In the Matter Of:

LONG-TERM CARE RATE HEARING

HEARING August 28, 2017

1	MARYLAND Insurance Administration
2	200 ST. PAUL PLACE, SUITE 2700
3	BALTIMORE, MARYLAND 21202
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7	LONG-TERM CARE RATE HEARING
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12	TRANSCRIPT OF LONG-TERM CARE RATE HEARING
13	Before COMMISSIONER AL REDMER
14	Baltimore, Maryland
15	Monday, August 28, 2017
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5	Maryland Insurance Administration
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16	Pursuant to Public Notice, before Susan
17	Farrell Smith, Notary Public for the State of
18	Maryland.
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1	PROCEEDINGS
2	COMMISSIONER REDMER: Once again, I
3	apologize for being late. Good afternoon. I'm Al
4	Redmer, and this is our third public hearing on
5	specific carrier rate increases for long-term care
6	insurance for this year. I'm going to apologize
7	again in advance, I have to be in Annapolis at 3:30.
8	So, if we're still going, I'm going to slip out at
9	2:30 and turn it over to Cathy and Bob to follow up.
10	Today's hearing will focus on several
11	rate increase requests now before the Maryland
12	Insurance Administration in the individual long-term
13	care market. These include requests from the
14	Maryland Life and Health Insurance Guaranty
15	Corporation on behalf of a Penn Treaty Network
16	America Insurance Company, proposing increases of 10
17	percent to 88.9 percent, phased in at no more than
18	15 percent annually.
19	Metropolitan Life Insurance Company
20	proposing increases of 15 percent. MedAmerica
21	Insurance Company proposing increases of 15 percent.
22	CMFG Life Insurance Company proposing

- 1 increases of 15 percent. And Continental Casualty
- 2 Company proposing increases of 32.25 percent, phased
- 3 in at 15 percent annually over two years.
- In the group long-term care market, we
- 5 have requests from Metropolitan Life Insurance
- 6 Company proposing increases of 15 percent, and
- 7 MedAmerica Insurance Company proposing increases of
- 8 15 percent.
- 9 Collectively these requests effect about
- 10 8,165 Maryland policyholders. The goal of today's
- 11 hearing is for insurance company officials to
- 12 explain their reasons for the rate increases.
- We will also listen to comments from
- 14 consumers, producers or other interested parties.
- 15 And we're here to listen, ask questions from the
- 16 carriers and consumers regarding the specific rate
- 17 increase request.
- I would like to pause at this moment and
- 19 introduce the folks who are here with me from the
- 20 Maryland Insurance Administration. With me at the
- 21 table is Todd Switzer, our Chief Actuary. Jeff Ji,
- 22 Senior Actuary. Adam Zimmerman, Actuarial Analyst.

- 1 To my right is Cathy Grason, Chief of
- 2 Staff. And to my left is Bob Morrow, our Associate
- 3 Commissioner of Life and Health.
- 4 Also we've got a Craig Prem from the
- 5 office of the actuary, Nancy Muehlberger, Alexa --
- 6 MS. GUGIG: Gugig.
- 7 COMMISSIONER REDMER: That's exactly how
- 8 I was going to pronounce it. And welcome aboard,
- 9 Alexa, good to see you, glad to have you.
- 10 Let me first go over a couple of
- 11 procedures. First, outside there is a handout with
- 12 all of our contact information on it. So, I would
- 13 suggest that you feel free to take a copy that you
- 14 can follow up with any further questions or
- 15 comments.
- 16 Secondly, the hearing is intended as a
- 17 question and answer forum between the Maryland
- 18 Insurance Administration and the carriers. And then
- 19 to get additional feedback from again consumers,
- 20 producers, advisers, or interested parties.
- We have accepted some comments in
- 22 advance. We will be posting all of the comments on

- 1 our website, and we will continue to take -- keep
- 2 the record open for additional comments until
- 3 Tuesday, September the 5th.
- 4 The transcript of today's meeting as well
- 5 as all written testimony submitted will be posted on
- 6 the website. The transcript and written testimony
- 7 will be available on the MIA's long-term care page
- 8 as well as the quasi legislative -- legislation
- 9 hearing's page.
- The long-term care page can be found at
- 11 the MIA website by clicking on the long-term care
- 12 tab located under the quick links section on the
- 13 left -hand side of the home page.
- 14 As a reminder, we do have a Court
- 15 Reporter here today to document the hearing. So,
- 16 when you're called if you could please state your
- 17 name and affiliation clearly for the record.
- 18 If you're dialing in, thank you for
- 19 joining us. We ask that you please mute your phones
- 20 unless you're going to speak. Also any time before
- 21 speaking if you could restate your name and
- 22 organization, that would be helpful.

- 1 We're going to be asking the carriers to
- 2 come up individually to speak regarding their rate
- 3 request. And we have an aid from Senator
- 4 Klausmeier's office. Thank you for joining us.
- 5 Carriers are going to be called in
- 6 alphabetical order. And then we will ask interested
- 7 stake holders to speak.
- 8 So, any questions about the process?
- 9 Okay. If not, let's start with CMFG Life Insurance
- 10 Company.
- MR. SVEDBERG: Good afternoon. My name
- 12 John Svedberg, director and actuary representing
- 13 product management for CMFG Life long-term care
- 14 business. I would like to thank Commissioner Redmer
- 15 for this opportunity to discuss our current
- 16 long-term care filings pending with the Maryland
- 17 Insurance Administration.
- 18 CMFG sold long-term care insurance
- 19 nationally from 1993 through 2010, and specifically
- 20 in Maryland from 1997 through 2010. The company's
- 21 two current pending filings with the Insurance
- 22 Administration covers policies sold between 2002

- 1 through 2010 and covered just over 1,650
- 2 policyholders.
- 3 Nationwide CMFG Life currently provides
- 4 coverage for 29,000 policyholders. Once again, we
- 5 appreciate today's opportunity to discuss the
- 6 company's decision to file for the current rate
- 7 increases. This decision did not come lightly, and
- 8 we understand the difficulties these rate increases
- 9 can be to our policyholders.
- To provide more context, I will discuss
- 11 the factors that led to the request as well as the
- 12 options CMFG Life makes available to help impacted
- 13 policyholders mitigate the impact of any rate
- 14 increases.
- 15 CMFG Life is currently requesting a
- 16 15 percent rate increase for Maryland policies sold
- 17 under both the company's 2002 product version and
- 18 the 2006 product version. This request is governed
- 19 by Maryland's regulated 15 percent request cap.
- The company has received two prior
- 21 15 percent rate increases for the 2002 product,
- 22 specifically in 2014 and 2016. The 2006 product

- 1 received a prior 15 percent increase in 2015.
- Without the regulated cap, the maximum
- 3 rate increase allowed under Maryland's 5885 rate
- 4 stabilization standard would range from 139 percent
- 5 to 145 percent.
- The assumptions reviewed to determine
- 7 these expected loss ratios are standard key
- 8 assumptions within the long-term care industry -
- 9 mortality, policy lapse rates and morbidity. Any
- 10 portfolio interest rate assumption relies upon the
- 11 regulatory statutory valuation rate used for active
- 12 life policyholder reserves and, therefore, does not
- 13 specifically rely upon the company's portfolio
- 14 interest rates.
- 15 Company experience was used to the extent
- 16 it was statistically credible and supplemented by
- 17 fitting with industry data. Overall mortality and
- 18 lapse rates have been lower than original pricing
- 19 assumptions. This results in more policyholders
- 20 available to initiate claims and drive aggregate
- 21 claim costs higher.
- 22 Morbidity rates have been higher than

- 1 original pricing assumptions. As more experience
- 2 emerges, we continue to see increases in the slope
- 3 of the claim cost curve. So, as policyholders grow
- 4 older, incidence and claim cost increase which
- 5 ultimately drive increases in the expected lifetime
- 6 loss ratios.
- 7 Again these factors indicate a much
- 8 higher rate increase, 139 to 145 percent, than the
- 9 15 percent requested by CMFG Life.
- 10 Additionally it is important to note that
- 11 CMFG Life is not trying to get back to original
- 12 lifetime loss ratios or minimum loss ratios under
- 13 rate stabilization. Instead we are hoping to
- 14 achieve only the rate increases needed to bring
- 15 target ratios at or near 100 percent, thereby
- 16 sharing the cost with policyholders.
- 17 As we implement rate increases, CMFG Life
- 18 communicates options available to the policyholder
- 19 to help mitigate the increase. Available options
- 20 include reducing the maximum daily or monthly
- 21 benefit, reducing the benefit period, increasing the
- 22 elimination period, remove or reduce optional riders

