Deposition of:

Long-Term Care Hearing

November 7, 2019

In the Matter of:

Long Term Care Hearing

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MARYLAND INSURANCE ADMINISTRATION

LONG-TERM CARE HEARING

OFFICE OF THE CHIEF ACTUARY

Thursday, November 7, 2019

The hearing in Re: MARYLAND LONG TERM CARE was held on Thursday, November 7, 2019, at 9:00 a.m., at the Maryland Insurance Administration, 200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202, before Louisa B. McIntire-Brooks, Notary Public.

Reported by: Louisa B. McIntire-Brooks

APPEARANCES:

MARYLAND INSURANCE ADMINISTRATION STAFF:
AL REDMER, Maryland Insurance Commissioner
TODD SWITZER, Chief Actuary
ADAM ZIMMERMAN, Actuary
DAVID COONEY, Associate Commissioner
JEFF JI, Actuary
ZACK PETERS, Chief of Staff

COMPANY REPRESENTATIVES:
EARL KRILL, American General
KRISTEN KIM, Lincoln National
JOHN TREND, THOMAS REILLY, Metropolitan Life Insurance
MARIE ROCHE, John Hancock Life Insurance Company of America

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Long-Term Care Public Informational Hearing

November 7, 2019

PROCEEDINGS

MR. REDMER: Good morning. Anybody on the line?

MS. KIM: This is Kristin Kim from Lincoln National representing Lincoln National.

MR. THOMPSON: Good morning. This is Nick Thompson with United Health Group on the phone.

MR. REDMER: Hey, Nick. Thank you.

MR. THOMPSON: Thank you.

MR. REDMER: Good morning, everybody. I have 9:00 a.m., so if you don't mind, we will begin today's long-term care rate hearing. I want to welcome everybody that's in the room and thank those of you that are on the phone. I'm Al Redmer for the Maryland Insurance Administration, and this is our fourth and final public hearing on specific carrier rate increases for long-term care for 2019.

Today's hearing will focus on several rate increase requests now before the MIA in the individual market. These include rate increase requests from Lincoln National Life Insurance Company that's proposing an increase of 15 percent. American General

Life Insurance Company proposing increases of 15 percent, Metropolitan Insurance Company proposing increases of 13.59 percent up to 15 percent depending upon the policy form. TIAA-CREF Life Insurance Company proposing increases of 15 percent. Teacher's Insurance and Annuity Association of America proposing increases of 15 percent. Union Security Insurance Company proposing increases of 15 percent, and finally, Time Insurance Company II proposing increases of 15 percent.

I want to note that the original agenda and hearing notice indicated that Bankers Life and Casualty Company was requesting an increase, however, the company has withdrawn that request. So, they will not be subject to this hearing.

The request before us today affect about 5,516 Maryland policyholders and the goal of today's hearing is for the insurance companies' representatives to explain the reasons for the rate increases. We will also listen to comments from consumers and other interested parties. So, we're hear to listen, ask questions of the carriers and consumers regarding the specific rate increase requests.

Before we get started, I'd like to take a moment just to introduce the folks that are here at the front table with me from the Maryland Insurance Administration. To the far left is Todd Switzer, our chief actuary. To kind of like in the middle but on the right hand side is Adam Zimmerman, an actuary, Jeff Ji, senior actuary, to my immediate left is Zack Peters, our chief of staff, to my immediate right is David Cooney, our associate commissioner of life and health and our principal counsel from the Attorney General's Office is sitting in the back, Van Dorsey. Before we get started, I want to go over -- I'm sorry, Joe Sviatko, public relations on the right. Todd will introduce his team in a moment.

I'm going to go over just a couple of the procedures before we get started. First of all, in the back entry there is a handout that has all of our contact information on it. Please make sure to pick up a copy. If you would like to speak, we have asked folks to sign the sign up sheet and include your name and contact information. And secondly, comments from interested parties had been received and reviewed in advance of the meeting. And anybody that wants to submit additional comments has until Thursday, November the 14th. So, again we're going to keep the record open until Thursday, November the 14th for additional written testimony.

Also, the transcript of today's meeting as well as all written testimony that is submitted will be posted on our website on the long-term care page as well as the quasi legislation hearing page. The long-term care page can be found on our website by clicking on the long-term care tab located under the quick links section on the left hand side of the home page.

