In the Matter Of:

LONG-TERM CARE PUBLIC HEARINGS

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BEFORE THE

MARYLAND INSURANCE ADMINISTRATION

LONG-TERM CARE PUBLIC HEARINGS

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Todd Switzer, Chief Actuary

Robert Morrow, Associate Commissioner, Life & Health

Al Redmer, Insurance Commissioner

Jeff Ji, Senior Actuary

Adam Zimmerman, Actuary

I N D E X

H E A R I N G

DEPUTY COMMISSIONER GRODIN: We're going to start today's conference. My name is Nancy Grodin. I'm the Deputy Commissioner of the Maryland Insurance Administration. This is our second public hearing on specific carrier rate increases for Long-Term Care Insurance in 2018.

We're going to focus on several rate increase requests and I'll read the companies and what they're proposing: Northwestern Long-Term Care Insurance Company, proposing increases of 0 percent to 13 percent, depending on the benefit period; Bankers Life and Casualty Company, proposing increases of 15 percent; Continental Casualty Company proposing increases of 15 percent; and Unum Life Insurance Company of America, proposing increases of 74.9 percent to 101.1 percent, depending on uncapped inflation coverage type.

If anybody thinks I'm speaking extra slowly, it's because we have a court reporter in the room, who is responsible for transcribing everything we say. And I will remind the people presenting and the people testifying today to slow it down and to speak up and out.

All right. These requests affect about 8,290 Maryland policyholders. The goal of today's hearing is to allow the insurance company officials to explain their reasoning, to answer questions from the MIA. And then once they are finished testifying, we will allow anybody who's signed up either in today's meeting or signed up in advance through our conference call to then testify as well.

Let us take a minute to have everybody at the table here to introduce themselves and what their position is with the Insurance Administration.

MR. ZIMMERMAN: Hi, my name is Adam Zimmerman. I'm an actuary with the Office of the Chief Actuary.

MR. JI: Jeff Ji, Senior Actuary with the Office of Chief Interim.

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

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

DEPUTY COMMISSIONER GRODIN: In the audience we also have Joe Sviatko, who is part of our public relations staff. We also have Nancy Muehlberger, who is the assistant in the Office of Chief Actuary. And we have Al Redmer in the audience who is our Insurance Commissioner.

Hopefully, everybody is signed up on the sheets that were out on the table. Let me go over a few housekeeping procedures. There's a handout with all of our contact information, I encourage you to take that with you.

This hearing -- and I know we've said this before, this is our second hearing. This hearing is an opportunity for MIA staff to question carriers. It's also an opportunity for all of us to listen to the consumer representatives and any other stakeholders. It's not a question and answer forum between stakeholders and carriers. The questions are our job. But the good news is we encourage written comments submitted in advance or until Monday, May 14th, all written comments are studied and they are also posted on our website. We will also be posting a transcript of today's hearing. That is on the MIA's long-term care page and on the quasi-legislation hearing page. If you go to MIA's website and you click on the long-term care tab on the left side of the screen under "Quick Links," you will come to all of this information.

I've already mentioned the court reporter, so it's important for all of us to slow ourselves down and speak clearly and loudly. If you're dialing into the conference, please mute your phones. We would ask that when you testify, you please restate your name and organization. We will be asking the carriers to come up in alphabetical order.

Todd, would you like to say a few things before we start?

MR. SWITZER: I would, thank you. Thanks for being here. Two things, first, factually over the last six months, the MIA has looked at long-term care filings from nine carriers and the average requested increase was 36 percent. The average approved increase was about 12 percent, about a third of what was requested from activity recently.

Secondly, we got a question from Mr. and Mrs. Edwards related to the Genworth acquisition. Thank you, if you are on the phone, for your question. The one comment in response to that regarding Genworth, the largest long-term care carrier in our state. We asked them three questions through the serve system, that is the formal rate filing system, and one of the questions was, we looked at the SCC filings regarding the potential of deals or transactions with China Oceanwide. We understand that the decision on that has been moved to July 1st. We noticed that in this case that part of the transaction allowed for 600 million to be contributed to the maturing debt; 525 million for the restructuring of the life insurance business. But one quote -- and I'll just read the quote from the SCC, "China Oceanwide has no future obligation as to personal intentions --

MS. REPORTER: I'm sorry, can you --

MR. SWITZER: I'm sorry, yeah. "China OceanWide has no future obligation and has expressed no intentions of contributing additional capital towards our right in the long-term care business." And our questions were please provide some incite as to why that would be the case and wouldn't this transaction present a unique opportunity for our LLC financial deficiencies and less requested rate increases. So no decision has been made on those filings, no actions have been taken, and we are going through our questions. So that was all I wanted to put out there.

DEPUTY COMMISSIONER GRODIN: And I'll also let everyone know, Todd will be leaving a little early today to participate in other conference calls.

MR. SWITZER: And I'll come back if those end early.

DEPUTY COMMISSIONER GRODIN: All right, I don't think I forgot anything else. Anybody? Okay, good.

So we have Loretta Jacobs, from Bankers Life and Casualty Company. Hi, Loretta, why don't you come on up to that table?

MS. JACOBS: If everyone is wondering about my shoes, I'm getting over foot surgery, so I'm a little careful about my walking.

DEPUTY COMMISSIONER GRODIN: And just speak clearly and loudly, so not only you can be picked up by the court reporter, but also our microphones and conference calls. Thank you.

MS. JACOBS: Good morning, Commissioner

Redmer in the audience, Deputy Commissioner Grodin, Maryland Insurance Administration staff, and distinguished guests. My name is Loretta Jacobs, and I am the Senior Vice President of Health Product Management at CNO Financial Group. I am responsible for, among other things, the long-term care business of Bankers Life and Casualty Company, which is the largest insurance company under the CNO Financial Group umbrella. On behalf of my company, I would like to thank you for the opportunity to provide information regarding our recent request to increase premiums on several of our older long-term care insurance policy forms, including: GR-N050 Long-Term Care; GR-N100 Facility Care and related GR-N105 Long-Term Care; GR-N160 Facility Care and related GR-N165 Long-Term Care; and GR-N240, and GR-N270 Facility Care and related GR-N250 and GR-N280 Long-Term Care.

Before discussing the details of the filing, I would like to provide some information around the long-term care business at my company. Bankers Life and Casualty currently ensures more than 300,000 individuals nationwide, approximately 5,000 in the state of Maryland, under a long-term care, home health care, nursing home, or short-term convalescent care policy. We have been writing business since 1987 and we remain actively selling new policies today, having issued over 300 new policies in the state of Maryland during 2017.

At Bankers Life, we are proud of our commitment to offering meaningful insurance coverage to middle market consumers at and near retirement and we believe our long-term care and short-term convalescent care products are an important component of our policyholders' financial security in their retirement years.

There are approximately 540 policyholders in the state of Maryland who are insured under one of the various policy series for which we are requesting to increase premiums at this time. These insureds were issued between 1993 and 2003, and on average have been in force for 20 years as of the present time.

Across the United States, the policy forms that we are here to discuss with you today have been subject to either three or four separate 35 percent premium increases over time; those without inflation protection subject to the three increases, and those with automatic inflation protection were subject to the four increases.

However, the State of Maryland has approved five 15 percent premium rate increases and a 4.2 percent increase for policyholders without inflation protection, and has approved seven 15 percent premium rate increases for policyholders with inflation protection.

Thus, the full nationwide premium rate level is 17.4 percent higher than the Maryland premium rate level for policyholders without inflation protection. And the full nationwide rate level is 24.9 percent higher than the Maryland premium rate level for policyholders with inflation protection. As such, we are requesting that Maryland approve the maximum allowable 15 percent premium rate increase on all of these policies, both those with and without inflation protection, in order to bring the Maryland premium rate level more in line with the nationwide rate level.