- 1 including inflation protection options, exercise a
- 2 nonforfeiture rider if purchased, or exercise the
- 3 contingent benefit upon lapse option if it's
- 4 eligible.
- 5 CMFG Life has a dedicated long-term care
- 6 customer service on hand to help policyholders
- 7 clearly understand these options and help them make
- 8 an informed decision that best suits their needs.
- 9 We feel that even with the rate
- 10 increases, our long-term care product continues to
- 11 provide needed benefits at a reasonable cost to the
- 12 policyholders.
- I would like to thank Mr. Redmer for this
- 14 opportunity to participate in today's hearing, and
- 15 would be happy to take your questions.
- 16 COMMISSIONER REDMER: Thank you. I have
- 17 got a couple. What -- what happens to the reserves
- 18 from those policies that are lapsed or where the
- 19 policyholder dies?
- MR. SVEDBERG: So, the reserves are
- 21 calculated in the aggregate across the entire
- 22 policy. So, that would -- and release of the

- 1 reserves would go towards the overall outlook of the
- 2 block of business.
- COMMISSIONER REDMER: And, so, when the
- 4 pricing was put together in 2006, it was based on a
- 5 series of projections among different factors. As
- 6 we get to the results of 2016 and to '17, where --
- 7 where is the big differential between the actual
- 8 experience and what the projections were?
- 9 MR. SVEDBERG: Are you talking -- you
- 10 mentioned 2006 specifically.
- 11 COMMISSIONER REDMER: Oh, that block, or
- 12 even talk about the 2002 block. But, you know, 11
- 13 years is not that long. We had -- we had poor
- 14 pricing decisions for a couple decades before that.
- 15 So, you're creating the pricing in 2006 based on
- 16 assumed interest rates and lapse rates and mortality
- 17 and all those kinds of things.
- So, where were the big misses in
- 19 projections among the different factors between what
- 20 you're seeing in 2017 and what you were projecting
- 21 in 2006?
- MR. SVEDBERG: The primary source has

- 1 been within the morbidity. As I mentioned before in
- 2 my comments, the slope of the morbidity curve has
- 3 steepened and expectations around both the incidence
- 4 and the claim costs have increased.
- 5 COMMISSIONER REDMER: And for 2016, what
- 6 was your actual loss ratio for those two blocks?
- 7 MR. SVEDBERG: So, the 2002 product from
- 8 a historical standpoint, the incurred ratio is 45
- 9 percent. And for the 2006 filed product, the
- 10 incurred ratio is at 15 percent.
- 11 And considering that those are still
- 12 relatively early in their life cycle, the trajectory
- 13 shows that it's going to be quite a bit higher.
- 14 COMMISSIONER REDMER: Thank you. Any
- 15 questions?
- 16 MR. SWITZER: Are the 1,700 or so members
- 17 in Maryland all of your policies in Maryland?
- 18 MR. SVEDBERG: We have a small block of
- 19 policies from our 1997 product series. I mentioned
- 20 that these covered only 2002 through 2010. We did
- 21 sell in 1997 through 2010. So, there are -- there
- 22 is a small block of policies where we have received

- 1 rate increases, and we are at the -- we don't
- 2 anticipate to ask rate increases on that block.
- 3 MR. SWITZER: So, the 1,600 is roughly
- 4 what percentage of all of your Maryland business,
- 5 please, just roughly?
- 6 MR. SVEDBERG: I would have to say well
- 7 over 80 percent.
- 8 MR. SWITZER: Okay.
- 9 MR. JI: I have a question. If the
- 10 assumption, future assumption you look at that maybe
- 11 five years later --
- 12 THE REPORTER: Speak up.
- 13 MR. JI: I'M talking about assumption,
- 14 your future assumptions, when you do study you found
- 15 different assumptions, you will update assumptions
- 16 like morbidity. So, will that effect your future
- 17 rate increase requests?
- MR. SVEDBERG: So, let me -- let me echo
- 19 back I think what your question is. Is you're
- 20 wondering if in the future if we see a further
- 21 deterioration of morbidity, would we be coming back
- 22 for a rate increase?

- 1 MR. JI: Yes.
- 2 MR. SVEDBERG: We have an expectation
- 3 that if it's outside of a -- a -- an acceptable, the
- 4 provision for adverse experience, yes, we would have
- 5 to entertain that idea.
- 6 MR. JI: Do you have a source like how
- 7 much would be source?
- 8 MR. SVEDBERG: We typically anticipate if
- 9 there is, a 10 percent.
- 10 MR. JI: Thank you.
- MS. GRASON: I've got one. So, we see
- 12 that you're asking for 15 percent in accordance with
- 13 the Maryland regulation. If there was no 15 percent
- 14 rate cap, is that still what you would be asking
- 15 for? Or do your numbers show that your block --
- 16 MR. SVEDBERG: No, we prefer to -- to
- 17 have this completed as quick as possible and get the
- 18 policyholders to a point to where they know where
- 19 they are going to be at. And, so, we would have
- 20 asked for a higher rate.
- MS. GRASON: Any idea how much more?
- MR. SVEDBERG: I don't have that handy.

- 1 MS. GRASON: Okay. Thank you.
- 2 COMMISSIONER REDMER: All right. Thanks.
- 3 I appreciate it. Next up is Continental Casualty.
- 4 MR. LAMONT: Good afternoon. My name is
- 5 Seth Lamont. I currently serve as the Assistant
- 6 Vice President of Government Relations for CNA.
- 7 I appear before you today in regard to
- 8 the long-term care rate filing of Continental
- 9 Casualty Company, which is a principal underwriting
- 10 subsidiary of CNA Financial.
- 11 We're grateful for this opportunity to
- 12 explain our rate need in greater detail. As the MIA
- 13 is aware, long-term care represents a substantial
- 14 portion of CNA's overall business. As of 2016 the
- 15 LTC book accounted for approximately 8 percent of
- 16 CNA's total gross premium written and roughly 42
- 17 percent of the company's reserving obligation.
- The fact that LTC reserves comprise such
- 19 a substantial portion of the company's total
- 20 reserves is reflective of the long tail nature of
- 21 this business and serves to highlight the fact that
- 22 rate increases are vital to any future policyholder

- 1 obligations.
- While the reasons for our rate need are
- 3 not necessarily unique, we respectfully request that
- 4 the MIA and policyholders recognize these increases
- 5 are vital to insuring that adequate reserves are
- 6 available to CNA in order to satisfy future claims.
- 7 As we have said on a number of occasions,
- 8 CNA is committed to meeting policyholder
- 9 obligations. The company harbors no illusions of
- 10 profiting from this business, rather we seek to
- 11 insure that we have adequate reserving limits.
- 12 In addition to our efforts to insure that
- 13 we are capturing adequate rates, we have also made
- 14 significant investments in our long-term care
- 15 operations.
- Despite the fact that CNA's long-term
- 17 care business is comprised solely of closed lots, we
- 18 continue to actively manage the business to insure
- 19 that claims are processed in an appropriate and
- 20 timely manner.
- To reiterate, the company's goal with
- 22 respect to this rate increase is to break even from

- 1 a financial perspective while meeting our
- 2 policyholder obligations. That is why our rate
- 3 filing is calculated at a hundred percent lifetime
- 4 loss ratio. CNA's current Preferred Solution to
- 5 long-term care insurance filing originally requested
- 6 an increase of 175 percent on policies that include
- 7 an automatic benefit inflation rider only. Any
- 8 increases approved on this block of business would
- 9 effect approximately 4,000 Maryland policies.
- 10 Included in the company's filing is a
- 11 freeze and drop option whereby a policyholder will
- 12 be afforded the option of dropping their inflation
- 13 rider in order to avoid the rate increase in its
- 14 entirety.
- 15 Policyholders who choose this freeze and
- 16 drop option will retain their current level of
- 17 inflation-adjusted benefits.
- 18 Upon electing to avail themselves of the
- 19 freeze and drop option, the policyholder's new
- 20 premium would be based on their original issue age
- 21 without the inflation option.
- Notably CNA intends to offer the freeze

- 1 and drop option regardless of the magnitude of any
- 2 rate increase approved. In fact this and other
- 3 benefit reduction options are available to CNA
- 4 policyholders on an ongoing basis.
- 5 Other benefit reduction options available
- 6 to policyholders to avoid a proposed rate increase
- 7 include reducing the maximum benefit period,
- 8 reducing the daily benefit, increasing the
- 9 elimination period and dropping any other optional
- 10 rider.
- In addition to the aforementioned
- 12 options, CNA also offers our policyholders the
- 13 opportunity to discontinue paying premiums and
- 14 retain a lifetime benefit amount equivalent to the
- 15 nominal sum of their lifetime premium paid to-date.
- 16 For the experts in the room, this is
- 17 referred to as the contingent nonforfeiture option,
- 18 is being offered to all insureds regardless of issue
- 19 age or rate increase amount.
- 20 Anecdotally we observe that certain
- 21 policyholders who have chosen this option to be
- 22 reasonably satisfied with their decision.