As a reminder, we do have a court reporter here today to document the hearing. When you're called up to speak, please state your name and affiliation clearly for the record. For those of you that are on the phone, thank you for dialing in. We ask you to please mute your phones. So, don't put us on hold, we all know what will happen then. Just place yourself on mute.

Also, any time before speaking, if you

could, again, restate your name and organization, that will be a help. We are going to bring up the carriers in alphabetical order. Then we will invite comments from any interested stakeholders in the room or those on the phone.

Now, let me reintroduce our chief actuary, Todd Switzer who has a few opening comments he'd like to make. Todd?

MR. SWITZER: Good morning. Thank you for being part of this dialogue. Thank you to the carriers for the valuable benefits and services you provide to our seniors. Long-term care, that continues to be an albatross for us. It's frustrating. We want to find answers rather than just review filings. So, we appreciate all the vantage points that are represented here. We have 39 long-term filings waiting for us back at the office that we're reviewing.

Just some kind of points of context that I've come across recently that was reintroduced to an article by Alliance that came out a few years, says that baby boomers are petrified of outliving their money. I can understand that. I encountered another actuary who bought a long term care policy 22 years ago, a single premium. He said he priced it himself, he figured out what he thought it should cost, and he found a carrier that it was offering it for a third of the cost. So, he bought that. I said in fairness though, he did have dinner with the actuary and tell him, you know, I'll withdraw my application if you'd like. He said the consultant price -- there's other points of the story, but I think we have been over before how we got to this point and we're trying to work with everyone to find some answers.

We have seen for the first time this year Washington State pass a public program with a payroll tax. However, it covers -- the maximum benefit is 36,500 for a year. We know that a nursing home costs about 120,000 for a year. It doesn't start until 2025, it's mandatory unless you have a standalone long term care policy. But, we're trying to look around and see what's being done elsewhere.

We have seen long-term care standalone really, as you know, abate. In 2018, 57,000 policies sold according to the NAIC. As you know, that's --

some college football games. You will the stadium with that many, that's how many in the whole country bought standalone. However, combination products where long-term care coupled with life insurance or annuities, hybrid products, 404,000 were sold in 2018. So, trying to, again, learn -- glean what we can from what's going on all around the country.

Before I turn it over to my colleague, Adam, to talk about some of the things that we're looking at, we got seven public comments between this hearing and the last hearing. And a couple of things from that stood out to me. One was a survey from AHIP that said what would make people buy policies again? And they had three things that would make them more likely to buy. And one was if the premium was able to be deducted from income tax, 91 percent of people surveyed said that would help. If they could be guaranteed no rate increase, 86 percent. Last hearing in August, we saw a study by the SOA that said that for policies sold in 2000, they estimated that there was a 40 percent probability that a rate increase would be needed. The policies sold in 2014, only 10 percent.

So, this is standalone long-term care. So, as more data is aggregated, we're seeing some more certainty there.

And on the public comments side, one gentleman, his company's board meeting, he wasn't able to attend, unfortunately, so I promised I would relay some of his thoughts. I'll just pull some excerpts to balance both perspectives. First, he clearly understood that what we're left with is a two sided dilemma that facing the insurance department, the companies and his own. He relays that, "when I purchased this policy, the agent told me that this would be my premium for the rest of my life." This is his story. "I mentioned and I value the option, not to state the obvious, of having landing spots and benefit reduction options, just trying to get all the response on how the consumers react to that." He said, "I was offered -- he took exception to the rate reduction point that I had made when, in fact, I'm being offered a benefit reduction. A lot of people bought premium policies, as you know, because they wanted a premium policy, a rich benefit."

Another senior says that, "the increases seem reasonable to me. I eliminated my 30 day and inflation rider. The original policy was a premium policy. Thanks for listening. How frustrating that 20 years and my costs have risen dramatically." Another one, "I'm 83 and will be 84 in September. I have never benefited from insurance except health insurance. I'm glad to pay for peace of mind, but I see this as unfair. If God grants my wish, I will continue to reside at home." We see that a lot. A lot of people want to stay at home. "Bought the policy when I was in my fifties, been paying premiums for 20 years, I'm in good health, no medication, I lead an active life, please investigate further." "We're in our seventies with supplemental social security, but neither of us has a pension or other income source." Highlighting hardship that carriers have repeatedly -- they're aware. And the last one, "how can I begin to decide whether to continue paying premiums when I don't know if there's more coming." And we hear that a lot too in our questions. That's why some of the questions are along those lines so when seniors ask, we can give them some information from publicly available data.

