



DEPARTMENT OF

Professional &
Financial Regulation

STATE OF MAINE

- OFFICE OF SECURITIES
- BUREAU OF INSURANCE
- CONSUMER CREDIT PROTECTION
- BUREAU OF FINANCIAL INSTITUTIONS
- OFFICE OF PROF. AND OCC. REGULATION

Long-Term Care Insurance

Presentation by Maine Bureau of Insurance

to the Joint Standing Committee on
Health Coverage, Insurance and Financial Services
November 19, 2021

Long-Term Care Insurance National Concerns

Maine Bureau of Insurance
Eric Cioppa, Superintendent of Insurance

Background

- Long-term care insurance (LTCi) marketed for about 40 years.
 - Started as nursing home only insurance policies
- Rapid market growth in 1980s as insurers began to cover home- and community-based care
 - By late 1990s, > 100 insurers were selling LTCi
 - Currently about a dozen insurers now sell LTCi nationally and 7 in Maine
- LTCi is sold as guaranteed renewable and level-funded
 - Cancellable only for non-payment of premium
 - Premium designed not to increase based on age, but all contracts have a provision that allows the carrier to file for an increase

Background (cont'd)

- What the long-term care insurers got wrong when they priced their product:
 - Interest rates would remain between 6 and 8%
 - Lapse rates would be similar to those in life insurance, or between 4 and 5%
 - Has been under 1 % since the product became available
 - Morbidity did not anticipate exposure to Alzheimer's and other long-duration diseases

Background – Examples of LTCi Reserve Deficiencies

- Employer Reassurance Corporation (ERAC) –
 - Subsidiary of GE
 - \$14 billion deficiency as of 12/31/17
- Unum –
 - Largest Maine domestic insurer
 - \$2 billion deficiency as of 12/31/18

Background – Examples of LTCi Insolvencies

- Penn Treaty Network Am. Ins. Co./Am. Network Ins. Co. –
 - Placed in liquidation 3/1/17 at PA DOI's recommendation
 - 300% average additional premium increases needed
 - Life/Health Guaranty Associations (GAs) where these companies do business have assumed responsibility for their policies
 - Potential exists that GAs will seek premium increases
- Time Ins. Co. –
 - Complicated history involving 2 cease/desist orders by WI OCI in 2019 based on company's attempt to take back LTCi block from its reinsurer, culminating in WI OCI seeking rehabilitation order to protect approx. 200,000 LTCi policyholders
 - Placed in rehabilitation 7/29/20

Background – LTCi Insolvencies (cont'd)

- Senior Health Insurance Company of Pennsylvania (SHIP)
 - \$466 million deficiency as of 12/31/18
 - Placed in rehabilitation 1/29/20 in PA
 - Currently deficit is \$1.2 billion
 - 30,000 remaining policyholders
 - Proposed Plan of Rehabilitation
 - Two-phase plan intended to fend off liquidation

Background – LTCi Insolvencies (cont'd)

- SHIP (cont'd)
 - Maine, Massachusetts and Washington State have intervened in the Pennsylvania court proceeding
 - South Carolina and Louisiana filed actions in state and federal court respectively challenging the PA court's authority to approve a plan that sets premium rates outside of PA in violation of those states' rating laws
 - Maine, Massachusetts and Washington's objection to the proposed rehabilitation plan
 - Would put policyholders in worse position than liquidation in violation of the US Supreme Court's opinion in *Neblett v. Carpenter*
 - Rehabilitator argues guaranty association protection is unreasonable because many policyholders have been paying lower than needed premium
 - Plan unlikely to eliminate the \$1.2 billion funding gap
 - Premium is < \$60 million annually
 - Only 30,000 remaining policyholders