- 1 As I appear before you today, CNA's rate
- 2 need is not owing to factors unique to CNA but
- 3 rather erroneous assumptions that were made at the
- 4 outset by the industry as a whole in our originally
- 5 filed and approved rates.
- As most of you are aware, both macro
- 7 oriented assumptions as well as more micro oriented
- 8 assumptions put into place at the outset with
- 9 respect to long-term care rates have proved
- 10 erroneous.
- 11 From a macro perspective, interest rates
- 12 have been at or near historically low levels for
- 13 nearly a decade.
- 14 From a micro perspective, persistency
- 15 remains the key driver of our collective rate need
- 16 going forward. At the outset as an industry, we
- 17 projected that four times as many policyholders
- 18 would allow their policies to lapse annually than
- 19 did so in reality.
- 20 Long-term care insurance was originally
- 21 priced as a lapse-supported product which means that
- 22 original premiums could be lower for the block if

- 1 some policyholders were assumed to voluntarily lapse
- 2 their policy at some point in the future without
- 3 ever going on claim.
- 4 In rough terms the originally filed and
- 5 approved rates across the industry during the mid to
- 6 late '90s assumed a 4 percent lapse rate, and
- 7 experience has shown that lapse rate to be closer to
- 8 1 percent and in some cases less than one percent.
- 9 This greater than expected persistency
- 10 had led to dramatically increased anticipated claims
- 11 cost as significantly more policyholders have chosen
- 12 to retain their policies than was originally
- 13 anticipated. This persistency impact -- impact to
- 14 rates driven not only by policyholder lapses but
- 15 also lower mortality than expected.
- 16 While this is a positive from a societal
- 17 perspective, this leads to a larger required rate
- 18 need to support additional expected future claims.
- 19 Despite a cumulative rate increase of
- 20 more than 50 percent since the inception of the
- 21 current rate action program in 2013, policyholder
- 22 reaction has been a lapse rate of .9 percent with

- 1 just 64 policyholders having lapsed.
- In our view this demonstrates that even
- 3 in the face of significant increases, policyholders
- 4 continue to find substantial value in retaining the
- 5 benefits that are offered under our Preferred
- 6 Solution long-term care policies.
- 7 As noted, long-term care is significant
- 8 to CNA from an enterprise perspective with 42
- 9 percent of our total company reserves being devoted
- 10 to these anticipated liabilities.
- 11 The company remains committed to meeting
- 12 policyholder obligations from both a financial and
- 13 operational perspective. Policyholders are being
- 14 afforded a number of options to reduce their
- 15 benefits to avoid the proposed premium increase.
- 16 CNA's current experience is not unique
- 17 but rather on par with that of our peers in terms of
- 18 the challenges resulting especially from the filed
- 19 and approved original rates and lapse assumptions.
- 20 Despite significant upward adjustment in
- 21 premiums in recent years, the lapse rate on CNA
- 22 Preferred Solution policies for the State of

- 1 Maryland continue to be under 1 percent which again
- 2 indicates the policyholders continue to see value in
- 3 retaining their coverage.
- 4 COMMISSIONER REDMER: Thank you, Seth.
- 5 Any questions for Seth?
- 6 MR. SWITZER: So, you mentioned LTC being
- 7 8 percent of gross revenues.
- 8 MR. LAMONT: Yes.
- 9 MR. SWITZER: 42 percent of reserves. In
- 10 looking at net income for '16, I'm wondering if
- 11 there is any internal discussions of subsidizations
- 12 across lines. It seems the net income overall, we
- 13 see problems in LTC, is there any subsidization
- 14 across any lines discussed within -- as you look at
- 15 these LTC issues?
- 16 MR. LAMONT: I don't think cross
- 17 subsidization of policyholders is something that's
- 18 under active consideration by our management. In
- 19 terms of items where I suppose it could be slight, I
- 20 mean, to the extent that the administrative expense
- 21 of the long-term care, administering long-term care
- 22 policies is not necessarily supported by rate, there

- 1 is -- there is some in that respect. But I wouldn't
- 2 say that there is an active discussion at the
- 3 leadership level concerning cross subsidization as
- 4 between policyholders.
- 5 MR. SWITZER: Thanks.
- 6 COMMISSIONER REDMER: Anybody else?
- 7 MR. JI: I heard you said the total rate
- 8 increase can be 175 percent; is that right?
- 9 MR. LAMONT: So, that's what we
- 10 originally filed. Just the inflation, for those
- 11 policyholders with inflation protection of which
- 12 there are 3,984.
- 13 MR. JI: How has that been decided, that
- 14 amount, 175?
- MR. LAMONT: How has it been arrived at?
- MR. JI: No, decided, determined?
- 17 COMMISSIONER REDMER: How did you come up
- 18 with 175?
- 19 MR. LAMONT: It was -- it was determined
- 20 that the inflation protection was the primary driver
- 21 for the rate increase. And, so, that was loaded
- 22 into the -- into the rate request for those

- 1 policyholders.
- 2 MR. JI: So, you are talking about the
- 3 lapse assumption is very important for this product.
- 4 If we originally we were able to approve your total
- 5 of 175 rate increase, what is the impact to your
- 6 lapse? Have you ever looked at that?
- 7 MR. LAMONT: How much lapse we would
- 8 anticipate with the 175?
- 9 MR. JI: The impact to lapse if we
- 10 approve the total rate increase you originally
- 11 requested.
- MR. LAMONT: I don't know that that
- 13 analysis has been completed. I can tell you that
- 14 some years ago we got 116 percent out of the State
- 15 of Ohio roughly, and we saw the lapse -- I think it
- 16 was in the 5 to 7 percent range. I wouldn't -- I
- 17 wouldn't think the lapse would be extraordinarily
- 18 high even at those levels.
- 19 MR. JI: Okay. Thank you.
- MS. GRASON: Following up on my
- 21 colleague, the Chief Actuary's question about cross
- 22 subsidizations among different lines, I oversee the

- 1 government relations operation for the MIA, and
- 2 that's a question I get from legislators almost
- 3 every time we talk about long-term care.
- If you have any feedback on this now, I
- 5 would love to hear it. If not, I would love to hear
- 6 your subsequent thoughts or frankly any of the
- 7 carriers out there, is there a public policy
- 8 reason -- well, I know that the law right now does
- 9 not ponder cross subsidizations, like we can't
- 10 require you to, but is there a public policy reason
- 11 from the carriers' perspective why that shouldn't be
- 12 happening?
- So, in other words if a -- if a statutory
- 14 company is doing quite well as a whole, and one line
- 15 of business such as the long-term care is doing
- 16 poorly, what would be the public policy reasons
- 17 against cross subsidizations in your view?
- 18 MR. LAMONT: I think it would be the law
- 19 for one. I mean, not excessive, inadequate or
- 20 unfairly discriminatory. As a general rule, since
- 21 the inception of insurance regulation, rates have
- 22 been made by line. And to my knowledge cross

- 1 subsidization is seen as highly undesirable.
- 2 So, I think there is a very strong legal
- 3 argument against it.
- 4 MS. GRASON: Certainly, there is a legal
- 5 argument bases on the current statutes. I don't
- 6 think we could require a company to cross subsidize
- 7 based on the current law. But I was just talking
- 8 to a legislator this morning and the same question
- 9 came up.
- 10 You know, is that a tool in the tool kit?
- 11 I know that the history of insurance regulation is
- 12 different, but I'm looking for talking points
- 13 because --
- MR. LAMONT: I would say from a --
- 15 from a practical standpoint, depending on the
- 16 financial condition of the particular company when
- 17 you -- I could see a legislator saying, well, such
- 18 and such company had a good quarter, and it should
- 19 be cross subsidized. But when you look at a
- 20 situation that CNA has faced with 42 percent of the
- 21 reserves being in the LTC space, simply devoting
- 22 some portion of earnings to cross subsidization, I

- 1 don't -- I don't think would carry the day in terms
- 2 of mitigating the issue. I don't think it would be
- 3 adequate.
- 4 That would be the key -- the key
- 5 stumbling block particularly for companies that have
- 6 a greater challenge from a reserving perspective
- 7 with respect to this line.
- 8 MR. MORROW: Let me go back to
- 9 persistency real quick. You said that you expected
- 10 the lapse to be far greater than it was. 4 percent
- 11 and you got about 1 percent over years. What's the
- 12 reason for that? What have you figured out was the
- 13 result of people staying on?
- MR. LAMONT: Why is it so much lower? I
- 15 don't know that there is data sounding that. I
- 16 think it's just the policyholders see a tremendous
- 17 value in holding onto the product. Particularly for
- 18 some of these older products, the benefits are very
- 19 rich. The policyholders are guaranteed renewable.
- 20 So, the policyholders have an ability to continue
- 21 with us with no additional health screening.
- So, there are a lot of incentives to hang