We believe the equitable thing to do is to continue to pursue action -- rate action in states that have not approved the full amount of our prior rate increases with the goal of ultimately achieving rate parody across the nation.

We understand and respect that the State of Maryland has a 15 percent premium rate increase cap in its regulations. Therefore, absent any material change in the experience of these policy forms that would indicate a need to change the nationwide premium rate levels, we anticipate we would request an additional premium rate increase in the future for these policyholders in order to bring the Maryland premium rate level on par with the nationwide rate level.

We understand that increasing premiums can be difficult for insureds who are on fixed incomes and we make a point to personalize each notice of a premium rate increase with options for customers to consider, including paying the increased amount or, if current coverage is above the minimum benefits we offer, reducing coverage by increasing the elimination period or reducing benefit period duration.

In addition, each customer is invited to call a 1-800 number to explore other possible benefit reductions that may be available in the event that the specific personalized option described in the rate increase notice are not satisfactory to them.

We understand that customers may wish to spend time considering the options available to them, so our current practice is to notify customers of an impending premium rate change at least 60 days in advance of the change. As you know, we are required to provide at least a 45-day advance notice of a premium rate change in the state of Maryland, so our current process complies with Maryland law and provides an additional 15 days of advance notice.

We have submitted financial projections to the Maryland Insurance Administration documenting the actuarial justification for the 15 percent premium rate increase we are requesting. Each of the policy forms subject to this premium rate increase request is required to meet a minium lifetime loss ratio of at least 60 percent, and each form's lifetime loss ratio projection is significantly higher than 60 percent. Each series of policy forms subject to this rate increase request, has accrued experience since inception that is fully credible from a statistical standpoint on a nationwide basis, but it's not credible for the state of Maryland alone.

Therefore, the experience data and analysis performed on each of these blocks of business, utilizes the nationwide experience.

For the GR-N050 policy series, the lifetime loss ratio at Maryland's current rate level is 75.0 percent and decreases to 74.3 percent assuming the premium rate increase is approved.

For the GR-N100 series the lifetime loss ratio projection at Maryland's current rate level is 92.4 percent and decreases to 90.6 percent assuming the premium rate increase is approved.

Similarly, the current lifetime loss ratio at the Maryland rate level for the GR-N160 series is 86.6 percent and would reduce to 84.5 percent if the premium rate increase we have requested is approved.

Finally, the lifetime loss ratio for the GR-N250 series is 87.1 percent at the current Maryland rate level and we project it to decrease to 84.2 percent if the premium rate increase request is approved.

Please note that the lifetime loss ratios that I just discussed are calculated as the ratio of the incurred claims paid benefits, plus the change in the claim forms to earned premiums. Active life reserves, or reserves accrued to fund future claims which have not yet occurred, are not included in the calculation.

One thing I would like to note, however, is that when an individual insured lapses coverage, the active life reserves associated with those individuals are released. In accordance with statutory and tax accounting requirements, the released reserves flow into unassigned surplus, where theoretically they could be reallocated to any line of business within our company.

However, our current practice at Bankers Life and Casualty is to voluntarily reallocate the reserves released due to rate increase related coverage changes and termination back to the long-term care line of business as part of the non-tax deductible Asset Adequacy

Reserves we have established for this line.

As of first quarter 2018, the Asset Adequacy Reserves held $261 million. This reserve is scheduled to increase by an amount indicated by the financial projection results for the entire LTC line of business, which is currently $12 million per quarter for the 2018 calendar year plus the amount of reserves reallocated from the rate increase related coverage changes and terminations. This amount has recently been running between 1 and $2 million per quarter. This practice of voluntarily reallocating reserves enables Bankers Life and Casualty to build significant additional active life reserves to support our long-term care line of business.

I would like to close by noting that the premium rate increase requests we have made are designed to mitigate, or reduce, losses that are expected to merge in the future, and not to recover any past losses that have already occurred. While the LTC policies subject to this premium rate increase request are regulated to meet a minimum lifetime loss ratio and are not subject to the rate stabilization standards that apply to more recently issued policies, the premium rate increases we have requested on these policies do actually comply with the requirements of the rate stabilization standards as well.

Bankers Life and Casualty believes it is in both our company's interest and our policyholders' interest to continuously monitor our business and work with regulators to adjust premiums as expeditiously as necessary to enable us to maintain a financially stable book of business and honor our commitments to our policyholders to be able to pay their claims when they arise.

We look forward to continuing to work with the Maryland Insurance Administration on this filing and any others that may be required on these or other policy forms in the future with the goal of meeting our mutual objective of keeping our LTC business at Bankers Life and Casualty financially sound and stable.

Thank you again for providing me the opportunity to speak with you today. I sincerely appreciate being able to engage in dialogue on this important issue of the pending premium rate increases on several of our long-term care policy forms.

DEPUTY COMMISSIONER GRODIN: Thank you, Ms. Jacobs. Anybody on the MIA staff have any questions?

MR. SWITZER: I do. Thank you. So you mentioned that these filings affect 540 Maryland members?

MS. JACOBS: Yes.

MR. SWITZER: But your total in Maryland for the business is about 5,000 members?

MS. JACOBS: Right, correct.

MR. SWITZER: So for the other 4500, are any of those achieving financial targets, or is that just for the subset outside of the ones that's 500?

MS. JACOBS: So we have in the past, in fact last year we had requested to increase premiums on one of the newer forms. I don't recall offhand how many policies that was. I think it was about 200, but, you know, I would have to look, so please don't totally quote me on it. I can get back to you if you need that number. We do have several thousand under our convalescent care program and those right now are doing right in line, behaving right in line with what is expected. So there's been no contemplated action on those present policies.

MR. SWITZER: Thank you. And some filing, that the mortality table being used is the 1994 GAM table --

MS. JACOBS: Yeah.

MR. SWITZER: -- 90 percent of it.

MS. JACOBS: Yeah.

MR. SWITZER: Are there plans to update that data, I'm just trying to prepare, I know you said future rate increases may be coming within the byproduct of updating the table?

MS. JACOBS: You know, we've been looking pretty carefully at the termination experience and right now, in fact, we did a large study last year, the overall termination -- and of course it's a little -- sometimes it's a little difficult to separate, you know, you get termination and you don't necessarily know if it was lapse or a death.

MR. SWITZER: Sure.

MS. JACOBS: You know, we don't necessarily get all of that information, but we try our best to try to get that information when we can. So far we have not seen anything that indicates that that's not the correct table. It may not be, but so far we haven't seen anything indicating that that's not in line.

MR. SWITZER: Thank you.

ASSISTANT COMMISSIONER MORROW: You gave us the loss ratio, the current loss ratios. What year do you project those loss ratios to go over 100 percent?

MS. JACOBS: Well, those are the lifetimes, so several of the policy forms, you know, already like if you just look at current loss ratio are, you know, in excess of 100, so -- but you know, over the life, they would be at say 90 or 80 or whatever the number is. Let me see if I -- I'm like you, I have to take my glasses off in order to see. So for instance, the N100 series here, the current loss ratio, like the 2016 and 2017 year is 180-ish percent. The NO50 series, which is the oldest one, is well over 200 percent currently, current experience. The N160 series is running about 140 percent currently, the current year. And then the N250, the larger current series is -- it ran 100 percent exactly in 2015. It ran 122 in 2016, but that was a slightly adverse year. And then it went to 113, so it's a little over 100 already.

ASSISTANT COMMISSIONER MORROW: Okay. So they are all over 100, you're quoting the nationwide average?

MS. JACOBS: Yes, for the current year, but over the life they're still -- you know, just current year versus...

ASSISTANT COMMISSIONER MORROW: That's what I was trying to get to, but I'm guessing the lifetime loss ratio in getting up to that point, I guess a nationwide basis, because that's what we're looking at, is that two years out, is that ten years out? I'm just trying to...

