe this service excellence is a critical component to fulfilling our promises and taking care of our insured and will continue to provide this level of service going forward.

In closing, I'd like to reiterate that, despite the fact that we no longer sell long-term care insurance, MedAmerica remains committed to delivering on all of our promises for our customers.

Granting actuarially justified rate increases will help assure we have the financial strength to continue providing the benefits and service our insureds expect and deserve. Thank you for your time and consideration, and I'm happy to answer any questions you may have.

COMMISSIONER REDMER: Great. Thank you, Pat. Any questions?

MR. JI: Since this product is relatively new, I would like to know, how do you originally use -- what kind of -- to pick your assumptions for pricing?

MR. KINNEY: The Simplicityii product was priced in -- I think it was 2007, I believe, to be issued in 2008. We had been working with Milliman consultants at that time, so our pricing was based on Milliman studies.

Our updated assumptions are also based on Milliman studies, although this particular rate increase was filed with a different consultant.

MR. JI: So, basically, you are totally relying on consultants for pricing, or?

MR. KINNEY: We have a very small staff of pricing at MedAmerica. Our plan is to begin filing in-house in the future. But up until now, we rely on consultants, yes.

COMMISSIONER REDMER: Okay. Anybody else? All right, Pat, thank you very much. And next, we will go to Prudential.

MR. BURNS: Is this on? Hi, I'm Keith Burns. I'm vice president and actuary with

Prudential Insurance Company. I want to thank Commissioner Redmer, your staff, as well as the consumers and other interested parties joining us today.

Prudential is currently seeking a 15% rate increase on our group -- one of our group long-term care insurance plans for GLTC3, sold in Maryland beginning in 2002. And the proposed increase is in accordance with the 15% cap, per the Maryland regulation.

Based on our experience, we do believe a higher increase is needed and justified, but that would only be 22% for this product at this time, given where our assumptions are at.

We have 2,126 policyholders in Maryland that are on the impacted policy. The average amount of increase is $14 per month. Prior increases that we have implemented at -- in Maryland was approved a couple years ago and, you know, it was not sufficient at the time. That's why we're continuing to seek some additional increases.

A large majority of the policyholders that were impacted by that original increase did continue to pay the higher increased amount. In fact, about 93% continued paying the higher percent. We did have some that offered to take lower benefits. That was around 5%. And around 2% lapsed their policy and were provided with forfeiture benefits.

The primary factors, as you heard, and we discussed earlier, for the industry is deterioration of experience with regard to voluntary lapse, mortality, morbidity, as well as investment earnings. Accumulated policy reserves have been significantly less than anticipated due to the low interest rate environment.

Prudential's rate increase that we're requesting now is primarily around -- due to voluntary lapse of mortality being much lower than anticipated.

Long-term care insurance is a lapse-supported policy, meaning premiums were developed assuming that the reserves that were set aside for those policyholders that lapsed will help fund the remaining policyholders when they go on claim. But the current policyholders' experience reflects our ultimate lapse rate is currently around 0.7%, where it was originally priced at 3%.

Also, our mortality rates continue to fall, leading to more policyholders living to the older ages, when long-term care claims are most prevalent. Due to the lower voluntary lapse rates and mortality, it is assumed that a significant number of policyholders remain in force during their older ages, when they're more likely to go on claim, which is good, as this is what coverage is intended for. But as -- but it was not anticipated at this level at the time the policy was originally priced.

The current rate increase request is intended to partially but not fully offset the 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 the policyholders and to help mitigate the impact -- mitigate the rate -- the rate increase, policyholder notification letters will offer a number of alternative options to the rate increase, as well as an 800 number to ask questions and request more information.

Customer service center representatives and the call center have been trained to handle rate increase situations. The call center's 100% dedicated to

Prudential long-term care matters.

The policyholders will have voluntary options to mitigate the rate increase, which include reducing policy benefits or removing optional riders that provide additional benefits.

Or, they can stop paying premiums and exercise their nonforfeiture benefit, which is available to all insureds, regardless of their age or size of increase. An impacted policyholder can also elect to pay the increased premium and maintain all of their current existing benefits.

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

COMMISSIONER REDMER: Okay. Any

questions?

MR. JI: So, for the -- I mean, the -- your schedule for the future rate increase, can you give a little detail about that?

MR. BURNS: For this product, we were seeking 40% in total. We have received a 15% increase a couple years ago. If we get the 15% this go-around, then there would be another roughly 6% coming up. That's all compounded to get to the 40.