- 1 onto the policy. You know, not the least of which,
- 2 I don't want to go as far as to make a
- 3 representation of where this is priced versus the
- 4 market, but I think an argument can be made in
- 5 general that many of these price -- these products
- 6 that you will hear about today are priced
- 7 significantly below what they could be replaced at.
- 8 So, to the extent that a policyholder
- 9 goes to a financial advisor and says, should I hang
- 10 onto this policy? And I would rather speak of this
- 11 in general terms rather than a Continental product,
- 12 the answer is going to be yes. Because the
- 13 replacement cost is going to be 2 or 300 percent if
- 14 the person can pass health screening.
- So, I mean, I think that's a substantial
- 16 reason why you see very low lapse rates.
- 17 That and I think that's how it's been from the
- 18 outset. It was assumed that it would be the same as
- 19 a term policy, and I think people contemplate their
- 20 incapacity to a greater extent than they even
- 21 contemplate their own demise.
- 22 And for that reason they want to hang

- 1 onto it as a part of an overall financial plan and
- 2 as a primary vehicle for asset protection.
- 3 MR. MORROW: Thank you.
- 4 COMMISSIONER REDMER: Anybody else?
- 5 Seth, thank you.
- 6 MR. LAMONT: Thank you.
- 7 COMMISSIONER REDMER: Okay. Let's go to
- 8 the Maryland Life and Health Insurance Guaranty
- 9 Fund.
- 10 MS. HOFFMAN: Thank you for letting me
- 11 speak here today. My name is Beth Hoffman, and I am
- 12 the Executive Director of the Maryland Life and
- 13 Health Insurance Guaranty Corporation. The
- 14 corporation was created by the legislature and
- 15 exists to protect Maryland resident policyholders
- 16 when a life, health or annuity company licensed in
- 17 Maryland is declared insolvent and/or liquidated by
- 18 the court. An order of liquidation or finding of
- 19 insolvency statutorily triggers the corporation to
- 20 provide coverage up to certain limits to Maryland
- 21 residents for their life, health or annuity
- 22 contracts.

- 1 The coverage in Maryland is \$300,000. On
- 2 March 1st, 2017 the Commonwealth Court in
- 3 Pennsylvania found Penn Treaty and its subsidiary,
- 4 America Network, insolvent and ordered it into
- 5 liquidation.
- 6 At that time the corporation was
- 7 triggered to provide coverage for approximately 900
- 8 Maryland residents.
- 9 A little background history for Penn
- 10 Treaty and American Network. In the late 1990s the
- 11 company experienced rapid growth in their long-term
- 12 care business. And given what we know now, the
- 13 majority of that business was significantly under
- 14 priced.
- 15 It is the contracts issued in this
- 16 timeframe that we're seeking premium rate increases
- 17 for. It's important to note that during the period
- 18 between 2001 and 2008 the company sought a number of
- 19 rate increases across the country on the basis that
- 20 expected claims experience was anticipated to exceed
- 21 original assumptions.
- The companies were not able to secure all

- 1 the increases they deemed necessary, and as a
- 2 consequence of that inability and a significant
- 3 deterioration of their financial position, the
- 4 Pennsylvania Insurance Commissioner placed Penn
- 5 Treaty in rehabilitation in January of 2009.
- 6 At that time through our national
- 7 organization, Novac, a task force was formed to
- 8 study the business and financial condition of Penn
- 9 Treaty and American Network.
- 10 As part of that study, Long-Term Care
- 11 Group was hired as the task force's actuarial
- 12 consultant. And with me today is Brian Ulery who is
- 13 the principal consulting actuary for Long-Term Care
- 14 Group.
- Based on the extensive analysis of the
- 16 company's policies and their premium rates by the
- 17 task force and the actuarial consultant, the
- 18 corporation is seeking approval for their requested
- 19 premium rate increases based on the following -- a
- 20 number -- the following number of factors.
- 21 The first is the objective is to charge
- 22 policyholders going forward a rate that should have

- 1 been charged since issuance if the policy had been
- 2 issued at the \$300,000 coverage limit and the
- 3 actuary had known at issuance what they know now
- 4 about the experience of the block.
- 5 The second, the approved rate increases
- 6 will bring premium for these policies more in line
- 7 with market rates so that policyholders of Penn
- 8 Treaty and ANET are not in a better position than
- 9 policyholders of an insolvent company.
- 10 And third, the target premium rate for
- 11 each, Penn Treaty and American Network policy
- 12 represents the rate policyholders should have been
- 13 paying since the policy was issued assuming a number
- 14 of factors.
- 15 For example, current knowledge about
- 16 actuarial assumptions based on the experience of the
- 17 block, a 60 percent claims ratio at the time of
- 18 issuance, and benefits capped at the \$300,000
- 19 coverage limit in Maryland for Long-Term Care
- 20 Guaranty Association liability coverage.
- 21 If the rate increases are approved, each
- 22 policyholder will be given the option of accepting

- 1 the rate increases or modifying the policy based on
- 2 benefit reduction choices.
- 3 One of the choices will be to drop the
- 4 inflation benefit rider at current levels and
- 5 adjusting the premium to reflect the benefit going
- 6 forward without the inflation benefit rider.
- 7 Another option will be to convert the
- 8 policy to a paid up policy, where the policy's
- 9 lifetime maximum benefit would reduce to a specified
- 10 amount calculated for that policyholder and the
- 11 inflation benefit rider associated with terminating.
- 12 The policyholder would not pay premiums for that
- 13 going forward for that option.
- 14 And the third option will be a one time
- 15 cash buyout option for the policyholder.
- We are seeking approval for rate
- 17 increases for approximately 536 contracts in
- 18 Maryland.
- So, I appreciate the opportunity to speak
- 20 to you today. If you have any questions, I would be
- 21 happy to answer it with Brian.
- 22 COMMISSIONER REDMER: Any questions for

- 1 Beth?
- Beth, what's the current loss ratio, do
- 3 you know?
- 4 MR. ULERY: I have got that as this
- 5 involves me. For Maryland specifically, 2016 loss
- 6 ratio in Maryland was 203.5 percent.
- 7 COMMISSIONER REDMER: 230?
- 8 MR. ULERY: 203.
- 9 COMMISSIONER REDMER: Okay.
- 10 MR. SWITZER: I see you mentioned it
- 11 started at 900 and it's down to about five hundred.
- MS. HOFFMAN: Well, we have
- 13 responsibility for about 900 contracts, but we're
- 14 only seeking rate increases for 536 because
- 15 that's -- those are the -- from the time period of
- 16 the late '90s, and the old block -- the old company
- 17 block of business.
- I think they had a corrective action plan
- 19 in the early 2000s, and they adopted that corrective
- 20 action plan. So, we were able to get some more
- 21 capital and shore up that business. And then they
- 22 began writing new business after that was lifted.

- So, in the new business, those seem to be
- 2 priced accurately. What we're seeking rate
- 3 increases for are the policies that were prior to
- 4 the corrective action plan and are the most
- 5 significantly under priced.
- 6 MR. SWITZER: Thanks.
- 7 MR. JI: So, what is the rate in other
- 8 states?
- 9 MS. HOFFMAN: Well, there is a national
- 10 premium rate increase strategy going on, and I know
- 11 a number of other states are now requesting rate
- 12 increases. I don't know what their percentages are.
- 13 But I do know that New Jersey just issued rate
- 14 increases for their ANET -- Penn Treaty wasn't
- 15 licensed in New Jersey but American Network was.
- 16 And I think there are some rate increase approvals
- 17 in the 400 percent range.
- MR. ULERY: So, the request varies by
- 19 whether the policy's have inflation or not, and it
- 20 varies by original issue age. In New Jersey the
- 21 highest rate increase that was approved was 410
- 22 percent.

- 1 MR. JI: Thank you.
- 2 COMMISSIONER REDMER: Anybody else?
- 3 MR. ZIMMERMAN: So, I have one question.
- 4 So, assuming the rate increases are approved as
- 5 filed, under moderately adverse conditions are there
- 6 any additional increases expected?
- 7 MR. ULERY: Well, the original request in
- 8 Maryland was a similar structure and by inflation
- 9 type and by issue age and so on, and there were
- 10 some -- the highest increase was 90 percent that was
- 11 requested. But there were a lot of categories or
- 12 buckets that had zero, but the overall aggregate
- 13 average request is probably in the 30 to 32 percent
- 14 range.
- 15 And if that was approved, my
- 16 understanding is that there is no intention for
- 17 additional requests.
- 18 MS. HOFFMAN: Right. There is no
- 19 intention for an additional request.
- 20 MR. ZIMMERMAN: Okay.
- 21 AUDIENCE MEMBER: It's very difficult to
- 22 hear frankly.