So, again, trying to set some context, but again, more than going through rate filings trying to look for answers, and along those lines, my colleagues Adam and Jeff work on these long-term care filings, poring through every page and Adam is going to talk a little about some of the answers that are being discussed at the national level.

MR. ZIMMERMAN: Hello. I'm Adam Zimmerman, actuary with the Maryland Insurance Administration. Before going into the national level, I just want to highlight a few stats about the long-term care market in 2018. So, the National Association of Insurance Commissioners just recently released their 2018 experience report for long-term care, and in that year end 2018, now this is for standalone long-term care, in 2018 in Maryland, there were 145,800 lives in force at the end of 2018. The top ten companies of long-term care contributed 82 percent of the total market share. And the aggregate loss ratio for all the companies in Maryland in 2018 was 97 percent. That is $299 million in premiums and 289.6 million in claims.

Broken out between group and individual, the individual loss ratio in Maryland was 99.9 percent. 258 million in premium, 257.8 million in claims, and in the group market, it was 77.7 percent, 40.9 million in premium and 31.8 million in claims.

And finally, in 2018, the average long-term care premium in Maryland, as reported by the NAIC, was $2,050. So, with that, I just wanted to follow-up on what Todd had indicated. The federal government is also looking at long-term care currently through the federal interagency task force on long-term care and this task force was developed by the US Treasury and has multiple people that sit on it including representatives from the Department of Health and Human Services, Centers for Medicare and Medicaid Services, the IRS, Office of Management and Budget, Department of Labor and the Office of the Tax Policy and the Federal Insurance Office within the Treasury. The task force is developed with -- is tasked with developing policies at a federal level to complement the reforms at state levels relating to the regulation of long-term care and they're following up on ten policy proposals that were presented to them from the National Association of Insurance Commissioners in April of 2017. And to quickly go through the policy proposals, they include to allow retirement claim participants to make distributions from 401 K, 403 B or IRAs to purchase long term care. Insurance would no longer withdraw tax penalties.

The second option is to allow for creation of an LTC savings account similar to a health savings account. The third office is to modify HIPPA to no longer require the 5 percent compound inflation be offered for tax qualified long-term care policies. Fourth option is to allow flexible premium structures similar to universal life. Option five, which we're already seeing, is to allow products that morph or combine with other long-term care coverages, like an annuity or life insurance. Sixth option is to improve alignment between the federal law and the NAIC laws. Seventh option is create a more appropriate regulatory environment for group long-term care. The eight option is to establish more generous federal tax incentives. Ninth option is to add home health care or long-term care services to Medicare or Medicaid supplement policies, and last option is federal education campaign around retirement security and the importance of planning for long-term care.

Currently the task force has not provided any recommendations, but we are aware of this and if any recommendations are made from this task force, we will, of course, see what needs to be done in order to follow-up with those. That being said, I turn it over to the commissioner.

MR. REDMER: Great. Adam, thank you for that update, and it certainly is indicative of the time and effort that regulators all around the country are spending trying to come up with positive recommendations regarding what is a very difficult issue. Again, not just here in Maryland, but all around the country. So, thank you for the update.

Finally, before we get started, I want to introduce in the back, we have Michael Paddy, our director of government relations from the accounting team, Craig Prem and the gal that manages the accounting team, Nancy Muehlberger who does all the hard work.

With that, let's get started. As I mentioned, we're going to go in alphabetical order, and with that, let's go to American General.

MR. KRILL: Good morning. Thank you for the opportunity to speak about the long-term care rate increase filed by American General Life Insurance Company. My name is Earl Krill and I'm a member -- spelled Krill, I'm a member of the American Academy of Actuaries, and I'm an associate of the Society of Actuaries, consulting actuary for a long-term care group and we have been authorized by American General Life Insurance Company to provide support for the company's long-term rate increase requirements.

The company is currently requesting a 15 percent rate increase to the premium rate charged for the policy form 64028-MD and C12271-MD. The request would impact the premiums for the 146 insureds in force as of December 31st, 2018. The products subject to this filing were available for purchase in Maryland between 1997 and 2001. They were designed and filed prior to the rates stability regulations, meaning, they were priced to satisfy the minimum loss ratio requirements that the time. The increase is being requested because actual experience on this block has been less favorable than originally anticipated at the time the product was designed and pricing.