MR. JI: Okay.

MR. MORROW: We're good.

COMMISSIONER REDMER: Todd? All right. Keith, thank you very much.

MR. BURNS: Thank you.

COMMISSIONER REDMER: And then, we go to Unum.

MR. LEMOINE: Good morning. Everyone hear me okay? I found the on-button. Good morning. My name is John Lemoine, and with me is Jake Lucas. On behalf of Unum, we thank the Maryland Insurance Administration, Commissioner Redmer, and each of you who are participating or attending today in this hearing.

I am the assistant vice president and special counsel for Unum's closed block business operations unit. Jake Lucas, who is with me here today, is also a member of that business unit, and he is our chief pricing actuary for long-term care products.

The closed block of business unit at Unum is comprised of products that Unum no longer markets, including long-term care. Long-term care insurance policies represent about half of the annual premium of Unum's closed block of 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 LTC policies were issued between 1989 and 2012.

Unum has close to one million LTC insureds nationwide, including approximately 3800 Maryland individual LTC policyholders and approximately 15,000 people insured through group LTC policies issued to Maryland employers.

As context for today's hearing, our pending increase is focused on our older block of Maryland group policies. Under that block of policies, the total number of insureds with coverage that would be impacted by this requested increase would be approximately 10,000 insureds. And I'll provide a bit more detail about those insureds in just a minute.

We at Unum take our commitment to our LTC policyholders very seriously. We have a team of over 180 LTC professionals dedicated to providing customer service and administering benefits. Our top priority is to meet our obligations to each of our customers, including providing benefits in their time of need.

During 2016, we paid approximately $450 million in long-term care benefits nationwide and paid over $7.3 million in long-term care benefits to Maryland policyholders.

Another priority of ours is to manage all of our insurance products to ensure the financial stability of our operating companies for both the short-term horizon and for long-term stability. This is extremely important not only for our LTC policyholders, but for all of our policyholders.

When Unum entered into the LTC business in the late 1980s, we determined our prices using the best data available at the time, applying assumptions and predictions about how future experience would develop. Unfortunately, like many in the industry, our actual experience in the years and even decades since we issued our LTC policies has turned out to be significantly different than the actuarial assumptions used to set original prices.

Those factors include the fact that individuals covered under LTC policies are living longer and holding onto their coverage longer than anticipated, meaning that more claims are being made than had been originally projected.

Also, once individuals are on claim, they are staying on claim longer than expected. And at the same time, investment earnings on reserves we hold continue to be significantly lower than originally projected, giving the sustained low interest rate environment. As a result of the combination of these factors, our LTC block is suffering significant overall losses.

In 2006, when the financial reality of Unum's LTC business started to become more clear and credible, we filed our first LTC rate increases to mitigate financial and enterprise risk. Our goal in the LTC rate increases we have requested is not to generate profits, nor to recover any of the past losses we have experienced.

Instead, our LTC rate increase requests have been aimed solely at moving our LTC block of business to a point of self-sustainability on a go-forward basis. We want to ensure that our LTC reserves plus premiums are sufficient to pay all claims and expenses.

With that in mind, the rate increases we have requested nationwide on this block of group policy forms represent only about 25% of the amount we could ask for is actuarially justified. Here in Maryland, because of Maryland's 15% annual rate increase gap, our current request is for that 15% amount.

We will continue to monitor and evaluate the experience on our LTC business, as we are charged to do under regulatory and actuarial standards.

As mentioned earlier, this pending 15% rate increase request would apply to coverage held by about 10,000 persons insured under policies issued to Maryland employers. As additional context, the average annual premium for those individuals is a little under $600 per year, or $50 per month.

Furthermore, for many of our group policies, the employer pays all or part of the premium. In fact, for Maryland group policies, about 70% of insureds have their premium paid entirely by the employer as a workplace benefit, with about 30% of the total paying all or part of the premium for the coverage themselves. The average age of insureds under this block of policies is approximately 57 years.

So, even though we are seeking less than what could be actuarially justified, and even though there's a high level of employer funding on our Maryland group policies, we at Unum recognize that LTC rate increases may present many of our customers with a significant challenge in maintaining their coverage.

As a way to reduce the level of their premium, every Unum insured under a group policy has the right to adjust their benefit features on a go-forward basis. These adjustments can be made within the coverage options available under the group plan and, depending on the plan, might include things like reducing benefit duration or adjusting daily benefit levels.

