Testimony of
David Plumb, Vice President & Actuary
Long Term Care Inforce Management

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Thank you Superintendent Cioppa for providing us the opportunity to participate in this important Forum. My name is David Plumb and I'm a Vice President and actuary at John Hancock Life Insurance Company (U.S.A.), headquartered in Boston, Massachusetts, responsible for the management of our inforce long-term care insurance business.

Background regarding John Hancock's long-term care insurance business

John Hancock has been in the business of insuring Americans' lives since 1862. Today we are a market leader in many of our product lines, including long-term care insurance (LTCi), which we've been writing since 1987. We believe in the vital role LTCi plays in the financial planning process and in the lives of our insureds and their families, especially in an environment in which government programs are severely strained and the need for long-term care continues to rise dramatically.

We are proud to be one of the largest writers of LTCi in the United States. Over the years John Hancock has paid more than $7.6 billion in LTCi claims, and today pays more than $2.7 million in claims per day. We currently insure 3,616 Maine citizens and have paid out more than $21 million to Maine families. Nationally, we have helped more than 82,000 families navigate the long-term care services landscape and receive benefits. We are committed foremost to our insureds as demonstrated by our ability to be there when our customers need us most, at claim time. We are also committed to the LTCi business and it is our intention to remain a key industry player and more importantly an industry leader in this very important product line.

Over the years, John Hancock has been a leader in innovative LTCi product design, evolving our products to meet the changing needs of consumers and innovations in the long-term care delivery system including such benefits: as Shared Care, which allows spouses to access a combined pool of benefits; and offering a more affordable and more relevant approach to inflation protection, a built-in, annually compounded inflation provision that tracks the Consumer Price Index. We are most proud of the fact that we launched our new innovative Performance LTC product last year. Performance LTC offers many of the features associated with LTCi products currently on the market, yet represents a fresh and affordable perspective on the way the coverage and premiums can be structured.

Long Term Care services can cost hundreds of thousands of dollars. This can easily deplete an individual's savings and then some. Pooling your risks with others through insurance is more affordable than trying to earmark savings to cover the potential costs.

Below you will find our thoughts on questions the Bureau originally posed relating to this Forum.

What are the key factors driving LTC insurers' premium increases?

Much has changed over the past few decades in long-term care and the LTCi industry such as new developments and enhancements in medicine and technology; new types of care providers (e.g. assisted living facilities and independent care providers); an increase in the lifespan of individuals, increased utilization and length of claim; and the desire of people to hold onto their policies; coupled with significantly lower interest rates and investment returns. Few could have foreseen all of these changes happening, and how they continue to evolve. The culmination of all these changes has been a perfect storm for the LTCi industry. Insurers have taken on increased and unforeseen risk as long-term care services have evolved since the policies were first issued, causing the need to adjust premium rates.

LTCi is a very long duration product (people buy in their 50's and claim in their 80's and 90's) and LTC usage and expenses are difficult to predict for many decades into the future. Writers of this important product need to be able to adjust premiums to reflect actual experience. This is why LTCi has always been issued on a Guaranteed Renewable basis which means the insurance company can't cancel coverage, but they do have the ability to adjust premiums if experience is worse than expected (subject to minimum loss ratio requirements.) In addition, it also does not mean a company has to be on the brink of insolvency or not making any money at all before rates can be adjusted. If not for the ability to adjust premiums to better reflect actual experience, there would not be a market for this type of insurance, which would result in many more people spending virtually all of their savings on care costs and then relying on strained Medicaid programs for their care after depleting their assets.

Most of the earlier premium increases in the industry were due to lower than expected voluntary lapses. Current premium increases are driven more by mortality and claims experience. We also note that LTCi is still a relatively young industry and many companies have just recently started to get a significant amount of claims experience at older attained ages and later policy durations (where the vast majority of claims will happen.) We are seeing more people living to older ages where LTC events happen and we are seeing a higher rate of claims and longer lasting claims for those who do make it to the older ages.

We have often been asked by states and consumers whether or not we allow policyholders in one state to subsidize the insureds of another state especially when that latter state has not approved a rate increase. At John Hancock, while we use nationwide data to determine rate increases, we re-state our nationwide premiums to reflect the amount and timing of rate increases in the state we are filing in. This ensures no subsidization between states and means that the amount of increases approved in other states has no impact on the rate increases needed in Maine and the amount of rate increases approved in Maine has no impact on the rate increases needed in other states. Because we do not allow subsidization, this also means that delays in approvals of rate increases will result in larger rate increases for consumers in that state.

John Hancock continues to believe that private insurance will play an increasingly important role as a source of funding for long-term care needs in the coming years. However, we believe that rate adequacy is critical for companies to continue to be able to operate effectively in the LTCi marketplace.

<u>What are the ways to lessen the impact of LTC insurance premium increases?</u>

We recognize that premium increases may be difficult for some policyholders to afford and we have taken some major steps to help ease the burden on our insureds:

- o We have applied the more restrictive NAIC rate stability rules to all policies including our pre-rate stability block.
- o We have ensured that the resulting premiums on our inforce business are not more than our comparable new business rates adjusted for benefit and underwriting differences (in fact, they are often substantially less than our new business rates).
- o We have provided the typical benefit reduction alternatives to mitigate the impact of premium increases.