Genworth

- Largest LTCi writer in the US and licensed in all 50 states
 - As of 9/30/21, \$2.6 billion individual LTC premium and 1,031,000 lives covered
- Strategy for their LTC involves rate/benefit changes, reputational risk management, and financial/analytical oversight
 - Rate/Benefit changes
 - Pursuing significant premium rate increases and associated benefit reductions on older blocks of business to bring the blocks closer to break-even over time and reduce strain on earnings and capital
 - Pursuing rate increases on newer blocks of business to help bring loss ratios back toward original pricing assumptions
 - Received 144 filing approvals from 37 states in 2020, representing a weighted-average increase of 34% on approximately \$1,008 million in annualized in-force premiums or approximately \$344 million of incremental annual premiums
 - Also submitted 245 new filings in 50 states in 2020 on approximately \$1,485 million in annualized in-force premiums
 - Reputational Risk Management
 - Publicly says that its financial condition, results of operations, long-term care insurance products and market reputation might suffer if it cannot implement adequate premium rate increases and associated benefit reductions on their in-force long-term care insurance policies
 - Financial/Analytical Oversight
 - Plan to manage expenses; adopting higher return investment strategies; and improve financial and actuarial analytical capabilities
 - Include significant premium increases and benefit reductions in reserve assumptions
 - Its 2020 LTCi block, excluding its acquired block, includes an assumption for future in-force premium rate increases and associated benefit reductions of approximately \$8 billion in its loss recognition testing
- Company says that if it does not realize future rate increases and associated benefit reductions, it would have to increase its LTCi reserves by amounts that would likely be material and would result in a material adverse impact



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Long-Term Care Insurance Rate Review

Maine Regulations and Procedures

Maine Bureau of Insurance
Marti Hooper, Life & Health Actuary

Long-Term Care Insurance Jurisdiction/Scope of Rate Review

- Individual and Group policies sold in Maine require prior approval for rate increases.
- Not under Maine Bureau of Insurance review:
 - Policies sold or issued in other states
 - Employer group policies issued in other states
 - Policies approved by the Interstate Insurance Product Regulation Commission (Compact) for rate proposals under 15%

Rate Review Overview

- Benefits must be reasonable in relation to premiums.
 - Type of review will depend upon whether filing applies to pre or post rate stabilization policies
- The Bureau may negotiate a lower approved increase in some cases
- Carriers are encouraged to spread larger increases over several years (with full disclosure to policyholders) in an effort to reduce the immediate impact of a rate increase

Reported Premium for Top Carriers Issuing or Renewing in Maine 2020

- Long-term care insurance premiums in Maine totaled \$56.7M in 2020 for 54 carriers

GENWORTH LIFE INS CO	\$13,999,910.00
JOHN HANCOCK LIFE INSURANCE COMPANY (USA)	\$7,037,488.00
UNUM LIFE INSURANCE COMPANY OF AMERICA	\$7,003,230.00
METROPOLITAN LIFE INSURANCE COMPANY	\$3,860,315.00
BANKERS LIFE & CASUALTY COMPANY	\$3,174,663.00
PRUDENTIAL INSURANCE COMPANY OF AMERICA	\$2,717,787.00
MUTUAL OF OMAHA INSURANCE COMPANY	\$2,614,008.00
CONTINENTAL CASUALTY COMPANY	\$2,326,320.00
NORTHWESTERN LONG TERM CARE INSURANCE	\$2,257,147.00
TRANSAMERICA LIFE INSURANCE COMPANY	\$1,742,648.00
RIVERSOURCE LIFE INSURANCE COMPANY	\$1,696,270.00
ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA	\$1,391,129.00
BRIGHTHOUSE LIFE INSURANCE COMPANY	\$1,110,442.00
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY	\$894,421.00
NEW YORK LIFE INSURANCE COMPANY	\$774,190.00
MEDAMERICA INSURANCE COMPANY	\$542,692.00

Filing Process

- Submitted through the SERFF (electronic filing) system
- Available for public viewing through Bureau website
- Review for compliance with Maine regulations
- Perform a detailed review of the Actuarial Memorandum
- Request additional information if necessary
- Independent review by contracted actuarial firm
- Review the loss ratio. Check results against company projection

Pre-Stabilization in Maine: Rule 420

- Policies issued prior to October 1, 2004
- Initially priced with a minimum loss ratio:
 - $\geq 60\%$
- Past premiums are adjusted to the proposed rate level in order to ensure that the increase does not recoup past losses

Rate Increase Loss Ratio

- Premium rate increases shall be calculated such that 85% of the additional premium due to the proposed increase goes towards claims.

