

MAINE BUREAU of INSURANCE – Long Term Care Insurance Forum – May 9, 2016

Company Perspective

Unum’s Testimony: Matt Monaghan - VP, Corporate and Regulatory; General Counsel, Closed Block Operations

Good Afternoon. And, on behalf of Unum, thank you Superintendent Cioppa, The Bureau and each of you who have participated in today’s forum.

Unum has had a presence in Maine since 1881 and currently employs nearly 3000 Mainers.

Unum no longer sells Long-Term Care (LTC) insurance policies and hasn’t since exiting the individual LTC market in 2009 and exiting the group LTC market in 2012.

I’m the General Counsel of Unum’s Closed Block Operations business group, which holds Unum products no longer sold by the company. LTC insurance policies comprise about half of Unum’s closed blocks of business.

The vast majority of Unum’s LTC policies were issued between 1989 and 2012.

Unum has over 1M LTC insureds nationwide, including approximately 2600 Maine Individual LTC policyholders and an additional 13,000 people insured through Group LTC policies issued to Maine employers.

We at Unum take our commitment to our LTC policyholders very seriously. We have a team of over 150 LTC professionals dedicated to providing customer service and administering benefits.

Our top priority is to meet our obligations to each of our customers, including by providing benefits in their time of need. During 2015, we paid over \$370M in LTC benefits.

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

When Unum entered the LTC business in the late 1980s, we determined our prices using the best data available at that time, applying assumptions and predictions about how future experience would develop.

Unfortunately, though, like many in the industry, our actual experience in the years and even decades since we issued our LTC policies has turned out to be significantly different than the actuarial assumptions used to set original prices.

- Individuals covered under LTC policies are living longer and holding onto their policies longer than anticipated, leading to more claims being made than had been anticipated;

- And, once individuals are on claim, they are staying on claim longer than expected [e.g., Dementia and Alzheimer's]; and

- At the same time, investment earnings on the reserves we hold to pay claims continue to be significantly lower than projected given the sustained low interest rate environment.

As a result, our LTC block has suffered significant overall losses for the reasons you've heard described by the Society of Actuaries' expert and others.

Unum's LTC losses have had and will continue to have significant adverse impacts on our company. In light of the multiple pricing factors involved, this will be the case even if interest rates rise.

In 2006, when the financial reality of Unum's LTC business became clear and credible, we filed our first LTC rate increases to mitigate financial and enterprise risk.

Our goal in seeking LTC rate increases is not to generate profits, nor to recoup any of the losses we have experienced.

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

With that in mind, the rate increases we've sought represent only approximately 24% of the amounts we could have sought as actuarially justified.

Nonetheless, even with this limitation, Unum recognizes that the individual LTC rate increase amounts we've introduced are substantial and present many of our customers with a significant challenge to maintain their coverage.

Therefore, for each of our individual LTC customers faced with a rate increase, Unum developed our version of a rate increase "landing spot option".

Here is how our landing spot option works:

- First, our recent individual LTC rate increase applies only to our customers who have a policy containing a 5% uncapped simple or a 5% uncapped compound annual inflation adjustment; and

- Second, each one of these customers subject to that rate increase may entirely avoid having their premium increased by electing to reduce their annual inflation adjustment on a go-forward only basis from 5% to a reduced inflation % (typically not less than 3%). [For example, our customer who elects the landing spot retains the 5% annual benefit increases that have already accrued, with future inflation increases then applied at the reduced annual % adjustment going forward.]

This Unum landing spot option has been approved in Maine and in 37 other states. And, although it is still early in the implementation process, we have seen high election of the option to date.

In addition to the landing spot, 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 [for example, from lifetime to a 10 year benefit] or adjusting the daily benefit levels provided.

And, in conjunction with Unum's LTC premium increases, we also provide our policyholders with the ability to select a non-forfeiture option whereby a policyholder may choose to no longer pay premiums going forward but would retain LTC coverage equal to the total amount of premiums the particular policyholder has paid for his/her insurance policy.

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

In closing, we acknowledge how difficult LTC rate increases can be for 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 time of claim.
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On behalf of Unum and personally, thank you for holding a forum on this important topic and for inviting Unum to participate.

Thank you.