MS. JACOBS: I'm not -- I don't think I understand the question exactly.

ASSISTANT COMMISSIONER MORROW: Okay. So the lifetime loss ratio that you quote --

MS. JACOBS: Yes.

ASSISTANT COMMISSIONER MORROW: -- 73 percent [inaudible] --

MS. JACOBS: Yup.

ASSISTANT COMMISSIONER MORROW: What year do they get to 100 or close to 100, is it three years from now, is it ten years from now? I'm just trying to get a sense of that.

MR. SWITZER: Well, I think -- correct me, Todd, I think you did cumulative rather than yearly.

MS. JACOBS: Oh, okay, let's see. I don't know that I have that information in front of me. But I mean, you know, the total cumulative -- I mean, because you've got, you know, some of these policies like if I look at NO50, you know, it's cumulative to the past is already 76. And the overall future would be, you know, 300 something percent. And then you have to discount and all -- and accumulate and all this kind of stuff. So I don't know that I have that information exactly in front of me. It's what year the aggregated number gets to over 100. I don't know if I have that here. I would have to calculate that out.

ASSISTANT COMMISSIONER MORROW: Thank you.

DEPUTY COMMISSIONER GRODIN: Anything else?

MR. JI: Yes. I know you are saying long-term care is this amount, so what I want to know is what are you doing differently now and in the future typical of apprising that many years ago, so to ensure your success, you know, to avoid this kind of rate increase in the future for the current production and new production in the future?

MS. JACOBS: Well, I mean, we -- in fact, last year when we were here we had increases -- we were here on our increase request form for one of the newest long-term care policies priced under the rate stabilization standard. We did that because we thought, you know, it's important if we see any deviation to act expeditiously, because that reduces the opportunity to get further and further off and potentially have numbers go further and further off. We also have really pivoted, if you will, to coverage that we think -- and again, our market's a bit different than a lot of other company's market. We're a middle market company, and long-term care is an expensive product. So we have sold a lot more on the shorter short-term convalescent care products. They're doing really well. We focus very strongly on that market and we're happy with it. But, again, we know one thing to learn is watch the business carefully, make sure you accrue experience and you weigh it appropriately and act when indicated. So that's one of the things we've learned.

MR. JI: Thank you.

DEPUTY COMMISSIONER GRODIN: Anything else? All right, thank you, Ms. Jacobs.

Oh, sorry.

INSURANCE COMMISSIONER REDMER: I apologize. I couldn't hear what you said, did you say that you are or are not writing new business?

MS. JACOBS: We are writing new business.

DEPUTY COMMISSIONER GRODIN: Thank you.

Seth Lamont from Continental Casualty Insurance.

MR. LAMONT: Good morning. My name is Seth Lamont. I currently serve as Assistant

Vice President of Government Relations for CNA. I appear before you today regarding the long-term care rate filing of Continental Casualty Company, which is a principal underwriting subsidiary of CNA Financial. We are grateful for this opportunity to explain our rate need in greater detail.

As MIA is aware, long-term care represents a substantial portion of CNA's overall business. As of 2017, the LTC book accounted for approximately 8 percent of CNA's total gross premium written and roughly 40 percent of the company's total reserving obligation. The fact that LTC reserves comprise such a substantial portion of the company's total reserves is reflective of the long-tail nature of this business and serve to highlight the fact that rate increases are vital to meeting future policyholder obligations.

While the reasons for our rate need are not necessarily unique, we respectfully request that the MIA and policyholders alike recognize that these increases are vital to ensuring that adequate reserves are available to CNA in order to satisfy future claims.

As we have said on a number of occasions, CNA is committed to meeting policyholder obligations. Our primary focus in this regard is maintaining adequate reserving levels in order to meet future policyholder obligations. We have also made significant investments in our long-term care claim operation.

Despite the fact that CNA's long-term care business is compromised solely of closed blocks, we continue to actively manage the business to ensure the claims are processed in an appropriate and timely manner.

To reiterate, the company's goal with respect to this rate request is to mitigate the adverse impact of these blocks of business on the enterprise. If an increase of 15 percent were to be approved, the lifetime loss ratios for the blocks subject to our most recent rate filing would fall between 130 and 140 percent.

As a part of the filing process, we have reduced our original rate requests, which ranged roughly from 30 percent to 50 percent range for these products downward to 15 percent for all four products. Given the lifetime loss ratios well in excess of 100 percent, CNA, rather than policyholders, will continue to absorb the vast majority of the financial burden associated with these policies going forward. As MIA is aware, CNA has and will continue to pay billions of dollars in long-term care claims on a nationwide basis.

Given the age of these blocks of business, we colloquially refer to them as older products. While we have six of these blocks, we determined that we would limit our rate request to four out of the six products, including LTC1, Premier Classic, Preferred Advantage, and Tax Qualified or TQ. We elected not to include the other two given the high attained age and relatively limited number of policyholders. There are approximately 4,000

Maryland policyholders whom collectively pay 8.8 million in premium across these four products. With an increase of 15 percent, average yearly premiums for these products would be in the range of 2,000 to 3,000 dollars.

It should also be noted that these products were written during a time period where many policies issued by the industry as a whole included such benefits as automatic inflation riders, an unlimited benefit; and as such, many of these policyholders subject to CNA's rate filing also include these generous benefits. In addition to being able to avail themselves of benefits that might not be available in the current marketplace, given that these are guaranteed renewable policies, our insureds will be able to renew their policies without any additional health screening at rates that are moderately greater than what they are now paying. If a 15 percent increase were to be approved, our policyholders would pay an additional few hundred dollars per year on these policies. With respect to the limited number of policyholders who elect not to retain their coverage, the associated reserves are expected to be largely devoted to the funding of future claim obligations.

Benefit reduction options available to policyholders to mitigate the impact of the proposed rate increase include reducing the maximum benefit period, reducing the daily benefit, increasing the elimination period, and/or dropping any other optional rider, such as inflation.

Paid up benefits. In addition to the aforementioned options, CNA also offers our policyholders the opportunity to discontinue paying premiums while retaining a lifetime benefit amount equivalent to the nominal sum of their lifetime premium paid to date. Known to the experts in the room as the contingent non-forfeiture option, this is being offered to all insureds, regardless of issue age or rate increase amount.

As I appear before you today, CNA's rate need is not only the factors unique to CNA, but rather erroneous assumptions that were made at the outset by the industry as a whole in our originally filed and approved rates. As most are aware, both macro-oriented assumptions as well as more micro-oriented assumptions put into place at the outset with respect to long-term care rates have proved erroneous. Persistency remains a key driver of our collective rate need going forward. At the outset, as an industry, we projected that approximately three times as many policyholders would terminate their policies than did so in reality.

Long-term care insurance was originally priced as a lapse-supported product, which means the original premiums could be lower for the block if some policyholders were assumed to voluntary -- voluntarily lapse their policies at some point in the future without ever claiming benefits. In rough terms, some of the originally filed and approved rates across the country assumed greater than 10 percent lapse rates, and experience has shown that lapse rates would be less than 1 percent. Greater than expected persistency has led to a dramatically increased -- has led to dramatically increased and anticipated claim costs as significantly more policyholders have chosen to retain their policy -- significantly more policyholders have chosen to retain their policies than was originally anticipated. This persistency impact to rates is driven not only by policyholder lapses, but also lower than expected mortality. While this is positive from a societal perspective, this leads to a greater rate need to support additional expected future claims.

Terminations stand at 34 percent of what was originally assumed for our individual long-term care business. Put more simply, of these policyholders that we estimated would terminate, we have seen only one-third of those actually terminate their policies. While this figure includes terminations owing to deaths, in our view, this figure demonstrates that, even in the face of significant increases, policyholders continue to find substantial value in retaining the benefits that are offered under our long-term care policies.