The original anticipated lifetime loss ratio was 61 percent. Without the current requested rate increase, and under current best estimate assumptions, the lifetime loss ratio is expected to be a hundred percent.

These products have experienced significantly higher increases in rates than originally anticipated leading to more policies remaining in force than the company expected. Voluntary lapse rates have been substantially lower than originally expected at the time of pricing, meaning, that more insureds have chosen to keep their policies active and in force.

Furthermore, improvements in mortality rates compounded increase and consistency compared to original expectations. Lastly, the frequency of claims and typical length of claims has also been greater than originally anticipated. In general, the company has experienced in the long-term care insurance market, the company understands the impact that an increase in premium has for its insureds and makes several options available to help those who do not wish to pay the additional premiums. Individuals have the option to reduce their daily benefit maximums. They have the option to reduce the benefit period on their policy. Changes can be made to the elimination period in the effect. Optional riders added to the policy can also be modified or eliminated.

The company is also participating in the losses incurred on this block of business. As of December 31st, 2018, the company has held $87.5 million in additional actuarial reserves. This amount is adjusted annually to reflect the current best estimate of future claims in comparison to premiums and investment income on this block of business. This amount is in excess of the active life reserves that are already held and established on statutory accounting principles.

The company has worked with the Maryland Insurance Administration since 2005 to address the losses on this business and has implemented prior rate increases. The approach has been to address deficiency in premiums over time through a series of moderate increases at the 15 percent range. While the experience justifies a much longer increase request, the company does not feel that a single substantial increase is in the best interest of its insureds or the company itself. Rather at this time it's requesting an additional increase of 15 percent and continue to monitor experience on this block as it emerges.

I want to thank you again for the opportunity to discuss the filing for American General this morning and I welcome any questions you may all have.

MR. REDMER: Mr. Krill, thanks for being here. You mentioned the expected loss ratio. What is the current loss ratio?

MR. KRILL: With the historical experience to date, it is -- it's about 76.5 percent.

MR. REDMER: So, I'm confused. You said the expected loss ratio over the life would be 61 percent?

MR. KRILL: By original pricing, yes.
MR. REDMER: At original pricing. I'm talking about the current loss ratio for 2018.
MR. KRILL: Just with 2018 premiums and experience?
MR. REDMER: Yes.
MR. KRILL: That is 189.9 percent.
MR. JI: That is a nationwide level?
MR. KRILL: The Maryland is experience is less credible, but in 2018 the loss ratio would be 173.5 percent.
MR. REDMER: So, for every dollar you collected last year, you paid out a buck 17 in claims?
MR. KRILL: Correct. The earned premiums in 2018 were 626,000 and the incurred claims were 1.1 million. That's Maryland specifically.
MR. REDMER: Got it. And for the projected loss ratio? What is the projected investment return?
MR. KRILL: We are using a, I believe, 3.5 percent.
MR. REDMER: Thank you. Who else?
MR. SWITZER: So, I see that Maryland has

150, 149, 146 members, 5,700 nationwide. I gather in the filing data -- let me start with this: Maryland rates are higher currently by about 31 percent, 1,100 a year, 4,700 versus 3,600, and Maryland experience is a little better. I have a year to date 68 percent loss ratio lifetime, versus 104 nationwide. Am I right that no credibility is being given to Maryland experience at 146 members?

MR. KRILL: Not to justify the rate increase. We're using nationwide experience. We're adjusting it to Maryland approved rate increases.

MR. SWITZER: My last question, so, premiums started in 1997 at 1,400 a year, they're currently at 4,700, so 3,700 increase. You're going to monitor experience, like you said, while greater than 25 percent can be justified, currently not seeking a higher increase and instead will monitor. Do you have a sense of the likelihood that another increase will be filed if a 15 just were, for the sake of argument, approved?

MR. KRILL: I mean, as I mentioned, it's going to come down to how the experience plays out.

Currently, I mean, we're sitting at a loss ratio in
excess of 100 percent, 110 loss ratio. So, there is a
chance that future rate increases will happen. But, I
wouldn't be able to tell you with the utmost certainty
if they will or not.

MR. SWITZER: Thanks.

MR. REDMER: Anybody else?

MR. JI: Originally 25 percent rate
increase, I would like to know how was that number
determined.