Premium Increase



85% must pay for claims

15%
for
admin.
costs

Other rate increase considerations

- Review revised assumptions to reflect carrier/industry experience:
 - Mortality
 - Morbidity
 - Lapse
- Is the timing and amount of proposed increase appropriate?
- Solvency – will the company have the resources to continue to pay claims for current policyholders in the future?
- Benefit Reduction Options – what alternatives are available to the policyholder if premium increases are too high?

Recent Rate Increase Proposals

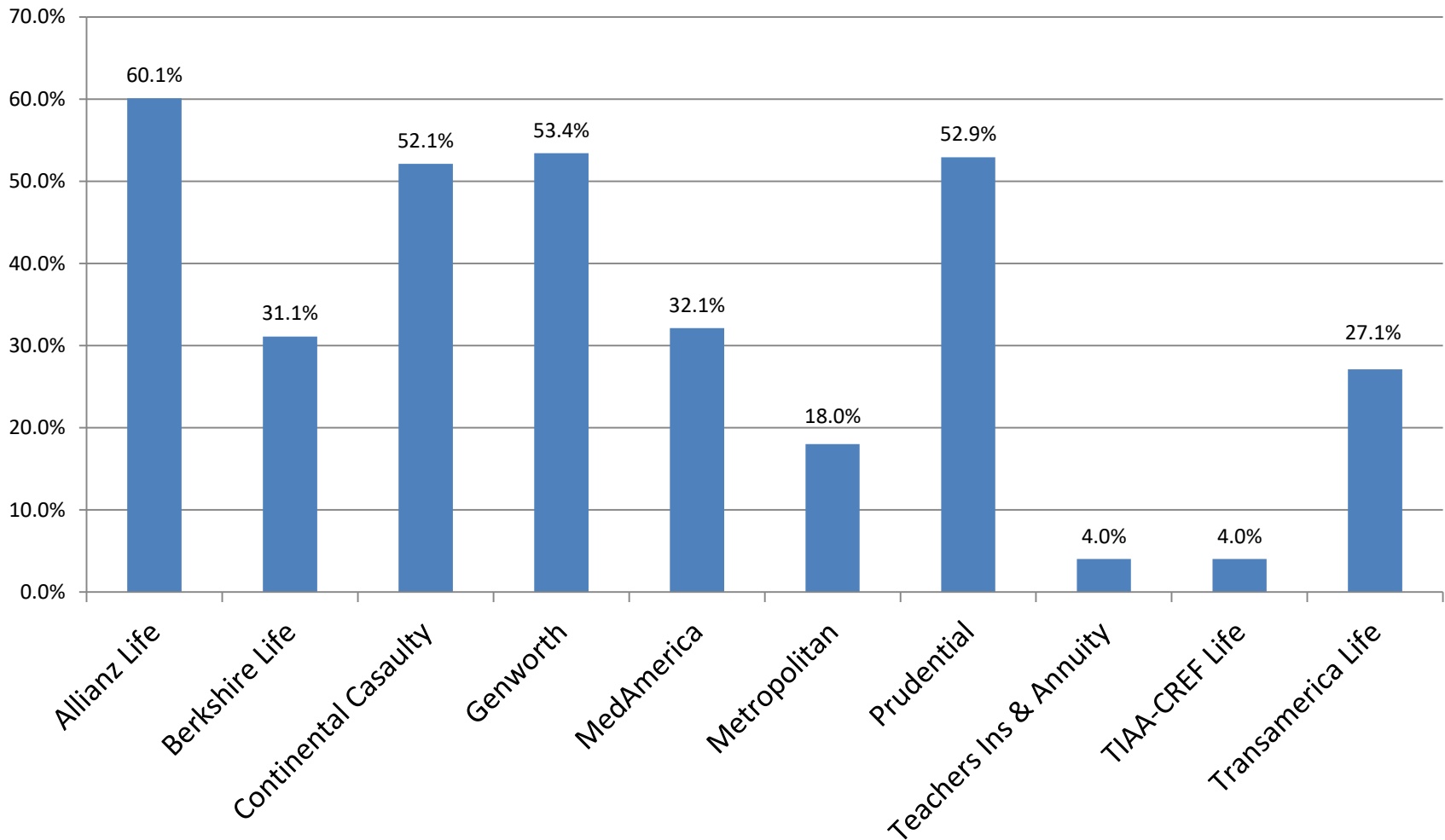
Approvals 9/2020 – 10/2021

Of 41 filings received:

- 16 filings for 3 companies are currently under review
- 2 filings were disapproved for 1 company
- 23 filings were approved for 10 companies
- Approved increases from 2% to 65%
- 13 filings were reduced

Recently Approved Rate Filings in Maine

2020 - 2021



National Working Groups

National Association of Insurance Commissioners (NAIC)

- Senior Issues
 - Long-Term Care Insurance Model Update (B) Subgroup
- LTC Insurance (EX) Task Force
 - LTC Insurance Financial Solvency (EX) Subgroup
 - LTC Insurance Multistate Rate Review (EX) Subgroup
 - LTC Insurance Reduced Benefit Options (EX) Subgroup
- LTC Actuarial Work Group
 - LTC Pricing
 - LTC Valuation
- Health Actuaries Task Force
- Valuation Analysis Work Group
- Financial Analysis Work Group

How does a Partnership Policy differ from a regular LTC Insurance Policy?

Partnership Policy		Regular Policy
Will pay for LTC in the policy benefit amount	_____	Will pay for LTC in the policy benefit amount
Asset disregard – dollar-for-dollar offset on benefits paid	X	No asset disregard
Inflation protection required if insured is a certain age when they buy – recently reduced	X	Inflation protection not required
Qualified under federal tax law	X	Tax qualified status not required

Considerations when we receive a long-term care rate increase complaint:

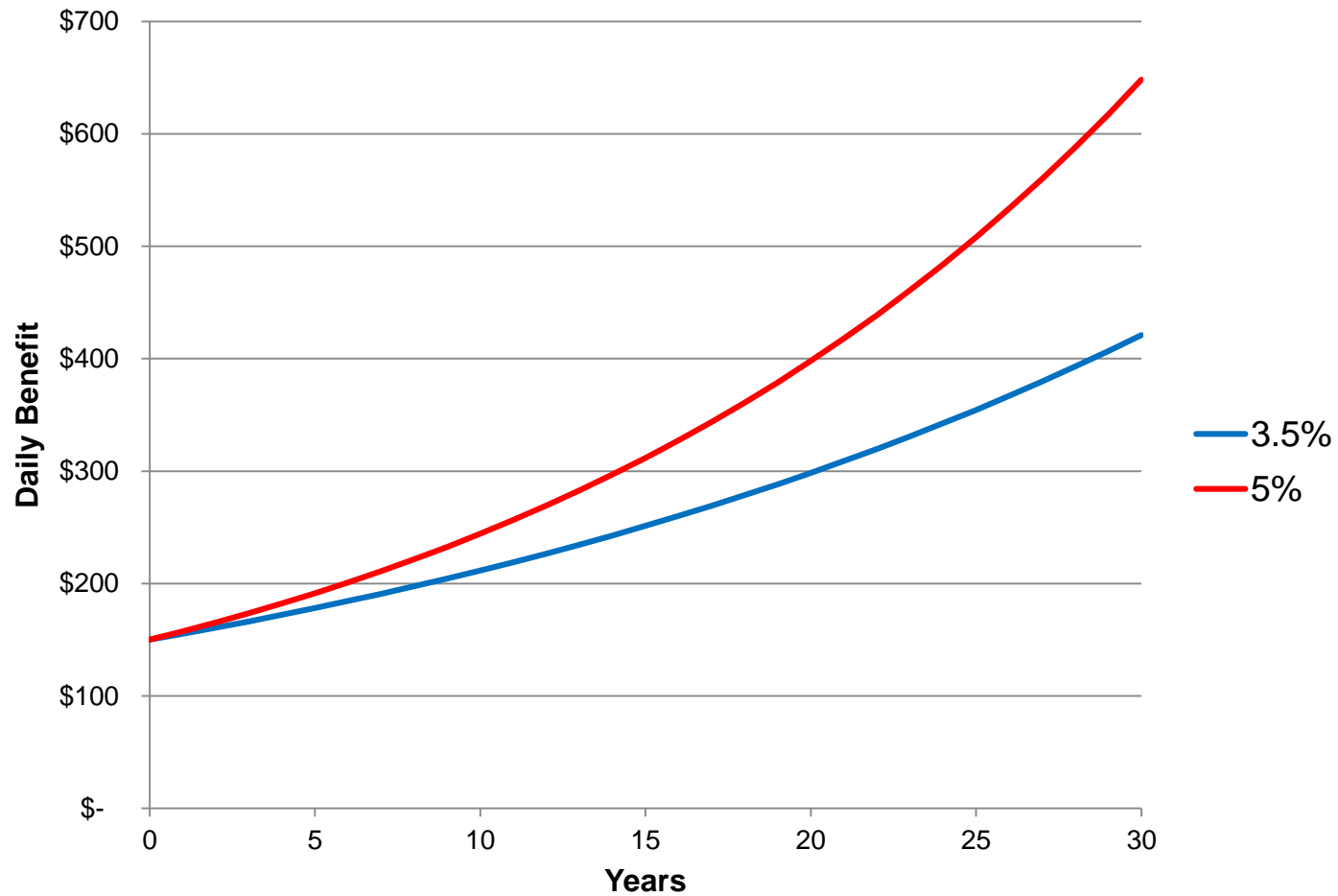
- Jurisdiction the policy falls under
- Verify it is an approved rate increase
- If there are any questions or inconsistencies, we can go to the company for more information and to straighten out any problems
- Alternatives available to the policyholder