As noted, long-term care is significant to CNA from an enterprise perspective with 40 percent of our total reserves being devoted to these anticipated liabilities.

The company remains committed to meeting policyholder obligations from both a financial and operational perspective. Policyholders are being offered a number of options to reduce their benefits in order to mitigate the impact of the proposed premium increase.

CNA's current experience is not unique, but rather on par with that of our peers in terms of the challenges resulting especially from the originally filed and approved interest rate and lapse assumptions. Despite significant upward adjustments in premiums in recent years, terminations are running at 34 percent of what was originally assumed, which again indicates that policyholders see substantial value in retaining their coverage.

DEPUTY COMMISSIONER GRODIN: Thank you, Mr. Lamont. Questions from the MIA?

MR. SWITZER: Please. Thank you. In looking at the 2017 form five and experience of a long-term care block, of that cumulative actual for the Maryland home business had a loss ratio of 69 percent, 500 million, half a billion income nationwide loss ratio of 75 percent, Maryland six points lower, was any credibility assigned to the Maryland honing experience for those 4,000 members beyond clearing out the rate increase on the claims side?

MS. REPORTER: I'm sorry, beyond what?

MR. SWITZER: Was credibility, any credibility, partial or otherwise given to the

Maryland experience, not so much on the income side, where I can see the model and where you laid out the Maryland increases rather than the nationwide increases, but on the claims side, the six point loss ratio difference?

MR. LAMONT: My understanding, and I will verify with our actuarial team and get back to you, but my understanding is that we primarily would use nationwide experience.

MR. SWITZER: Fully?

MR. LAMONT: Yeah, that's my understanding, but I will verify that for you.

MR. SWITZER: Thank you. You answered my other one, thanks.

ASSISTANT COMMISSIONER MORROW: Quick question. Did I hear you correctly you said the only lapse that you see are from death?

MR. LAMONT: No, no. I said that the terminations include lapses by reason of death.

ASSISTANT COMMISSIONER MORROW: And the 10 percent lapse that was assumed originally when the policies were sold, was that industry average?

MR. LAMONT: No, I would say it was around 4 percent probably. My understanding is that they've been as high as 10 percent. That's why that was included.

ASSISTANT COMMISSIONER MORROW: So you made an assumption, 10 percent, in the industry was more along the lines of 4, 5 percent?

MR. LAMONT: I don't know that ours was, I mean, that's more of a general industry comment.

ASSISTANT COMMISSIONER MORROW: Okay.

DEPUTY COMMISSIONER GRODIN: Anybody else? Oh, Jeff?

MR. JI: Oh, you originally asked average around 44 percent rate increase for all of those forms. I would like to know if the assumption is sustainable as to that, the total you are looking for for these four forms?

MR. LAMONT: We chose to substantially reduce our ask, owing to the age and the distress nature of these blocks. I mean, if we were to target a 60 percent lifetime loss ratio for instance, as you know the rate increase would be substantially more. Running in the thousands of percentage points.

MR. JI: Right, right.

MR. LAMONT: So, no, I would not say that what we've asked for would, quote, unquote, stabilize these blocks. I mean, our goal here is just to minimally mitigate the, you know, adverse financial impact of these four blocks to our enterprise.

MR. JI: But even we, you know, under 44 percent rating or these four blocks or forms, they are lifetime loss ratio of above 100 percent. So you have a big range of the, you know, options to ask for rate increase, so what is the best point, you know, you think the point you can pursue? So is my question clear?

MR. LAMONT: I'm not sure I fully understand.

MR. JI: I think so you can ask a 100 percent rate increase, 200 percent increase, the lifetime loss is still, you know, pretty high, still above 60 percent, so we would like to know what is the best point for you?

MR. LAMONT: What is the best rate --

MR. JI: Rate increase --

MR. LAMONT: -- level for CNA to have for these blocks?

MR. JI: Yeah, yeah. I mean --

MR. LAMONT: Again, it would be many multiples of what we've asked for, but we've made a business decision not to impose that on our policyholders with respect to these four blocks.

MR. JI: It looks like currently you don't have a good idea how much you even ask for after this 44 percent rate increase, how much more you're going to pursue?

MR. LAMONT: I would say we won't -- I can say fairly confidently that we probably will not pursue anything of greater magnitude for these blocks than what we're presently pursuing. And I say that because, you know, two of the -- two of the four that we decided not to pursue rate increases for because of the attained age and the distress nature of those blocks as these blocks become more and more stressed, I -- distressed, I would not anticipate that we would be asking for more rate than we're presently asking for.

MR. JI: Okay, thank you.

DEPUTY COMMISSIONER GRODIN: Thank you. Anything else? All right, thank you, Mr. Lamont.

Next up we have Northwestern Long Term Care Insurance Company with Mr. Gurlik. Welcome.

MR. GURLIK: Good morning, and thank you for holding today's hearing and inviting Northwestern Long Term Care Insurance Company, which I will refer to as NLTC, to participate. Also, thank you to the consumer who is here today. We appreciate your comments and participation as well.

My name is Greg Gurlik, and I'm an actuary with NLTC, and responsible for pricing our long-term care insurance products. I'm going to provide some background on our LTC product line, and our approach to the LTC business. Then I'll share some information on our consumer research and our communications plans associated with our rate increases.

NLTC is wholly owned by its mutual parent company, Northwestern Mutual. And NLTC embraces the mutual values of its parent by selling participating policies and focusing on long-term policy owner value. We try to keep the cost of our long-term care policies low through consistent underwriting, prudent investments, and diligent expense management.

NLTC came relatively late to the LTC market, having sold its first policies in 1998. Especially with our high anticipated persistency, based on the experience from Northwestern Mutual's life insurance products, we initially had much higher premiums than most of our competitors. Unfortunately, however, we are not immune to the challenges in the LTC marketplace.

Our recent experience evaluations indicated that sizable rate increases are appropriate on our policies sold from 1998 to 2013. However, after gathering input from our financial representatives, we decided to take a more measured approach. Late in 2016, we began filing our first LTC rate increase nationwide for amounts primarily ranging from 10 to 30 percent. With the rate increase annual limits in Maryland, we requested and received approval for increases of 10 to 15 percent. In 2017, we followed up with this rate increase request to keep the premium rate increase for Maryland policy owners in alignment with the rest of the nation.

As part of our rate increase filing, we are providing a paid-up Non-Forfeiture Option to all affected policy owners, even though our requested increase is smaller than the thresholds, which are required for most policies. Under this feature, a policy owner choosing to not pay the increased premiums within 120 days of the premium increase effective date will receive a paid-up benefit equal to the total amount of all premiums paid since they first bought the policy.

As I indicated earlier, the 2016 filing was the first rate increase ever for Northwestern on in force LTC policies in our now 20 years in the long-term care insurance business. We heard loud and clear from consumers that communication and transparency are of utmost importance. As such, we held consumer focus groups as well as engaged in an ongoing dialogue with our financial representatives, to help inform our processes and decision-making. We learned the importance of explaining to policy owners why this rate increase was needed, as well as the importance of providing clients with a wide variety of options if they choose not to pay the full increase.

Our approach to providing this information to policy owners is three-pronged:

First, after our company's board of directors made the decision to request increased rates in 2016, as we began the filing process we mailed letters to all impacted in force long-term care policy owners, 2,100 of whom were Maryland policy owners. This letter was in addition to the required policy owner notification letter. This letter informed policy owners that we expect to implement a premium rate increase and described the challenging LTC environment. In this letter, we also provided financial representative contact information as well as an 800 number for our home office dedicated service center.