- 1 COMMISSIONER REDMER: Sorry. We'll --
- 2 AUDIENCE MEMBER: The people with no
- 3 microphones today for some reason, but if people
- 4 could talk up and really -- I'm an older guy sitting
- 5 back here, it would be helpful. I don't know about
- 6 the younger people in the room. Their hearing may
- 7 be worse than mine since they walk around with iPods
- 8 or whatever.
- 9 COMMISSIONER REDMER: Beth, could you
- 10 repeat that last part.
- MS. HOFFMAN: We don't anticipate --
- 12 there are no plans to ask for additional rate
- 13 increases for this block of business. We expect
- 14 that we would hopefully get the rate increases and
- 15 we've worked since 2009 to price them going forward
- 16 what they should have been priced.
- So, I do not anticipate that there will
- 18 be another request for a rate increase on this block
- 19 of business.
- 20 COMMISSIONER REDMER: Got you. Thank
- 21 you. Anybody else? All right.
- MS. HOFFMAN: Thank you.

- 1 COMMISSIONER REDMER: Okay.
- 2 PERSON ON PHONE: Mr. Redmer, could you
- 3 please move the microphone perhaps on the table in
- 4 front of the Reporter, it's very hard to hear on the
- 5 line as well.
- 6 COMMISSIONER REDMER: Okay. On the
- 7 phone we will go to MedAmerica Life Insurance
- 8 Company.
- 9 MR. KINNEY: Yes, thank you. And good
- 10 afternoon. My name is Patrick Kinney. I'm managing
- 11 actuary for long-term care pricing at MedAmerica
- 12 Insurance Company. Mr. Redmer, administration staff
- 13 and guests, thank you for the opportunity to appear
- 14 via phone today regarding our long-term care premium
- 15 rate increase filing.
- 16 Our office actually moved over the
- 17 weekend, and I needed to be here this morning to get
- 18 settled in. So, thank you for accommodating me.
- 19 Today's hearing concerns our requested
- 20 premium rate increases on individual and group
- 21 product issued prior to September 1st, 2005. We
- 22 refer to these forms as our Premier and pre-Premier

- 1 series.
- The policies were issued in Maryland from
- 3 1996 through 2005. As of year end 2016, there are
- 4 93 individual policyholders and 2 group certificate
- 5 holders who will be affected by the rate increase if
- 6 approved.
- 7 None of these policy forms are marketed
- 8 any longer in Maryland or any other jurisdiction.
- 9 In early 2016 MedAmerica ceased sales of LTC
- 10 policies nationwide. However, we remain committed
- 11 to provide promised LTC benefits to the over 100,000
- 12 people across the country including over 400 in
- 13 Maryland, who rely on us to continue their coverage
- 14 long into the future.
- We believe that premium rate increases
- 16 are necessary now to assure our ability to pay out
- 17 LTC claims in the long term.
- 18 Like most insurance carriers who sold LTC
- 19 policies, MedAmerica has experienced significantly
- 20 unfavorable changes in policy persistency, morbidity
- 21 and interest since the time the earlier generation
- 22 policies were priced and issued.

- 1 This adverse experience threatens the
- 2 financial health of MedAmerica especially since we
- 3 are a mono-line LTC company with no other insurance
- 4 products to offset projected shortfalls from
- 5 long-term care coverage.
- 6 Our rate increase request for the Premier
- 7 and pre-Premier policy form is a follow-up to the
- 8 cumulative rate increases previously approved by the
- 9 Administration.
- 10 For the individual product, rate
- 11 increases were approved in 2010, 2012 and 2014, for
- 12 a cumulative total of 39 percent. For the group
- 13 product, one 15 percent increase was filed in 2010.
- 14 Our most current projection with
- 15 experience under these policy forms indicated the
- 16 need for a rate increase varying by benefit period.
- 17 In our filings we provided actuarial
- 18 justification for cumulative rate increases of 135
- 19 percent on limited benefit period plan design and
- 20 299 percent for policies with a lifetime benefit
- 21 period.
- 22 After adjusting for the prior cumulative

- 1 increases, our original request was for increases
- 2 ranging from 68 percent to over 200 percent.
- 3 Although MedAmerica recognizes that the
- 4 annual rate increases are currently limited to
- 5 15 percent under the Maryland regulation, the
- 6 actuarial memoranda associated with the rate filings
- 7 presents the experience, analysis and projections
- 8 justifying the full rate increases we believe to be
- 9 necessary.
- 10 We feel that this transparency provides
- 11 regulators with a more complete picture of the
- 12 financial risks of the company. Because the
- 13 Administration has demonstrated flexibility in
- 14 approving larger rate increases if accompanied by a
- 15 so-called landing spot approach, our original intent
- 16 was to file proposed landing spots for these older
- 17 policy forms that may have allowed approval of a
- 18 phased-in rate increase greater than 15 percent in
- 19 told.
- However, the landing spot design we had
- 21 developed in other jurisdictions was unable to
- 22 produce an actuarially equivalent reduction in

- 1 benefits for Maryland policyholders that would fully
- 2 offset the rate increase.
- In the interest of moving forward with a
- 4 feasible rate increase, we have amended our filing
- 5 to request only a flat 15 percent rate increase at
- 6 this time, with the intent of filing future
- 7 increases to alleviate continued poor experience on
- 8 these policy forms.
- 9 We're in the process of preparing
- 10 responses to the Administration's information
- 11 request from August 8th in order to proceed on this
- 12 basis.
- 13 Similar to prior increases, MedAmerica
- 14 will offer insureds affected by the premium increase
- 15 the option of reducing their policy benefits to
- 16 provide flexibility of choice for those insureds who
- 17 wish to maintain a premium level reasonably similar
- 18 to what they are paying prior to the rate increase.
- We're moreover offering a contingent
- 20 nonforfeiture to all insureds affected by the rate
- 21 increase.
- I'm happy to answer any questions you may

- 1 have at this time.
- 2 COMMISSIONER REDMER: Thank you, Patrick.
- 3 I only have one. And I was a little curious
- 4 wondering if you can give us a little more detail as
- 5 to why the landing spots in other states didn't
- 6 appear to work in Maryland.
- 7 MR. KINNEY: It depends on the population
- 8 that was covered, the age of the various policies,
- 9 when they were issued during the time period. And
- 10 the amount of the rate increase was such that in
- 11 order to achieve a full offset, you know, we weren't
- 12 able to offset the high levels of rate increase for
- 13 the lifetime benefit policies and provide an
- 14 inflation level that would, you know, that would be
- 15 above zero basically.
- 16 COMMISSIONER REDMER: Anybody else?
- 17 MR. JI: I have another, same question,
- 18 regarding the landing spot. I have another filing
- 19 with me that were able to offer the landing spot.
- 20 Can you tell me what did you do differently for that
- 21 filing?
- MR. KINNEY: That was a more recent

- 1 policy form that had different enrollment in it and
- 2 different rate increase. So, these older policies,
- 3 you know, given where their inflation is, we just
- 4 weren't able to come up with a feasible
- 5 inflation-oriented landing spot and, you know, not
- 6 necessarily the full offset on the premium for all
- 7 the policyholders.
- 8 MR. JI: Thank you.
- 9 MR. SWITZER: So, did I hear correctly
- 10 that total in Maryland there are about 400 members,
- 11 and the filings that we have are of 95, so about a
- 12 quarter of the total pool in Maryland.
- 13 MR. KINNEY: The current filings. That
- 14 Jeff alluded to there are other filings that we have
- 15 pending with Maryland for another 200, 260 or so
- 16 policyholders. So, out of the total of over 400, we
- 17 have, looks like, just about a little bit under 400
- 18 out of 420-some for whom we have filed increases.
- 19 I don't have the exact numbers in front
- 20 of me, but between these filings and the earlier
- 21 pending filings we filed for, all the products that
- 22 we intend to file for in Maryland.

- 1 We have do some policy periods that were
- 2 issued in more recent years that are not in need of
- 3 a rate increase at this time.
- 4 MR. SWITZER: So, most of it, but not all
- 5 of it. On the landing spot idea, would the company
- 6 be -- consider the idea of if -- if you had a
- 7 landing spot where -- trying to find the right mix
- 8 for customers, for the carriers a blend of, say, if
- 9 you had a 15 percent and a -- trying to find a
- 10 landing spot with inflation down at zero, trying to
- 11 find -- maybe coming down on the increase and maybe
- 12 inflation doesn't go from five in illustrated
- 13 numbers down to zero, but three or something, to mix
- 14 benefit reductions with rate increases to find a
- 15 balance, is that a scenario that could be
- 16 considered?
- MR. KINNEY: Yes, we've been able to do
- 18 that in other jurisdictions depending on the level
- 19 of rate increase that has been offered. You know,
- 20 with rate increases of well over a hundred percent
- 21 that we originally requested and the inflation
- 22 reduction, it just wasn't going to get us there.