MR. KRILL: It has a lot to do with, you
know, how management feels related to these rate
increases. Like I mentioned, there is this
understanding that it's a burden on the consumer. So,
we need to balance that with the notion that rate
increases are necessary and the loss ratios is around.
So 25 percent has been the -- asked, for the most part,
across the country in each state and American General
has been of the mindset to request reasonable and
steady rate increases to offset the imminent losses.

MR. REDMER: Anybody else? Thank you
again. I appreciate it.

MR. KRILL: Thank you, guys.
MR. REDMER: Let's now go to Lincoln National.
MS. KIM: Hi. I'm on the phone.
MR. REDMER: Go ahead, Kristen.
MS. KIM: Kristin Kim and I'm representing Lincoln National. So, good morning, Commissioner Redmer and Maryland Insurance Administration staff and distinguished guests. Again, my name is Kristen Kim and I'm an actuary at Trustmark Insurance Company currently administrating the closed block of Lincoln National long-term care policy. On behalf of Lincoln and Trustmark, I would like to thank you for providing me with the opportunity to present information concerning the two long-term care forms, HR2500MD and HL2950MD.
Before I dive into the details behind the rate increase filing, I would like to provide some quick summary of the products. The two forms are similar products in the early 1990s nationwide. By mid nineties, Lincoln National ceased marketing of the products and transferred the administration of the

business to Trustmark. Approximately 6,000 policies were issued nationwide of which 10 percent of the policies were issued in Maryland. Currently, we have about 1,300 in force nationwide with about 150 policies that are Maryland issued.

Unlike long-term care policies that are currently available in the marketplace, these policies provide rich benefits. About 50 percent of the in force policies provide lifetime benefits and about 40 percent have five percent cost of living adjustment benefits. These closed block of business are pre-rate stability business, so our requirements are to meet minimum lifetime loss ratio of 60 percent. Our current nationwide projected lifetime loss ratio which is adjusted to account for Maryland premium level is well above 60 percent at 86 percent.

With this round of rate increases, we are requesting an increase of 15 percent. We understand that significant increase is a challenge for our policyholders, so our strategy for the block is to continue to work toward minimum loss ratio while monitoring our future expected losses such that we do not charge our insureds more than necessary.

We would like to point out that our rate increase, even with 15 percent rate increase, will still provide better benefits with lower premiums than the long-term care products currently offered in the marketplace. This rate increase is necessary namely to assure experience developing unfavorably compared to initial pricing assumptions. In fact, several assumptions like mortality and morbidity assumptions were far too aggressive at the initial pricing of the product.

In order to soften the impact of the rate increase to our insureds, the company will provide two alternative options in lieu of the rate increase. One option is paid up coverage. Another option is reduction in policy benefits. This could include anywhere from lowering the daily benefit amount to reducing benefit period. In terms of policies with cost of living adjustment benefits, they have the option to remove COLA at which time the daily benefit will remain with current to date COLA increase. And only future increases will stop.

In order to improve communication with our policyholders about their options in connection with the rate increase, we invite the policyholders to call our customer service to discuss their personalized options that will allow the policy to meet coverage and their financial needs.

I would like to close by again emphasizing that the lifetime loss ratio required for this policy are 60 percent. But, our current projected lifetime loss ratio is 86 percent. The requested rate increase is primarily designed to mitigate or reduce the emergent losses and not to be profitable. It is in both policyholder's and company's interest to continue to monitor and create a financially stable block of business that will have adequate funds necessary to pay current and future claims.

We look forward to continued dialogue with Maryland Insurance Administration in the rate increase process. Thank you again for giving me the opportunity to speak today on our pending rate increase. Any questions?

MR. REDMER: Yeah, Kristen. Thank you for joining us. I'm going to ask you same two that I asked the previous carrier.

MS. KIM: Sure.

MR. REDMER: What is your current loss ratio and what is your projected investment return in your future projections?

MS. KIM: So, as of 2018, nationwide current loss ratio was 230 percent. And actually, I mean, granted we only have 150 lives in Maryland, but our experience in Maryland is slightly worse than that. And our current investment rate is about 6 percent. But, the projection was based on 4.5 percent.

MR. REDMER: So, I'm a little confused. If your current loss ratio today is 230 percent, how do you end up with a long term projected loss ratio of 86 percent?