Also, in conjunction with these LTC rate increases, each impacted insured can choose to elect a nonforfeiture option, whereby the insured no longer pays a premium going forward and maintains a reduced amount of coverage equal to the total amount of premiums paid to-date on the policy.

We at Unum believe that no LTC policyholder should surrender his or her coverage as a result of the rate increase, and we believe these options offer reasonable alternatives at various levels of affordability.

In closing, we acknowledge how difficult LTC rate increases can be for our policyholders, and we will continue to serve our customers as effectively as possible by offering reasonable alternatives to manage affordability and by providing quality service during the life of the policy, including, most importantly, at the time of claim. Thank you.

COMMISSIONER REDMER: John -- or, I'm sorry, Jake? Did you have anything you wanted to add, or?

MR. LUCAS: No.

COMMISSIONER REDMER: Okay. So, John, walk through these group policies. You mentioned a lot of them are 100% employer paid. So, who -- who --

Who owns the contract? Who has the option to -- in other words, kind of the employer makes those changes on behalf of the employee? And then -- and then finally, if the employer says "I'm done" and just blows up the plan, what are the options that the employee has?

MR. LEMOINE: Thank you, Commissioner Redmer. So, in essence, the way the group policy structure works, the employer is the group policyholder. The employer determines the plan designs and options that will be available to the insureds and their workers, because this is being offered as a workplace employee welfare benefit.

So, the employer ultimately determines what plan designs are available to its employee base. So, it's within that range of options that the employee has the ability to choose.

And then, ultimately, if - to use your phrase -

if the employer blows up the plan, the employee has the ability to -- so-called to continue that coverage on a direct bill basis.

MR. LUCAS: Yes.

MR. LEMOINE: That's a feature of Unum's group policy and many other group policies. The employee can actually convert -- take that coverage with them, that group coverage they have, in tact and pay for it themselves on a day-to-day --

COMMISSIONER REDMER: Can they --

MR. LEMOINE: -- basis.

COMMISSIONER REDMER: -- modify the benefits from that point on?

MR. LEMOINE: They have -- they can modify the benefits within the range of --

COMMISSIONER REDMER: Right.

MR. LEMOINE: -- the plan design that they were in.

COMMISSIONER REDMER: Got it. Okay, thank you. Anybody else?

MR. ZIMMERMAN: I know in the individual market, there's an option for the landing spot to offset the rate increase. Is that something that would be available in the group market for those, let's say 30% that are currently paying for their own benefits?

MR. LEMOINE: We've -- that option is not available on our group policies, in part because of the explanation that we just -- that we just talked about. Because of the complexity of having an employer level decision, an employer-implemented control on the plan designs, and then the employees need to be able to choose within that range of options.

So, it adds a layer of complexity for the employer to determine whether to eliminate the higher inflation benefit and only -- and reduce the lower one, creates complexity and an administrative challenge.

And also, there is something of a concern over what kind of an incentive that might create between an employer who's paying on an employee who's paying for their coverage, where that landing spot -- where that reduced inflation might land.

COMMISSIONER REDMER: Any other

questions? All right. John, Jake, thank you. We appreciate it. Next, I'm going to turn it over to Todd Switzer for some comments.

MR. SWITZER: I'd just like to add my thanks to everyone being here. Fourth day on the job, and -- (Laughter.)

The draws of the job was the chance to join with the commissioner and with the MIA to squarely address some of these hard issues and these issues that very tangibly affect our Maryland seniors.

For some context, I was looking at a study by the American Academy of Actuaries that came out just two months ago, and there were four or so facts that stood out to me. And these are just more macro-level as I digest everything from the carriers.

But first was that, in the US, the percentage of people aged 65 or older used to be, not too long ago, 8%, so about one in 13. But in the not too distant future, it will be 20%. So, an increase of more than doubling. One in five will be over the age of 65. So, that struck me.

Second was, just kind of putting numbers to things that we hear sometimes. The fertility rates are dropping in the US. It's true that what I had heard a long time ago, that in the '60s, the average family's number of children was 2.2. That's down to 1.4, so there's fewer family caregivers available.

Third, that private savings are decreasing. That as a percentage of the gross domestic product, not too long ago was -- 20% was personal savings. That's down to 15%, so less funds available.

And another piece of information from Health and Human Services was that, in 2016, of all those turning age 65, 70% of them will need long-term care. And of those 70%, 20% will need care more than five years.

So, the confluence of all those things points to the gravity and the complexity of this issue and the fact that it will only become more prominent.