- 1 MR. SWITZER: Thank you.
- 2 COMMISSIONER REDMER: Anybody else? All
- 3 right. Thank you very much. I appreciate it.
- 4 MR. KINNEY: You're welcome.
- 5 COMMISSIONER REDMER: Next we will go to
- 6 Metropolitan.
- 7 MR. TREND: Good afternoon, Commissioner
- 8 Redmer and members of the Maryland Insurance
- 9 Administration panel, MetLife long-term
- 10 policyholders and other interested members of the
- 11 public.
- 12 My name is Jonathan Trend. I am Vice
- 13 President, Actuary at Metropolitan Life Insurance
- 14 Company. I have oversight responsibility for
- 15 actuarial memoranda and accompanying documents that
- 16 support the applications.
- 17 I'm a fellow of the Society of Actuaries,
- 18 a member of the American Academy of Actuaries, and
- 19 have over 19 years of experience with long-term care
- 20 insurance and risks, assumptions and benefits that
- 21 are characteristic of that coverage.
- 22 Also with me is Tom Reilly. Tom is

- 1 MetLife's Assistant Vice President of LTC Product
- 2 Management and Compliance. We welcome the
- 3 opportunity to present our views on MetLife's
- 4 long-term care insurance rate filings currently
- 5 before the Maryland Insurance Administration and
- 6 answer your questions.
- 7 Thank you also for providing this forum
- 8 for Maryland citizens including our valued customers
- 9 to express their views and comments on the filings.
- 10 Our brief presentation will include a
- 11 description of the steps we have taken to mitigate
- 12 the impact of the proposed increases. We also hope
- 13 to provide a greater understanding why the increases
- 14 are necessary, and the process MetLife uses to
- 15 evaluate the underlying assumptions and risks that
- 16 we're required to assess before filing for an
- 17 increase with the Administration.
- 18 Please keep in mind that this
- 19 presentation will highlight and expound upon certain
- 20 areas relating to MetLife's comprehensive filings
- 21 made with the Administration on April 11th,
- 22 April 27th, and July 26th of 2017.

- 1 The filings present the full and complete
- 2 actuarial basis for the requested rate increases and
- 3 constitute MetLife's official request and represent
- 4 both individual and group LTC business.
- 5 MetLife's decision to file for rate
- 6 increases was made only after careful and indepth
- 7 analysis of the experience relating to the policies
- 8 that are the subject of these filings. We are
- 9 proposing these increases in light of the
- 10 information that has emerged over the years these
- 11 policies have been in force, including claims
- 12 experience and persistency and the changes in
- 13 assumptions underlying these policies since they
- 14 were first issued.
- 15 MetLife believes that the rate filings
- 16 made with the Administration clearly demonstrate the
- 17 increases are needed because the experience relating
- 18 to these policies has been and is expected to remain
- 19 materially worse than initially anticipated. This
- 20 is also my professional opinion.
- We believe that the proposed premium
- 22 schedules are not excessive nor unfairly

- 1 discriminatory and the benefits provided are
- 2 reasonable in relation to the proposed premiums
- 3 based on the lifetime loss ratio being in excess of
- 4 the minimum requirement set by Maryland insurance
- 5 law.
- I am now going to turn the presentation
- 7 over to my colleague, Tom Reilly, who will provide
- 8 an overview of the scope of MetLife's applications
- 9 for rate increases.
- 10 MR. REILLY: Good afternoon. Thank you
- 11 for the opportunity to speak with you about our
- 12 findings. As background to our filings, I think it
- 13 would be helpful to briefly explain the scope of the
- 14 applications that are the subject of today's
- 15 hearing. MetLife is seeking approval on two
- 16 segments of our long-term care insurance business.
- 17 COMMISSIONER REDMER: Excuse me, Todd.
- 18 Can you speak up?
- 19 MR. REILLY: Sure.
- THE REPORTER: Thank you.
- 21 MR. REILLY: The first segment includes
- 22 policy forms associated with MetLife's individual

- 1 long-term care business. The policy forms were
- 2 issued between 2009 and 2012.
- 3 The increase percentage that MetLife is
- 4 requesting on these forms is 15 percent.
- 5 Approximately 289 insureds from this business may be
- 6 impacted by the rate increase.
- 7 The second segment includes policy forms
- 8 associated with MetLife's AARP long-term care
- 9 business specifically its original plan, its Flex
- 10 Choice plan and its Flex Choice Plus plan issued
- 11 between 2000 and 2008. The increase percentage that
- 12 MetLife is requesting on these forms is 23.12
- 13 percent broken up in phases of 10 percent in Year 1,
- 14 10 percent in Year 2 and 1.75 percent in Year 3.
- 15 Approximately 1,495 insureds from the
- 16 AARP business may be impacted by this rate increase.
- Jonathan will now address the actuarial
- 18 aspects of the filings.
- 19 MR. TREND: As previously mentioned,
- 20 MetLife believes that the applications demonstrate
- 21 that the requested increases are justified and meet
- 22 all Maryland requirements for approval.

- 1 To assist you with a review, I will
- 2 briefly speak to the application and why we believe
- 3 the requested increases are reasonable.
- 4 I will start by referring you to specific
- 5 portions of the filings that demonstrate that the
- 6 loss ratio on the Maryland policies after
- 7 application of the requested increase will remain
- 8 far in excess of the minimum loss ratio required for
- 9 rate revisions under Maryland insurance law.
- The term loss ratio is throughout our
- 11 testimony, and it is here defined as the ratio of
- 12 incurred claims, monies paid to claimants, to earned
- 13 premiums, the monies we collect from our
- 14 policyholders.
- References to past, future and lifetime
- 16 loss ratio or similar qualifiers indicate the
- 17 inclusion of EBIS and the time value of money on the
- 18 calculations which is a required and accepted
- 19 actuarial practice.
- 20 As part of the in force management of the
- 21 business, MetLife monitors the performance of the
- 22 business by completing periodic analyses of the

- 1 persistency rates, how many policyholders keep their
- 2 coverage; mortality rates, how long policyholders
- 3 live; and morbidity rates, the frequency and
- 4 severity of claims.
- 5 The findings from these analyses were
- 6 used in projecting the future performance of in
- 7 force business to determine the affect of experience
- 8 on the projected lifetime loss ratio.
- 9 The reason we study these parameters is
- 10 because they bear directly on projected levels of
- 11 claims and premiums over the lifetime of the
- 12 policies.
- 13 As explained in the memoranda, overall
- 14 actual persistency rates have been higher than that
- 15 assumed when the policies were priced.
- Mortality rates have been lower than that
- 17 assumed in pricing, and morbidity levels have
- 18 generally been higher than that assumed in the
- 19 original pricing.
- The combine result of the past experience
- 21 and future projections based on current assumptions
- 22 without a rate increase are loss ratios that far

- 1 exceed the minimum requirement.
- In fact the current projected lifetime
- 3 loss ratio for Maryland range from 86 to 117
- 4 percent. This means that our current rate bases
- 5 have us paying out from 86 to \$117 in benefits for
- 6 every \$100 we collect in premium.
- 7 Even after rate increases at the levels
- 8 requested in our applications, the loss ratio for
- 9 Maryland policies will range from 78 to 111 percent.
- 10 Again well in excess of the minimum requirement.
- It is important to note that our
- 12 applications do not attempt to recover past losses.
- Tom will now conclude our testimony.
- MR. REILLY: Please be assured that while
- 15 MetLife believes the requested increases are
- 16 necessary, justified and permitted under Maryland
- 17 insurance laws and regulations, we also understand
- 18 that any approved increases may cause some
- 19 policyholders to consider cancelling their coverage.
- 20 MetLife's experience shows that the vast
- 21 majority of policyholders choose to maintain their
- 22 coverage even in the face of rate increases.

- 1 For all policyholders including those who
- 2 may consider ending their coverage because of an
- 3 approved rate increase, we will offer them multiple
- 4 options that are available to modify their coverage
- 5 to keep their premiums at a level similar to their
- 6 current premiums.
- 7 In addition concurrent with the rate
- 8 increase request, we've requested approval of the
- 9 endorsement to provide a nonforfeiture benefit so
- 10 that all policyholders who choose to stop paying
- 11 premiums in response to rate increases can still
- 12 maintain paid-up coverage.
- This means for these policies every
- 14 premium dollar previously paid minus any benefits
- 15 already received will be available as a benefit if
- 16 the insured goes on claim.
- 17 In closing we feel the value provided by
- 18 these coverages is significant, and we are proud of
- 19 the service we have provided to MetLife
- 20 policyholders especially at the time of claim.
- 21 Since entering the long-term care
- 22 insurance market, MetLife has paid out approximately

- 1 four billion dollars in claims.
- 2 Thank you for the opportunity to testify
- 3 in support of MetLife's application. We
- 4 respectfully request that the Administration approve
- 5 our filings as submitted. This conclude our
- 6 prepared remarks.
- 7 COMMISSIONER REDMER: Thank you. And I
- 8 apologize, I may have missed this. You mentioned a
- 9 couple of loss ratios, that they were projected loss
- 10 ratios.
- 11 MR. TREND: Yes, those are lifetime from
- 12 original issue to the end of our projection period.
- 13 COMMISSIONER REDMER: And what is the
- 14 current loss ratio?
- MR. TREND: On these forms our last
- 16 actuals are for the calendar year 2015 in our
- 17 filing.
- 18 COMMISSIONER REDMER: Uh-huh.
- MR. TREND: And they vary -- we have five
- 20 filings before you. But from -- in the -- for
- 21 Maryland specific business, between 10 and 105
- 22 percent.