Most importantly, in 2010 we pioneered a unique and innovative alternative to completely offset the rate increase for those with automatic inflation increases, by lowering the future inflation increases on a prospective basis. We call this the Future Inflation Reduction Landing Spot, or Landing Spot for short. Past inflation accruals are retained by the policyholder and only future accruals are reduced. The key to this option is that it allows policyholders to retain the core value of his/her current plan design, while still avoiding the rate increase. Making this change does not decrease current benefit levels, nor does it affect such key provisions as covered services, levels of reimbursement, elimination periods, exclusions, or other important provisions. In our implementation of those rate increases - 73% of our Maine insureds were eligible for the landing spot and 48% of those eligible elected it. Recent annual inflation levels in long-term care services have been in the range of 1%-4%, with home care running at about 1%. Home Care is the most widely used service for those with LTCi policies.

We developed this option to help our customers retain their valuable coverage and our experience in implementing our rate increases shows that it did help reduce lapse rates. In addition, our Regulators and our distribution partners continue to find the inflation reduction landing spot to be an innovative and effective alternative for our insureds. We also believed that this option has greatly reduced complaints as it empowered our customers with a very viable mitigation alternative.

<u>What is the current state of the older LTC insurance blocks of business?</u>

We have discussed the drivers of LTCi rate increases to date but must also address the fact that additional rate increases may be necessary in the future - as more insured life experience develops or there are further changes in the medical, economic, care provider or care usage environments. However, we believe the good news is that our policyholders very much value their coverage and continue to maintain their insurance even in the face of rate increases. Specifically, the overall lapse rate for our Maine insureds after the implementation of our 2010 rate increase was just a little over 3%.

<u>What are the innovations in new LTC insurance products?</u>

John Hancock is committed to addressing consumer needs by continuously designing smarter, leading edge products that offer greater customer value and make a real difference in people's lives. Our goal is to offer LTCi products that are both valuable and sustainable, far into the future. With this in mind, we developed and launched our new innovative individual LTCi product, Performance LTC in 2015.

This product:

- offers the core features associated with traditional products currently on the market;
- it reflects company experience in a more timely manner than previous industry designs;
- it greatly reduces the customer's risk of a sudden and dramatic premium change in the future; and
- it provides better tools and disclosure to help insureds manage their policies.

For this product, premiums are priced with a very conservative set of assumptions. Claims are assumed to be 65% higher than expected and assumed investment yields range from 1 – 3% (based on age). When claims and investment experience are better than these very conservative assumptions, policyholders automatically receive an experience credit that is primarily used to offset premiums, and any excess credits accrue in a Flex Account for multiple uses (such as to pay LTC expenses beyond the policy limits, or provide up to a return of premium on death or lapse.)

What is the future of LTC insurance?

We believe that as more Americans are living into their eighties, nineties, and beyond, private Long Term Care Insurance can and should play an integral part in solving for the potential financial consequences of needing significant LTC services.

Over the past dozen years, the LTCi market has significantly contracted from the broad marketplace of earlier years. Such a broad marketplace created availability and both public awareness and demand. However, private LTCi will only be available if there is certainty in the regulatory framework that supports this industry, including the approval of actuarially justified rate increases in a timely manner. A key reason that has caused carrier withdrawal from the LTCi marketplace is the uncertainty of the regulatory environment that can lead to the inability to obtain needed rate increases. We believe that a more cohesive and uniform approach by all states in the review and disposition of rate increases is necessary for the LTCi marketplace to begin to grow again. We support the adoption of the recent changes to the NAIC LTC Model Regulation and Filing Guidance Bulletin. We believe that adoption of these provisions nationwide is one step in that direction.

What is needed to improve LTC insurance consumer protections and claims practices?

- Consumer Protection Provisions
  LTCi and the laws and regulations that govern it have evolved over time to keep up with consumer demands and the changing environment. As indicated above, John Hancock actively supports the current 2014 NAIC Model Long-Term Care Insurance Act and Regulation as well as the 2013 Model Bulletin which addresses filing guidance for pre-rate stabilization blocks. We encourage Maine to adopt the latest version of the NAIC models as they include greater consumer protection provisions such as more stringent loss ratio requirements, prohibition against recouping past losses, enhanced consumer disclosure requirements and a more accessible contingent nonforfeiture benefit.

- Claims Practices
  We believe that the goal of all insurers should be to administer claims in a fair, expeditious manner and with the utmost integrity. We believe that we have met that goal and have established an excellent claims record, having paid more than $7.6 billion in LTCi claims, and today we pay more than $2.7 million in claims per day. We commend the Maine Bureau of Insurance for its promulgation of prompt payment of long-term care insurance claims and appeal and external review process regulations in 2015. We believe that Maine has the appropriate regulatory framework in the claims practices area.

What more can be done to encourage the public to plan for long-term care needs?

An America's Health Insurance Plans (AHIP) survey of people who don't own LTCi showed that about 40% of those people believed that Medicaid will cover their LTC needs and 40% believed that Medicare will cover their LTC needs. With somewhere between 40% and 80% of people believing the government will pay for LTC needs, it's hard to encourage people to plan for this risk. Medicare does cover some limited LTC needs and unfortunately Medicaid actually does cover many LTC needs for people who could pay for their own care. The extent of this issue varies by state and will require changes on both the Federal and state levels to truly reform the program.

We also believe that consumer awareness is a key component of encouraging all citizens to take responsibility and plan for their future LTC needs. We suggest that Maine consider initiating an "Own Your Future" Campaign where the state helps educate people of their need to plan for their LTC needs. This would be much more valuable if done at the same time or shortly after Medicaid reforms are put in place, but certainly educating Maine residents now when they are becoming more aware of the cost of care would be beneficial.

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John Hancock is committed to working with you to ensure a vibrant and responsible LTCi marketplace in Maine.

Thank you again for providing us the opportunity to participate in this important Forum.