I've begun to see comments that have come in. Dr. Miller, I've read your thoughtful comments. I appreciate those. And I see the crushing impact, the real impact, to the insureds, who did a good thing in buying coverage.

I've also begun to go through, along with my team, the 29 long-term care filings we have in, and I've begun to get a sense - and appreciated listening to all the presenters - of the deteriorating experience.

So, where that leads me, just to -- is being anxious and hopeful to explore all these options fully and to come up with equally tangible solutions and options. So, it's helpful to hear everything you're saying. I thank you for that, and I think the aim of all of this that the commissioner has set up is to collaboratively explore all these options and come back with something real that we can -- we can look at together.

So, that's a little bit of my perspective. And I'm anxious to continue to learn. I thank you for the -- for the chance to share that with you.

COMMISSIONER REDMER: Great. Yeah, thank you, Todd. That's it for the carriers. Signed up to speak is Dr. Myron Miller.

Sure. If you wouldn't mind coming up. And I'll also point out that Dr. Miller has submitted written comments that will be posted, as well.

DR. MILLER: I'm a consumer. I'm also a physician of geriatric medicine, so I'm very familiar with issues that pertain to older individuals.

I've had my long-term care policy for about 21 years with John Hancock as an individual policyholder. I've had three rate increases over the last four years, with a total so far of 43% increase. And from what I've been hearing, I can anticipate additional rate increases over the next several years.

My concerns are that, like myself, most of the individuals who are impacted are individuals who are in the older age group who no longer have, for the most part, increases in income. Most of the individuals -- most individuals are living on relatively fixed incomes, so that the burden of a rate increase can be quite substantial.

One of the concerns that I have with regard to the justification for rate increases is that the long-term care line often is looked at as a totally independent entity within the insurance company. Now, in the case of John Hancock, I know that John Hancock is a subsidiary of Manulife, which is a very large insurance company carrying a wide variety of insurance products.

I don't know what the percentage of the total insurance written by Manulife is long-term care, but I suspect that it's relatively small. Maybe you can answer that question for me.

MR. PLUMB: I don't know in terms of Manulife. We've recently responded to a reduction in terms of requests in terms of our domestic US company, and I think it's like 20, 25% increase of premiums, something like that.

DR. MILLER: All right. And again, I did take the opportunity some time back to go online and pull up Manulife's financial reports, and they looked to be quite healthy. They're making very substantial profits. And so, my concern is that the policyholder for the long-term care is bearing a disproportionately large burden.

In my view, the issue of the actuarial projections having to do with long-term care really should be spread over the entire company, and not just within one line of insurance.

I am certainly aware of the changes in demographics that impact on long-term term insurance. As individuals are living longer, that's also more money coming in because to the point -- up to the point where an individual files a claim, that's more premium money coming in, so that where life expectancy is going up, so has the number of years of payment of insurance going up.

I don't -- I don't know to what extent that's factored into the equation. Ideally, from an insurance company's standpoint, you should live to be 90 years old and drop dead. Then, you have claims -- premiums coming in and no claims going out.

The time that individuals spend in states of disability have generally actually gone down over the -- over years. One of the facets of long-term care insurance, at least in my case, and I presume for most individuals, as you're buying a fixed amount of money for X number of days of coverage, and to the extent that you die before your days of coverage are utilized, that's money that's going back to the insurance company.

If I buy three years of coverage and I -- in a period of disability for a year and a half, that extra year and a half of money is going back into the company.

So, I don't know to what extent that also was factored into the projections involved in calculation of rate increases. And I thank you for the opportunity to make my views noted here.

COMMISSIONER REDMER: Thank you, Dr. Miller. Does anybody have any questions for Dr. Miller? All right. Thank you very much.

That is all of the folks that have signed up. However, I will open it up to see if there's anybody, either here or on the phone, that has additional comments. Sure, Sally.

MS. LEIMBACH: Thank you.

COMMISSIONER REDMER: How are you doing?

MS. LEIMBACH: I'm Sally Leimbach. I'm here today representing MAHU, Maryland Association of Health Underwriters, and NAIFA Maryland. The presentations today from two of the companies created a question for me, so that is what I would like to ask.

First, is Kanawha still on the line? And if not, then I'll go onto -- I'll let you know what my question was, Commissioner --

COMMISSIONER REDMER: Okay.

MS. LEIMBACH: -- and perhaps it can be asked. The second is for the Unum people.