- 1 COMMISSIONER REDMER: Okay.
- 2 MR. TREND: And nationwide the range is
- 3 from 7 to 88 percent.
- 4 COMMISSIONER REDMER: Okay.
- 5 MR. TREND: Again it varies by policy
- 6 form.
- 7 COMMISSIONER REDMER: Thank you. Anybody
- 8 else have a question?
- 9 MR. JI: Talk about the landing spot, I
- 10 ask if you offer the landing spot for the rate
- 11 increases, and you say you cannot do that. So maybe
- 12 you explain the reason.
- MR. TREND: Sure. So, the reason we
- 14 chose not to pursue that is really two fold. One is
- 15 related to the level of increased request below 20
- 16 percent in respect of the 15 percent regulation.
- 17 And secondarily we had very few
- 18 policyholder in Maryland with the inflation benefit
- 19 feature. So, that landing spot would only really
- 20 impact a relatively small number of our consumers.
- MR. JI: Thank you.
- 22 MR. SWITZER: I see that the total in

- 1 Maryland I have about 11,000 members. And I heard
- 2 that these filings we're discussing here of about
- 3 1,800. So, do I have that right, about a fifth or
- 4 so of the total?
- 5 MR. TREND: That's correct.
- 6 MR. SWITZER: So, the rest of the 80
- 7 percent are doing a little better, I presume.
- MR. TREND: Yeah, last year we were here
- 9 and we did request a rate increase on some of the
- 10 earlier blocks.
- 11 MR. SWITZER: And here on the biggest
- 12 piece, the 1,500 members issued between 2000 and
- 13 2008, just curious roughly when -- given a long-time
- 14 horizon product, early loss ratios will be low, but
- 15 when the actual you expect to start to deviate, the
- 16 actual started to be above the expected, do you have
- 17 a sense of when that started?
- MR. TREND: Yes, so, our assumptions have
- 19 evolved over the years since MetLife entered the
- 20 long-term care space, and typically consistently as
- 21 the other carriers testified to with lower lapse
- 22 rates, lower mortality rates and claim costs have

- 1 been a little bit more than expected, but generally
- 2 higher. So, it's been an evolution over of the
- 3 years.
- In our later product series over time
- 5 reflected that change in assumptions, typically
- 6 leading to higher original premiums.
- We monitor the experience annually as I
- 8 testified to to see how it's evolving. So, we have
- 9 seen duration over the years. Each year we assess
- 10 the experience, calculate the appropriate rate
- 11 basis, and then management makes a decision as to
- 12 whether it's prudent to pursue a rate increase or
- 13 not.
- MR. SWITZER: So, early on it started to
- 15 deviate, the actual to expected?
- MR. TREND: Broadly for our company, we
- 17 really started seeing significant deviations that
- 18 lead us to explore in force rate increases in the
- 19 late 2000s.
- MR. SWITZER: Thanks.
- MR. TREND: In fact, you know, the
- 22 company chose to stop writing new business, and

- 1 thereafter to manage the in force block at the
- 2 approximate time. But it's a continuum. It was not
- 3 a cliff type situation.
- 4 MR. SWITZER: Sure. Thank you.
- 5 MR. MORROW: You mentioned there's
- 6 individual and group business in here. Do you have
- 7 a breakdown of the numbers?
- 8 MR. REILLY: Sure. On the group it's
- 9 14 -- let me see.
- 10 MR. TREND: 1,495.
- 11 MR. REILLY: 1,495, 289 is individual.
- MR. MORROW: So, you do still have some
- 13 individual business. That didn't all move over to
- 14 Bright House?
- 15 MR. TREND: Correct.
- 16 MR. REILLY: Correct.
- 17 MR. MORROW: Is there any -- is there any
- 18 reason all that business didn't move over? Is it
- 19 any different the business you kept versus the
- 20 business that left?
- 21 MR. TREND: It's really the origin of the
- 22 legal entities. So, the business that moved to the

- 1 newly spun off Bright House entity was actually
- 2 originally written by The Travelers, and was assumed
- 3 in a transaction many years ago.
- 4 And when the company decided to spin off
- 5 the Bright House entity, we did it by legal entity.
- 6 So, those products were housed in what is now Bright
- 7 House, formerly MetLife USA, formerly Metropolitan
- 8 Insurance Company of Connecticut, formerly
- 9 Travelers.
- The business we're discussing today is
- 11 all written on Metropolitan Life Insurance Company
- 12 paper, and we expect to maintain that business as is
- 13 in perpetuity.
- MR. MORROW: So, will we see different
- 15 folks up here when Bright House asks for a rate
- 16 increase?
- 17 MR. TREND: Correct.
- MR. MORROW: Thank you.
- 19 MS. GRASON: The same kind of broad
- 20 policy questions as before. What would your
- 21 thoughts be if the legislature were to pose the
- 22 question about cross subsidization? Certainly Met

- 1 is a household name, you know, you guys are kind of
- 2 known for having big business, great profits as a
- 3 general statement. Why can't those profitable
- 4 blocks subsidize the nonprofitable LTC?
- 5 MR. TREND: Full disclosure, I'm not a
- 6 public policy guy. I'm an actuary.
- 7 COMMISSIONER REDMER: Would you like me
- 8 to swear him in?
- 9 MR. TREND: I will make a couple of broad
- 10 statements with that caveat. You know, one is
- 11 obviously the current environment regulation and
- 12 history and legal entity set-up really doesn't
- 13 anticipate that in any meaningful way.
- But conceptually, my view is it's already
- 15 happened. Metropolitan Life Insurance Company to
- 16 your point is a broadly diversified mix of products.
- 17 We report our statutory blue book. It's there for
- 18 all to see. And all the assets of that entity are
- 19 available to pay all the obligations of that entity
- 20 regardless of product line.
- 21 So, in one sense it's happening already.
- 22 We don't have long-term care shareholders and life

- 1 shareholders and annuity shareholders. We're one
- 2 company. So, to some extent it's happening, but
- 3 obviously the regulatory framework as it exists
- 4 requires each product to meet its compliance and
- 5 financial obligations kind of on a standalone basis.
- 6 MR. SWITZER: Just augmenting a little
- 7 bit Cathy's thought, when we look at all 22 carriers
- 8 in 2016 and look at those publically available net
- 9 income numbers, it's a 7.7 percent positive number.
- 10 I know that varies a lot by carrier, but it's a
- 11 pretty healthy number. And we're just trying to see
- 12 the whole picture. LTC being 8 percent -- 4 percent
- 13 for all 22 carriers of the total book. And just
- 14 seeing what the context is.
- 15 MR. TREND: Sure. Understood. Thank
- 16 you.
- 17 COMMISSIONER REDMER: Any questions?
- 18 All right. Thank you.
- MR. TREND: Thank you.
- 20 COMMISSIONER REDMER: That takes care of
- 21 the carriers. We will now move to interested stake
- 22 holders, and we will go first to Mr. Cohen. Thank

- 1 you for joining us.
- 2 MR. COHEN: Good afternoon, my name is
- 3 Irv Cohen. I'm a resident of Montgomery County for
- 4 60 some odd years. I also own a long-term care
- 5 policy originally written by Travelers. Thank you
- 6 for telling me a little bit about it.
- 7 I have addressed -- I want to thank you
- 8 for the opportunity to address the panel. I have
- 9 been here before, as you know, and I have certain
- 10 points that I'm going to make. But this has been a
- 11 most enlightening session, frankly.
- 12 It's nice, I think, to hear that it's
- 13 okay to discriminate but not unfairly discriminate.
- 14 That kind of blows me away. And I wonder how that
- 15 would sit in a court of law. I would be interested
- 16 in knowing who you discriminate against and who you
- 17 discriminate for.
- I was shocked to hear that the design of
- 19 the policies, especially for the one that I perhaps
- 20 had, have been having for the last 20 years and I've
- 21 been paying -- by the way my premiums have gone up
- 22 500 percent in the meantime. They were designed so