Second, due to our exclusive agency structure, we have financial representatives who often have developed deep life-long relationships with their clients, where they develop a financial plan taking into account the specific circumstances of their clients.

For instance, over half of our long-term care policy owners also own other Northwestern Mutual products as part of a comprehensive financial plan. As such, our financial representatives are in a fairly unique position to discuss the rate increase with their clients and to provide options so that their clients can make well-informed decisions. Toward this end, we provide our financial representatives with lists of impacted clients so that they can proactively work with their clients to provide client-specific options.

Third, as I mentioned, we have a dedicated home office service center where the sole focus of the service reps is to answer policy owner questions and to provide options related to this rate increase.

Then, because we heard from consumers that it is important that they have enough time to make more-informed decisions on how to proceed, we decided to send the specific policy owner notifications 60 to 120 days prior to the policy owner's anniversary, depending on the timing of state approval, generally providing more time than the minimum required note. These notifications provide specific information regarding the amount of the rate increase and the range of available options to reduce benefits in order to maintain the premium or reduce the amount of the increase. We have heard from consumers that having an option is extremely important, so in addition to the options in the letter, we provide contact information for our dedicated service team to discuss the other options available to policy owners' specific circumstances.

While being faced with a rate increase is certainly not ideal, we are striving to be transparent and to make the client's experience as positive as possible, allowing consumers to make sound decisions for their particular circumstances.

Thank you again for holding today's hearing, and for inviting us to participate.

DEPUTY COMMISSIONER GRODIN: Thank you, Mr. Gurlik. Anybody have questions?

MR. SWITZER: Thank you. I see that these filings, as you've mentioned affect 2100 Maryland members out of a total in the state of about 3100, so about two-thirds. And, again, from form 5 in the 2017 financial statements, I see the Maryland loss ratio at 9.7 percent, the nationwide loss ratio at 16 percent. I had as a rule of thumb that these 2100 policies, the duration they were sold in about 2002, about duration 16. So my question is: With the Maryland loss ratio at 9.7 and the nationwide at 16 percent, is not a present value, just a straight cumulative, how far off is that from what you were hoping to get at this point in time if you had any kind of sense of that, please?

MR. GURLIK: From what we were hoping to get?

MR. SWITZER: Yeah. When you initially priced and had your long-tail business, when you looked at the initial loss ratio to be very low, loss ratio today, that ratio is 15 plus very high, given that we're maybe halfway through the life of a typical policy, our general tables would expect, although it's a lot of range, that if you're halfway through your loss ratio cumulative maybe year round 30ish or so, but we're seeing 10 and 16, wondering if you had a comment on that?

MR. GURLIK: No, and actually we're nowhere near halfway through the benefit side of the equation. So right now if we look at this block of business, and you looked at the claims that we anticipate seeing over the lifetime of the block, we have not even seen 5 percent of the present value of claims. So nationwide even, we do not feel that our business is credible, and certainly not credible at the state level. The nationwide experience, you quoted something, 16.9 or something like that --

MR. SWITZER: 16 percent.

MR. GURLIK: Our experience to date has not been significantly worse on these blocks than anticipated.

MR. SWITZER: Okay.

MR. GURLIK: Our primary concern is that the future expectation is much worse than what we originally anticipated. A lot of that is driven by changes in the claim cost anticipated certainly, but also that there are going to be far more people still in those later durations who we anticipate will have claims. And we are trying to get in early now, so that the class can be spread over a larger pool of policy owners.

MR. SWITZER: And I understand the nationwide to go up to 48,000 first --

MR. GURLIK: Right.

MR. SWITZER: But yet I fully understand that at the second half of what's going to happen or projected to happen, trying to get that first piece of empirically what has actually happened. I hear you say so far it's

okay, but the data projections up 410
something, to significantly --
MR. GURLIK: Right. On a cumulative
basis, we are not very much worse than
anticipated. We have seen significant upticks
in claims in 2016 and 2017, which kind of bodes
poorly for the future.
MR. SWITZER: That answers my questions.
Thanks.
DEPUTY COMMISSIONER GRODIN: Anyone else?
Adam.
MR. ZIMMERMAN: So it would be safe to
assume that the reason for the projected future
claims is due to I guess you would call
severity of claims, because I believe you had
indicated at the start of your testimony that
your lapse assumption was lower to begin with
than what other competitors have priced, is
that the driving cost, just the length of time
that people are staying on claims?
MR. GURLIK: Actually it's a function of a
number of different things, but no, even though

we use relatively low lapse rates in our original pricing, they were still well in excess of what we now anticipate. Back when we were pricing these products we had relatively low price -- or we had high persistency. Our policyholders stay around forever, basically on the life side. We anticipated the same sort of thing in the LTC side. But LTC persistency rates are even higher than life insurance in general. Much higher.

MR. ZIMMERMAN: Thank you.

DEPUTY COMMISSIONER GRODIN: Anyone else? Thank you. Oh, I'm sorry, go ahead, Jeff.

MR. JI: So how do you ensure your business practice is effective typical for claim management, in the rate implementation, so any improvement in the future?

MR. GURLIK: In claim administration?

MR. JI: Yeah, and administration on the rate implementation.

MR. GURLIK: Yeah, I think practices have changed dramatically over the lifetime of the business. And in general, we're a company that we don't really manage the loss ratios. We price the business on regular basis and in the past when we priced the business, every year we would take a look at assumptions, update them. We actually did pay dividends in past years, and that was around 2007 until around 2012, 2013. And as we've priced the business more recently, obviously we've seen our assumptions deteriorate and that's driving the need for the rate increase.

On the claim administration side, I think we've certainly taken a look at our processes and our objective is to pay all legitimate claims. At the same time that means we have an obligation to our other policy owners to make sure that we aren't paying fraudulent claims. We aren't paying claims of people who have not yet met the eligibility criteria of the policies.

MR. JI: How about the rate implementation side?

MR. GURLIK: The rate implementation side, as you know, we've had a recent challenge in Maryland. That was a unique situation where Maryland had a state-specific version of a benefit for a period of time, which they discontinued in 2008. So at that time we started issuing our nationwide version of that benefit. And we did have a little challenge implementing the last rate increase where we eliminated the state-specific rates in Maryland. So when we discovered that, we did make a decision that impacted about 14 policy owners. We made a decision to honor the lower rates that were implemented than we anticipated. And we also looked ahead and said, well, in the future, the rates would have actually been higher than what the state-specific benefit was. So we are honoring the lower of the nationwide in Maryland specific rates on that benefit in the future.

MR. JI: How about any improvement in the future to avoid this kind of, you know, inconsistency?

MR. GURLIK: Yeah, I think that our procedures were actually fairly robust for almost all situations. Unfortunately, with the state-specific benefit here, we do have changes in our process so that we can test a wider selection of rates.

MR. JI: Thank you.

DEPUTY COMMISSIONER GRODIN: Adam, anything?

ASSISTANT COMMISSIONER MORROW: I apologize if I missed it. Did you address the released reserves, what happened with those to the extent --

MR. GURLIK: Released reserves? Well -- and here I know Loretta kind of covered it in general, but when we're repricing the business every year, those releases are part of what we are evaluating from a pricing perspective. We're not managing the business by a loss ratio. We're managing to get a return on the business that helps grow surplus for the company in the future and then we check to make sure that we're meeting minimum loss ratio requirements. That's a little different approach than from other companies.

ASSISTANT COMMISSIONER MORROW: Thank you.

DEPUTY COMMISSIONER GRODIN: Thank you very much.

And our last company is Unum. And do I have this right, Mr. Lemoine?

MR. LEMOINE: Yes.

DEPUTY COMMISSIONER GRODIN: All right.

MR. LEMOINE: Good morning, everyone. On behalf of Unum, we would like to thank the Maryland Insurance Administration, members of the staff here today, and others for holding this hearing. And we want to thank each of you who are participating or listening in today.