I have -- I know a lot of the agents in Maryland. You could tell from the amount of policies that are in force. And I have sold a lot of Unum policies in the state of Maryland. We are all going through, as the agents and brokers, the rate increase pain with our clients.

One thing that Unum is doing that you did not mention today - and I wasn't quite sure why - is that when the letters come from Unum, they make it very clear that they're looking for 114% rate increase in Maryland over time, and that there is an alternative for --

Although the increased would only be 15% this year, Unum's made it clear they're not saying that they would be granted 15% every year to reach the 114, but for clients that choose to reduce from the 5% compound to the 3% compound, they are assured not to have a rate increase until the 114% rate increase is reached by the others.

So, my question is: I think that's a very favorable thing; I'm not sure why that wasn't brought up in the presentation.

MR. LEMOINE: Sally, the reason is because the rate increase that we were discussing today is for the group business, which doesn't -- it's not -- it doesn't fall within that same bucket that you've just described.

MS. LEIMBACH: Ah, I was confused because you gave statistics about individual as well as the group coverage.

MR. LEMOINE: Thank you. We were trying to give the whole picture of the insured base, but I appreciate your feedback, and we will clarify that next time.

MS. LEIMBACH: It's very favorable, and I would like to see other companies do something similar. Thank you.

MR. LEMOINE: Thank you.

COMMISSIONER REDMER: Before you go, do you want to pass along the question for --

MS. LEIMBACH: Yes. For Kanawha, they said that for those people who would remove the ability to have inflation protection, they would be able to keep whatever benefit they had currently reached. That was good, but I wondered if it was perhaps like the Unum situation, that that would only --

But what that means, maybe guaranteed never to have a rate increase in the future if they did that, or was it only until the other rate increases had been -- come forth and given to the other people who did not take --

COMMISSIONER REDMER: Got it.

Q -- get that. Thank you.

MR. HAMMOND: This is Tony Hammond from Kanawha.

COMMISSIONER REDMER: Hey, Tony.

MR. HAMMOND: They would be able to keep their current benefit, and they would not be subject to a rate increase until the full five years had passed. And then, they could be -- future rate increases could come into account.

COMMISSIONER REDMER: Got it. Thank you.

MS. LEIMBACH: Thank you.

COMMISSIONER REDMER: Appreciate that. .

Yeah?

MR. PLUMB: Is it okay if I address a couple of the doctor's other questions?

COMMISSIONER REDMER: Sure.

MR. PLUMB: Thanks. First thing you mentioned about the mortality rates, yeah, you were definitely right. Mortality rates are lower. So, when we talk about the mortality issue, it's netting the premiums against the mortality rates. (Inaudible.)

You also mentioned if someone uses like one and a half out of three years, and the company gets the other year and a half. So, when we price long-term care, we don't assume everybody is going to use all of their benefits. (Inaudible.)

And the other one you mentioned is that the -- that the long-term care issue should be spread among the rest of the company. And so, the way long-term care -- so, I don't agree with that. The way long-term care was designed and sold and marketed is as a guaranteed renewable product. If experience is adverse, then premiums can be adjusted subject to loss ratio requirements.

Guaranteed renewable never talked about, only if the company is in threat of going insolvent before you can adjust premiums, or that the whole company is not making any money. If that were the case, I would guarantee you that nobody -- we wouldn't be here today. Nobody would have ever sold long-term care, and I don't know what people would do to stay off of Medicaid in order to get an insurance product.

If a company has to put their whole -- their whole company at risk for one line of business, you know, whether it's profits or solvents or whatever, you can't have one manager bringing the company down. Companies wouldn't take that risk. But thanks for the questions.

COMMISSIONER REDMER: Any other comments, here or on the phone? All right. So, again, thank you for participating. This is all very helpful for us. As indicated, Todd is now on board. I point out that he said today was his fourth day. He did not say it was his last day. (Laughter.) So, that's a good thing.

And we'll have all of this done by next Wednesday. Is that right? (Laughter.) I was kidding.

Anyway, thanks again for coming. We appreciate it. Thank you.

(Hearing concluded at 11:15 a.m.)

State of Maryland
City of Baltimore, to wit:

I, KALEIGH IRISH, a Notary Public of the State of Maryland, Baltimore City, do hereby certify that the within-named proceedings took place before me at the time and place herein set out.

I further certify that the proceedings were 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 15th day of May, 2017.

____________________

KALEIGH IRISH
Notary Public

My Commission Expires:
October 18, 2020

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