- 1 the lapses would support lower premiums. And this
- 2 comes now back to the whole question which is really
- 3 the heart of what we are talking about in that is,
- 4 who is to bear the risks and the rewards of the
- 5 policy design performance and the actual performance
- 6 with respect to the various elements of the total
- 7 structure of the policy's economics.
- Now, I will share with you a personal
- 9 observation. My family was in the produce business
- 10 for three generations. And if my father purchased a
- 11 trailer load of potatoes at a certain price and then
- 12 discovered halfway through he was losing money on
- 13 that deal, he could not go back to those who had
- 14 purchased the potatoes earlier and ask them to pay
- 15 more money.
- And that's precisely what's being asked
- 17 here. They didn't do it the right way for a lot of
- 18 reasons, maybe to buy market share, maybe because it
- 19 was being tied in with a life policy or regular
- 20 health policy or for any other business reasons, but
- 21 right now I feel and a lot of people like me who may
- 22 be here today or not, I don't know, but in other

- 1 sessions they have been present, they feel like it's
- 2 tails I lose, heads you win type of situation.
- Now, why are the lapse rates low? I can
- 4 tell you why mine is low. I have so much invested
- 5 in this policy, I've got as much invested in this as
- 6 my grandchild's tuition at University of Maryland
- 7 this year. So, I really got to think long and hard
- 8 before I walk away from that investment.
- 9 And why did I make that investment 20
- 10 some odd years ago? Because I thought that there
- 11 was somebody looking at the policies, MIA I thought,
- 12 that the policies were fair, they were structured
- 13 fairly and I was being treated fairly.
- 14 And now I find I'm not being treated
- 15 fairly. My premium notices that came last week
- 16 added up to \$16,000. Now, I have a lifetime
- 17 benefit. Yeah, that's a pretty good deal. And you
- 18 all know it is, because you stopped selling it.
- 19 But why do I bear that loss? You
- 20 designed the policy to make money. When you made
- 21 money on the policies did I, like I have in my life
- 22 insurance policies, get a premium rebate? Did I see

- 1 anything from it?
- Who is looking at the administrative
- 3 costs? Who is looking at when this book of business
- 4 was purchased from Travelers what the pricing was?
- 5 How much of that bad deal you made with Travelers is
- 6 baked into my policy now because you don't have the
- 7 cash flow?
- 8 There is something wrong here. Terribly
- 9 wrong. And I'm glad to sit and talk about it. I'm
- 10 not an actuary. I'm retired lawyer. I'm glad to
- 11 say it's retired, but there comes a time when it
- 12 gets to be so obnoxious that it really, if you will,
- 13 shocks the consciousness of my court.
- I sit here and I listen to this, well, we
- 15 made a mistake. We under priced the product. We
- 16 did this. We did that. We did the other thing.
- 17 Well, who the heck are the experts? The consumer
- 18 who was told by the agent, oh, yeah, there is this
- 19 provision in here where they can increase the
- 20 premium but they never have.
- 21 And here we are, we've heard people come
- 22 in time and time again, oh, after two years my

- 1 premiums are going up and they are going up every
- 2 year. And we're not talking about a retired lawyer.
- 3 You're talking about a retired, middle class, blue
- 4 collar person who is depending upon this to not to
- 5 become a burden on his family.
- And we can chuckle about some of these
- 7 things, but that's a real problem. When mom and pop
- 8 have to go to their kids and say, we screwed up. We
- 9 believed the insurance company, we believed the
- 10 regulators were watching my back. And it turned out
- 11 nobody was watching their back.
- 12 So, yeah, I can get pretty emotional
- 13 about this because I see some of those people. I
- 14 live in Leisure World. 7,000 people live in Leisure
- 15 World. Most of them do not have this policy. Most
- 16 of them, a lot of them are government employees, and
- 17 I was with some of them last night and, boy, you
- 18 should have heard them bitching about 800 percent
- 19 increases.
- I said, well, you didn't live in Maryland
- 21 and get a Maryland policy with only 15 percent.
- 22 You're very unfortunate. I'm really upset today

- 1 when I hear about this.
- The problem is I think you're not looking
- 3 at the right things. I read through the study of
- 4 company financial data that you put out, and I'm
- 5 just going to point out one item. No. 6. It sets
- 6 out a process that I would suggest to you is
- 7 inadequate.
- 8 The study totally fails to address the
- 9 issue of the use of the premiums that were paid by
- 10 policyholders like myself for 20 years. What
- 11 actually happened to those premiums?
- 12 My mother-in-law then age 72 purchased a
- 13 policy, never became a claim and she died. And all
- 14 the premiums that I paid for her because I knew I
- 15 was her safety net, never saw them again. They are
- 16 gone. What happened to those? What was the actual
- 17 use? How did the carrier reserve it for the future
- 18 claims? What did they do with the money? What good
- 19 deals did they make, what bad deals did they make?
- 20 What officers or high ranking lawyers and
- 21 accountants got paid what? Or had fancy, you know,
- 22 conferences in the Caribbean? I don't know.

- 1 In other regulated industries, you would
- 2 know. Utility couldn't bake those costs into their
- 3 rate base and get a return on it. And in many ways
- 4 this is a quasi utility type of situation.
- What's appropriate, what's fair, what's
- 6 reasonable to charge the policyholder for? What
- 7 risks should the policyholder be taking? And should
- 8 the policyholder be given full disclosure at the
- 9 front end, not five years in when he's paid premiums
- 10 for five years.
- I'm aghast. I'm upset. People I speak
- 12 to are upset. And I think they have every reason to
- 13 be upset because I don't think they've been treated
- 14 fairly. They have not been treated fairly. When a
- 15 working guy goes and he buys a policy for a couple
- 16 thousand dollars a year, and then he finds two years
- 17 later a 15 percent increase. And that gets
- 18 compounded year after year after year.
- When he says, listen, I can't afford it
- 20 any more. But he will hang onto it. He will give
- 21 up a vacation. He will give up going to ball games
- 22 with his kids and grandchildren. He will do a lot

- 1 of things because he doesn't want to become a burden
- 2 to his family. And that's the reason he bought the
- 3 policy.
- 4 But what happens when the policy is gone
- 5 and the family is scattered across the United
- 6 States, who does he become a burden to? Everybody
- 7 here who is a citizen of the State of Maryland is
- 8 paying a piece of what his policy should have paid
- 9 for. And that's outrageous.
- 10 Medicaid does not carry the day for most
- 11 people. I'm very active at the Charles E. Smith
- 12 Life Communities in Washington. And I can tell you
- 13 if we had to pay and make a, quote, profit on what
- 14 Medicaid pays, we couldn't do it.
- We depend on the generosity of our
- 16 investors, our community members. So, you pay
- 17 taxes. I pay taxes. And we're paying for all of
- 18 this nonsense that's gone on where I think a lot of
- 19 people believe the policyholders have been screwed
- 20 and the carriers have been active participation --
- 21 participants in it. Thank you for the opportunity.
- 22 COMMISSIONER REDMER: Thank you. And we

- 1 appreciate your coming back out. Any questions for
- 2 Mr. Cohen?
- 3 MR. MORROW: I just want to thank him for
- 4 his letter of August 21st.
- 5 MR. COHEN: Sure.
- 6 MS. GRASON: All right. And this is
- 7 Cathy Grason, I'll be stepping in to conclude our
- 8 meeting as the Commissioner has to step out.
- 9 I believe we got everybody that signed
- 10 up here in person. Is there anyone else present
- 11 with us today that wishes to speak that has not
- 12 signed up? Any folks on the phone that wanted to
- 13 testify?
- 14 Hearing none, I wanted to thank everyone
- 15 for coming out today to participate, the folks that
- 16 dialed in. The transcript from today's hearing will
- 17 be posted on the MIA website in the next few weeks.
- 18 I believe our next hearing is scheduled toward the
- 19 end of the year. You can keep your eyes on our
- 20 website for that information as well.
- 21 Thank you very much.
- 22 (Whereupon at 2:26 the hearing concluded.)

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1
    STATE OF MARYLAND
 2
    COUNTY OF HOWARD SS:
 3
              I, Susan Farrell Smith, Notary Public of
    the State of Maryland, do hereby certify that
 4
 5
    above-captioned matter came on before me at the time
 6
    and place herein set out.
 7
              I further certify that the hearing was
 8
    recorded stenographically by me and that this
 9
    transcript is a true record of the proceedings.
10
              I further certify that I am not of
11
    counsel to any of the parties, nor an employee of
12
    counsel, nor related to any of the parties, nor in
13
    any way interested in the outcome of this action.
14
              As witness my hand and notarial seal this
    10th day of September, 2017.
15
16
17
                                Susan Farrell Smith
18
                             Notary Public
19
    (My Commission expires February 8, 2020)
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