My name is John Lemoine and I am the Assistant Vice President and legal counsel for Unum's Closed Block Operations business unit.

With me today is Jeff Condit, who is also a member of that business unit and who is the

Senior Vice President of Finance for Unum's Closed Block Operations.

The Closed Block Operations business 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 long-term care policies were issued between 1989 and 2012. Unum has just under a million long-term care insureds nationwide, including approximately 3600 Maryland individual long-term care policyholders and approximately 14,000 insureds who are covered under group long-term care policies issued to Maryland employers.

As context for today's hearing, this pending increase is focused on our older block of Maryland individual policies. Those that were typically sold from approximately 1991 to 2003. Under that block of policies, the total number of Maryland policyholders who would be impacted by this requested increase would be approximately 1600 insureds. And I'll provide a bit more information about those policyholders in just a moment.

We at Unum take our commitment to our LTC policyholders very seriously. We have a team of over 180 LTC professionals who are 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 2017 we paid over $371 million in long-term care benefits nationwide and over 9 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, both for the short-term horizon and for long-term sustainability. This is extremely important not only for our LTC policyholders, but for all of our policyholders.

When Unum entered the long-term care 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 these LTC policies has turned out to be significantly different than the actual assumptions that we used to set original prices. These differences include:

The fact that individuals covered under long-term care policies are living longer and holding onto their coverage longer than anticipated, leading to more claims 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 the reserves we hold to pay claims continue to be significantly lower than originally projected, given the sustained low interest rate environment. As a result of the combination of these factors, our long-term care block has suffered significant overall losses.

In 2006, when the financial reality of Unum's long-term care business started to become more clear and credible, we filed our first long-term care rate increase request to mitigate financial and enterprise risk. Our goal in the long-term care rate increases we are requesting on these individual policies is not to generate profits, nor to recoup any of the past losses we have experienced. Instead, rate increase requests on these policies have been aimed solely at moving these policies to a point of self-sustainability on a go-forward basis.

We want to ensure that our reserves plus premiums for this block of policies are sufficient to pay all projected claims and expenses. With that in mind, the rate increases we have requested nationwide on this block of individual policy forms represents only above 24 percent of the amounts we could ask for as actuarially justified.

Here in Maryland, because of the state's 15 percent per year increase cap, our current request is for a 15 percent increase each year over five years for policies that currently include a 5 percent compound unlimited benefit inflation; and a 15 percent increase each year for four years for policies that currently include a 5 percent simple unlimited inflation. As a result, this pending rate increase request would apply to just under 1600 of our Maryland individual policyholders. With this rate increase request, we are also proposing a "landing spot" option to help our policies mitigate the impact of this increase. And I will describe that "landing spot" option in just a moment.

We will continue to monitor and evaluate the experience of our LTC business, as we are charged to do under regulatory and actuarial standards. If experience develops adversely to our current projection, we may need to return to Maryland with rate increase requests in the future.

Even though we are seeking less than what is actuarially justified, we at Unum recognize that long-term care rate increases may present many of our customers with a significant challenge in maintaining their coverage. For that reason, we have developed our version of a rate increase "landing spot" for each of our individual customers who will be faced with this rate increase.

Here is how our landing spot option works:

First, as mentioned earlier, this proposed individual long-term care rate increase applies only to our customers who have a policy currently containing a 5 percent uncapped compound, or a 5 percent uncapped simple inflation feature. And related to that point, this proposed increase would not apply to any policies that do not include uncapped inflation, or to policyholders -- or to policyholders who were offered and who elected a landing spot option in an earlier rate increase.

Second, each of our Maryland policyholders subject to this rate increase may entirely avoid the proposed increase by electing to reduce their annual inflation adjustment from 5 percent to 3.4 percent on a go-forward only basis. In other words, a policyholder who elects the landing spot with this rate increase, would retain the 5 percent annual benefit increases that have already been applied to their coverage, with inflation increases then applied on a go-forward basis at the reduced annual rate of 3.4 percent.

Finally, our rate increase request proposes that impacted Maryland policyholders who do elect this landing spot, rather than accepting the proposed premium increase, will avoid not only the first proposed 15 percent incremental increase, but will avoid each additional 15 percent increment up to the full amount requested in this filing. That is, policyholders with 5 percent compound uncapped inflation, who elect this 3.4 percent landing spot, will avoid a total of 5 increases of 15 percent each, and policyholders with 5 percent simple uncapped inflation will avoid a total of 4 such increases.

Unum's landing spot has been approved in 49 states to date. And we have seen a positive response to this option by our customers.

Also in addition to this landing spot option, whether related to a rate increase or not, Unum's customers also continue to have the option to adjust other benefit features on a go-forward basis to reduce the level of their premium. These adjustments might include reducing the benefit period, increasing the elimination period, or adjusting daily benefit levels.

Also, in connection with Unum's long-term care premium increases, we provide each of our impacted policyholders with the ability to select a non-forfeiture option, where the policyholder may choose to no longer pay premiums going forward, but nevertheless retains long-term care coverage in an amount equal to the total premiums paid by the policyholder on that policy.

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

In closing, we acknowledge how difficult long-term care 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 again and we would be happy to answer any questions you might have.

DEPUTY COMMISSIONER GRODIN: Thank you very much. Questions for Mr. Lemoine?

MR. SWITZER: Thank you. And I apologize in advance if you've answered a question that I wasn't here for when I left the room. So I see that for which you filed 5 rate increases in the past that have been approved, so since 2006 rates have above doubled, and the request here is for five more so that the lifetime would be increase factor of about 4.7, almost five times increase. So my question is: Recognizing that these aren't the only Unum filings, we've worked with you on others, so this filing affects 3600 Maryland members, we got -- in Maryland, Unum's got about 19,000 Maryland members and similar questions for you as other companies, are there any subsets of Maryland business that are achieving targets or is the whole Maryland pool that you have not achieving targets, please?

MR. LEMOINE: The history of the rate increases we've filed that you mentioned reflects -- we got -- we've divided our block of business into sort of three blocks based on the issue era, the issue ages -- not ages, but the issue time periods of the blocks. And there are three blocks that we have sought rate increases on, which you're familiar with. There's one block of group policies that are our most recently issued business that we have not sought rate increases on to date. But we have the entire block of our long-term care business, in 2014 we did a comprehensive review of the business and put the entire block into loss recognition status. And we continued to assess our experience against our current assumptions that we are using today to test that experience and will continue to do that over time to see whether additional action might be necessary. But to answer your question at this moment, there is a block regarding a group policy that we have not sought rate increases on.

MR. SWITZER: That helps, thank you.

MR. CONDIT: And I think you also asked of the 3600 policyholders in this coverage cohort, are there any components of that that are achieving pricing --

MR. SWITZER: Well, I meant --

MR. CONDIT: -- or achieving profitability goals or are achieving our objectives.

MR. SWITZER: Outside of the 3600 with 19,000 total in the state, of the non 3600, are any of those --

MR. CONDIT: Oh, okay, I misunderstood your question. I think you got the question right.

DEPUTY COMMISSIONER GRODIN: Anything else from the MIA? Oh, I'm sorry, Jeff.

MR. JI: The -- I noticed your experience in Maryland is so far there is a loss ratio that are much better than nationwide, also with the size of the policyholders. So I want to know how much of the corporate is that found into the --

MS. REPORTER: I'm sorry, I didn't hear

what you said.

MR. JI: Consider -- best consider Maryland experience, corporate Maryland experience into the rate increase request?

MR. LEMOINE: So I will attempt to answer that, but our chief pricing actuary who was here with us for the last hearing was unavoidably unable to be here today, so he might be able to answer that question directly for you. I don't have that information and we will certainly try to provide that to you when we return to the office.