Possible alternatives to a rate increase

- Reduce your inflation protection amount if available
- Reduce your daily/monthly benefit
- Reduce your total benefit period
- Increase your elimination period
- Drop an optional rider
- Nonforfeiture benefit or contingent nonforfeiture benefit

Daily Benefit Over Time

at different compound interest rates



Contingent Nonforfeiture Benefit

- Triggered by the cumulative increases and not just a one-time increase
- By converting to paid-up status, policy benefits are significantly reduced to a limit equal to the sum of premiums paid
- No benefits will be paid in excess of your new policy limit
- Benefits are generally paid at the benefit levels and coverage limits in effect at the time you convert your policy to paid-up status
- All optional benefit riders will automatically terminate
- No future inflation adjustments will be made
- All other applicable policy provisions, conditions, and limitations remain in effect

Maine Life & Health Insurance Guaranty Association

- All insurers authorized to transact insurance in Maine are required to belong as a condition of their licensure
- With the insolvency of a member insurer, the associations become responsible for covered claims to the extent required by Maine law
- Coverage by residency. All 50 U.S. states and the District of Columbia have similar associations however, so if you do not meet Maine's residency requirement, you may qualify for protection elsewhere
- Maximum protection for Long Term Care Insurance \$300,000
- Guaranty Association could still request rate increases

Path Forward – NAIC Response

- Launched LTCi Task Force under its Executive Committee
 - Goal to develop consistent national approach and prevent federal preemption
- Three subcommittees focused on:
 - Designing a **Multistate Rate Review** framework for a consistent national LTCI rate review aimed at timely and actuarially appropriate increases that eliminate cross-state rate subsidization
 - Evaluating and recommending **options for consumers** affected by changes to their LTCI contract benefits, e.g., where policies are no longer affordable due to rate increases
 - **Monitoring industry trends** and the **financial solvency** of long-term care insurers

Available Resources

- Insurance Agent
- Long-term Care Ombudsman:
❖ **800-499-0229**
- Area Agencies on Aging:
❖ **877-353-3771**
- Attorney
- Legal Services for the Elderly:
❖ **800-750-5353**
- Bureau of Insurance:
❖ **800-300-5000**