MR. JI: Okay.

MR. CONDIT: I mean, to my knowledge, we're pricing generally nationwide experience because of the credibility of that.

MR. JI: We notice -- yeah, normally we see that, but for this finding you have around 3600 members in force, it's a good size.

MR. CONDIT: Yeah, that doesn't necessarily mean we've hit a point where those have reached claim levels. Just the number of policyholders isn't necessarily an indication of credibility of the claim circumstances we'll be dealing with.

MR. JI: Okay. Also, I noticed that your current finding is based on 2014, so how often do you update the assumption?

MR. CONDIT: So in 2014 we did a comprehensive update of our experience and actually strengthened our gap basis reserve, and we've been using that assumption basis for pursuing rate increase requests nationwide including Maryland.

We at this time are going through a comprehensive update again, now that four or five years have passed. So we don't have the results of that at this most recent update on our assumptions to tell you where that's going to go. But we do update it ever three to four years, basically.

As this experience is very, very long term, very, very long-tail, it takes a number of years for us to see whether or not our expectations are holding or not. We don't simply react to one-quarter or another.

MR. JI: Thank you.

DEPUTY COMMISSIONER GRODIN: Thank you. Anything else?

MR. ZIMMERMAN: No.

DEPUTY COMMISSIONER GRODIN: Thank you very much. That concludes the first part of this hearing, which is the testimony from the carriers. We're going to turn now to six individuals who have asked to speak as interested parties.

And I'll begin with Mr. Burgan who is here with us today. Mr. Burgan, do you mind coming up to the table? Welcome.

MR. BURGAN: Thank you. Good morning, everyone. My name is Elwood Barry Burgan. I am a disabled vet. I'm on a fixed income. And my reason for being here today is because of the constant increase that I've been receiving with my long-term health care.

I called several years ago to try to find out why all of a sudden I was receiving an additional cost premium. My policy's with CNA. And I received a cover letter stating that in accordance with Section 11-704 of the Maryland insurance code, this serves to notify that information about my proposed premium has been decided with you people. Well, I was just appalled by it because I couldn't visualize after having purchased the policy and I've had it now since I was in my 50s, my wife and I lost our child a long time ago, so thereby we have no one. And knowing that we have no one, we decided to take on and purchase a long-term health care policy.

We figured that for the best interest of both her and myself not having any other siblings of any sort that we would want to be able to be taken care of in the future, so that was the whole purpose of purchasing this.

We also bought this policy with the fact of having the inflation clause put into it. And thereby, I was kind of astounded by the fact that for the past several years, I've been getting this letter telling me that my policy will be increased by 15 percent. Well, that's when I got on the horn, emphatically this year and was able to make contact with Nancy. I don't remember your last name. And she referred me to a young man by the name of Benjamin Deigo [phonetic]. He informed me of this meeting today, because I asked him -- he said, well, these meetings take place periodically, and I asked when the next meeting was going to be, because I wanted to be able to speak with you all to find out why you're allowing me or my policy to be increased by the insurance people.

Again, I'm not an attorney, and I'm not an insurance agent. But I am a policyholder and I am on a fixed income. I am -- I did receive a letter back from Benjamin and I would like to show you this and maybe you all can answer this because this will -- this will apply to me within the next year. Regulations -- and I quote, "Regulations also require insurer or insurance agent selling long-term care coverage to deliver to the prospective applicant an outline of coverage that includes, among other things, a statement of probable or expected premium increases up to age 75." And this is coming from the State of Maryland. So does this mean, and I'm asking as a layperson, that once I hit 75, CNA or the other insurance companies will not increase my policy? Is that what this is saying through your agency, through the State agencies?

MR. ZIMMERMAN: No, it does not mean that. There's a law or regulation in place that at time of purchase --

MR. BURGAN: Okay.

MR. ZIMMERMAN: -- the consumer has to be given a projected, I guess, assumptions of the number of increases up to age 75. So if you purchased a policy at 60, the applicant at time of sale has to be disclosed of potential increases over the next 15 years, or expected increases over the next 15 years.

MR. BURGAN: All right. Well, you're still not answering my question. My question is: Up to the age 75 --

MR. ZIMMERMAN: Correct.

MR. BURGAN: -- which I will be next year, does this mean -- and, again, I'm disabled veteran on a fixed income, does this mean that the insurance company will be able to increase my policy after the age of 75, that's what I'm asking?

MR. ZIMMERMAN: Yes.

MR. BURGAN: This is what you're stating here. You're saying yes, they can?

MR. ZIMMERMAN: Yes.

MR. BURGAN: Even though this is written by the Maryland State agency. I don't understand. Something in here that I'm not reading correctly.

DEPUTY COMMISSIONER GRODIN: After the meeting is over, let us sit down individually with you and we can talk through that. Is that acceptable?

ASSISTANT COMMISSIONER MORROW: Yeah. I would like to take a look at what exactly you're quoting and get back to you.

DEPUTY COMMISSIONER GRODIN: I think that would be -- if you'd give us more of an opportunity to speak individually with you.

MR. BURGAN: Well, how is it then or is there any way that you can deny these agencies for increasing, you know, my policy? Again, I'm on a fixed income and, again, it's my wife and I and it's only us that are here so to speak. So I need help, I need help and that's why I called and spoke with Nancy and that's why she gave me this fellow Benjamin to act on my behalf and try to get my policy.

MR. SWITZER: I understand.

MR. BURGAN: I can't, you know -- I mean --

DEPUTY COMMISSIONER GRODIN: If we could -- let's let Todd answer the first question and then we can move on to the next.

MR. SWITZER: Well, first I just want to relay that our -- when we look at the filings, one of our responsibilities is to make sure they're not excessive. And one of my first statements was that even though carriers in the last six months have filed for 36, we approved 12. So we can deny, we can decrease, and we have.

The second, when the long-term care industry started, and I don't remember if the number is right, and you all can correct me, but I believe we had 25 long-term care carriers in the market, we're down to less than five. We had one long-term care carrier go bankrupt, Penn Treaty, and all the other carriers picked up that loss.

We are not -- we are trying to find the right balance and we hear what you're saying, and we take you very seriously, as well as the letters, that we're not asking the carriers -- we're trying to find the balance of not letting it get back to break even or to a gain, but what is the right mix of companies that are actually losing money and what's happened in the past, no recouping of past losses, but recognizing the burden it puts on consumers and recognizing the financial plight of the carriers, and that balance is not easy. But you've heard some of the long-term lifetime -- rather loss rate showed about 100 percent. And for every $1 premium, paying 110 or more for claims, trying to balance that in with the realities of a fixed income and increases of this magnitude is burdensome.

MR. BURGAN: Well, that's where I stand. I mean, I can't afford this constant increase continually year after year after year. Especially when I had it in my policy that -- and my wife and I both sat down with our agent and we encountered the inflation period. We had that in the policy. So if that was in the policy, why is it that we are being hit with an additional 15 percent every year. You know, that's not right. I'm sorry, but it's not right. And, again, I only have X amount of dollars that, you know, I'm receiving every month, you know, being a disabled vet. It's hard.

DEPUTY COMMISSIONER GRODIN: Mr. Burgan, we want to thank you for coming in today. And if you wouldn't mind staying for the remainder of the meeting --

MR. BURGAN: Yes, ma'am.

DEPUTY COMMISSIONER GRODIN: -- and we will find you after the meeting and we will talk to you individually.

MR. BURGAN: Thank you.

DEPUTY COMMISSIONER GRODIN: Thank you very much for coming.

MR. BURGAN: Thank you for your time.

DEPUTY COMMISSIONER GRODIN: Ms. Orndorff, are you on the phone?

MS. ORNDORFF: Good morning, I was able to listen in this morning. I didn't want to -- how are you guys?

DEPUTY COMMISSIONER GRODIN: We're just

fine. We're sitting here and if you would like to testify today, now is your time.

MS. ORNDORFF: Oh, I just want to thank you very much for allowing me the chance to testify today. I do have questions for the insurers, and that's just one question if possible --

DEPUTY COMMISSIONER GRODIN: Well, what we will do is --

MS. ORNDORFF: What's the chance -- is that possible to ask a question?

DEPUTY COMMISSIONER GRODIN: Well, actually today is a forum, is really for you to testify on your own behalf --

MS. ORNDORFF: Got it.

DEPUTY COMMISSIONER GRODIN: -- as opposed to a question-answer, but I know that you submitted written comments. And as you know, our actuarial staff is very good about answering those comments. Have you submitted that --

MS. ORNDORFF: Yes.

DEPUTY COMMISSIONER GRODIN: Okay. So if you submitted that question in your written comments it will be answered.

MS. ORNDORFF: No, I have not -- I did not submit a question for today's hearing.

DEPUTY COMMISSIONER GRODIN: In that case --

MS. ORNDORFF: I would like to testify that to Mr. Elwood or Mr. Burgan who is there, that your staff has been very kind to get back to me and answer the questions. Mr. Burgan, if I might, I'm in the same situation as you, no children, no siblings. The increases were quite a shock to me as well. I do want to make a statement that, you know, although it's fine for the insurance companies to say that their investment policies are not -- their investments are not making as much as they had initially forecast, the same is true for your policyholders. We are in the same boat. We do not have a magic fund that's making more money than you guys are. So that's something you should consider. No one is making money in a low interest rate environment. This is just the way interest rates go. It's the way the economy goes. And it's really hard on your policyholders when you have this right to come and make increases, ask for increases for premiums and on policies where many of us felt like the premium that we were quoted when we bought the policy was going to be the premium for the rest of our lives. And that was exactly what was sold to us.

And my policy, I'm a Unum customer. I hold a group policy. I know Unum had mentioned today that they had not sought increases for the group policies, and I would probably follow-up with a question about that to the Insurance Administration to get a clarifying statement on what group policies do they not ask increases for.

But in general, I just want to make a statement that, you know, policyholders are in the same situation. If multiple increases are not sustainable for many, you talk about compound interest, compound premium increases are the same. Fifteen percent on top of 15 percent on top of 15 percent is not just simple interest, it's a compound situation.

So with that in mind, I don't want to take up the whole day today, but I'm grateful to issue these observations into the record.

DEPUTY COMMISSIONER GRODIN: Thank you, Ms. Orndorff. Also let me remind you that you have until May 14th to submit additional written comments if you have any other questions that you've thought of. Okay?

MS. ORNDORFF: That's brilliant. Thank you for that clarification. I appreciate it.

DEPUTY COMMISSIONER GRODIN: Thank you. Next we have Mr. Jolles, Mr. Brian Jolles from Jolles Insurance. Are you on the line, sir?

MR. JOLLES: Can you hear me okay?

DEPUTY COMMISSIONER GRODIN: Yes, we can, thank you.

MR. JOLLES: Just an observation, I just

wanted to suggest that I've had an obviously significant increase on behalf of my clients, I have sold quite a bit of long-term care in my career. I did tell and notify all of my clients, to the client, every single one, that it's a probability and not a possibility that there will be increases on these contracts. I was telling them 20 years ago, even before we ever saw that it would happen. I think it's completely ridiculous that any carrier would ever consider 10 percent on the lapse ratio. I don't think it takes an actuary to realize how unfortunate that was for those kind of decisions.

My final comment, I just wanted to say that I heard the Unum actuary offer the 3.4 percent option as a way to resolve the -- escape some of the future increases down from a 5 percent compound. I just want to make an observation, I wish more of the companies, and I wish the Insurance Administration would focus on that type of a solution versus, you know, some of the other options that we are seeing, which are not going to retain someone's benefit, you know, over time. Those are my only comments. And I thank you for your work today.

DEPUTY COMMISSIONER GRODIN: Thank you, Mr. Jolles.

Next on the list we have Mr. David Beers. Mr. Beers, are you on the line? Mr. Beers, you may be on mute.

We will go on to the next individual, which is Mr. Bob Maloney. Mr. Maloney, are you on the line? All right.

Next is Mr. Mark Gage. Mr. Gage, are you on the line?

MR. GAGE: Yes, I am.

DEPUTY COMMISSIONER GRODIN: Thank you.

MR. GAGE: Yes, my name is Mark Gage. I am with Northeast Brokerage. I have been in the insurance business for 32 years. I've been in the long-term care marketplace --

MS. REPORTER: Can you ask him to speak

up, please?

MR. GAGE: -- [inaudible] the entire time. I've worked for Travelers, worked for CNN for 15 years. And then in brokerage for the last 15 years representing multiple insurance companies. The actuaries were responsible for evaluating the risk in the very beginning. They looked at persistency, they looked at morbidity. They looked at investment performance back then for pricing. They also looked very closely at the riders and the cause and effect of the riders and the benefits for those contracts, including all aspects of inflation and the exposures that were there for both the insureds, as well as the policyholders and the carriers. Those exposures in fact through their brochures showed how the impact was going to be on the buckets of money for the insureds in the later years. So they were aware of the claims exposures that was tied to that.

Rate increases should be limited in my

opinion to 5 percent, rather than the 15 percent gap in Maryland per year. The rate increases also should have an overall gap from the beginning of the policy until the end so that the policyholders know that at some point in time there will be a cessation to the rate increases, perhaps when they reach a doubling of the premium at the highest.

Under the rate increases that were discussed today, in lieu of the prior rate increases that have been given to these carriers in the past is absolutely outrageous. The rate increases were based upon, you know, the idea that we give a rate increase based upon what's happened in other states and that they have also allowed a rate increase is a little infuriating to me as well.

Rate increases are more prominent with lifetime benefits, also with compound inflation matters. These riders of how they impact the available buckets of money were known when they were created. It's just not just to create a bait and switch environment. And the Maryland Insurance Department to advocate for their interests, insurance companies are engaged in multiple product lines and there is not a guaranty that the Maryland systems are required to keep every block profitable.

If a carrier has made poor actuarial decisions in their pricing, then they should absorb the losses, not the policyholders. I'd advocate for restricting the cap to 5 percent with a maximum frozen and a maximum overall rate increase of doubling the premiums.

Now, what's particularly frustrating to me is carriers have known for 20 years about persistency. And yet they still continue to create and design products with that persistency knowledge and now today they're coming to the table claiming that they weren't aware of the persistency adjustments. They're claiming that they weren't aware of the impact with 5 percent compound and simple increase riders. And those were the most obvious actuarial items to identify at the time. And now those mistakes are being passed on to policyholders rather than being absorbed by insurance companies. Thank you for your time.

DEPUTY COMMISSIONER GRODIN: Thank you very much, Mr. Gage.

Let me just go back and ask if Mr. Beer is on the line or Mr. Maloney is on the line? All right, then that's all of who I have signed up to testify today.

I want to thank everybody for your time. And those of you on the phone and here, please remember again that written testimony will be accepted until Monday, May 14th. Thank you very much folks.

(Hearing concluded at 10:30 a.m.)

CERTIFICATE OF SHORTHAND REPORTER - NOTARY PUBLIC

I, Brianne M. Wallner, Registered Professional Reporter, the officer before whom the foregoing proceedings were taken, do hereby certify that the foregoing transcript is a true and correct record of the proceedings; that said proceedings were taken by me stenographically and thereafter reduced to typewriting under my supervision; and that I am neither counsel for, related to, nor employed by any of the parties to this case and have no interest, financial or otherwise, in its outcome.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal this 18th day of May, 2018.

My Commission expires:
August 27, 2018

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