MS. KIM: That's because our actual -- since 1990s, the loss ratio is 61 percent. So, our actual is running at 61 percent and then we expect future, that's when all the insurance will start going on claim and that will bring it up to 86 percent because we're expecting future to have a lot more losses than what we did in the past.

MR. REDMER: So, if you expect your performance to deteriorate, how can it be 230 percent today and improve to 86 percent? What am I missing?

MS. KIM: So, here to date is 25 years of experience at 62 percent and going forward in 2018 was 230 and in 2019 is about 260 and it will continue to get worse. But, since the block is closed block of business, the future experience and future premiums that we're going to be getting is smaller. So, the reason it's going to be a lower loss ratio, even though the future will have higher loss ratio, our path is weighted higher than what's going to happen in the future.

MR. REDMER: Who else?

MR. SWITZER: Hi. This is Todd Switzer. So, in looking at the financial statements for 2018, glad to see risk based capital is healthy at 903 percent, dividends are paid, 35 million. I'm looking at the 146, I'm sorry, 178 members in Maryland. The policy was issued in '91, closed in '96, premiums started at a thousand 55 a year. There's been six increases, so it's at 2,200 as of 2018. So, we're at duration 22, we've had six increases, premiums doubled. My question is -- before I get to the question, one last point, I see from Exhibits A which were helpful to have in the filing, that for Maryland business with and without the increase, projecting into the future, the increase of 15 percent would generate $228,000 more for the company. In the big picture, 228,000 against six increases already, leads me to my question, is there any level that's considered diminimus where as people get older and the enrollment dwindles and you need a bigger increase to get to the financial targets, where it becomes to a point where the dollars are small enough that there can be a halt? Or is there a diminimus level financially and as the block dwindles, where the company would consider that as a factor in what they propose?

MS. KIM: So, what actually happened was Lincoln ceased marketing and they actually -- we insured hundred percent of the business to Gen Re and then Gen Re insured 50 percent with Trustmark. So, Trustmark is holding 50 percent of the risk and we are also administrating the business. And so what we try to do is, we try to look at nationwide average rate increases, cumulative rate increases, and if Maryland ends up being higher than nationwide rate increase, then we will likely not ask for additional rate increase.

With that said, we also have realized that though we have a pretty good forecast that is coming up with lifetime loss ratio, we do end up seeing in several years where our loss ratio does come in a little more favorable than what we had expected. So, my guess at the moment is that we will likely need several rate increases so that Maryland rates are similar to nationwide. But, at some point, since the block is dwindling, as you had mentioned, we would likely stop asking for rate increase at that point.

MR. SWITZER: Thank you.

MR. REDMER: Anybody else?

MS. KIM: Any other questions.

MR. JI: Yes, this is jeff. I noticed that your 15 percent rate increase, your lifetime loss ratio removed from 86.3 to 85.6. That is less than one percent with 15 percent rate increase. You also mentioned that you will not request any rate increase that is not necessary. So, I would like to know how do you define what is a rate increase that is necessary and what is not?

MS. KIM: So, it is basically we have to look at the experience, the actual experience, that is coming in 2018, '19, '20, and we do see that in the most recent years that our actual expected comes in slightly better than what is in the forecast. And it may be because the block is not credible or it may be that our claims area have been able to diligently make sure that we are paying claims on a payable claim. And so or it may be the size of the block.

So, our expectation is that we will likely request because in other states, they are actually providing us with higher rate increases. So, as soon as Maryland reaches at a level that is similar to the nationwide average, we will likely not request rate increase for at least several years and determine whether we do need further rate increase at that point. That's our current plan.

MR. JI: Thank you.

MR. REDMER: Any other questions for Kristen? Kristen, thank you for joining us. We appreciate it.

MS. KIM: Thank you.

MR. REDMER: Let's go to Metropolitan.

MR. TREND: Good morning, Insurance Commission Redmer and members of the Maryland Insurance Administration panel, MetLife long-term care policyholders and other interested members of the public. My name is Jonathan Trend. I'm senior vice president and actuary at Metropolitan Life Insurance Company. I have oversight responsibility for the actuarial memoranda and accompanying documents that support the applications. I am a fellow of the Society of Actuaries, a member of the American Academy of Actuaries and have over 20 years of experience with long-term care insurance and the risks, assumptions and benefits that are characteristic of that coverage. Also with me is Tom Reilly. Tom is MetLife's assistant vice president of LTC Product Management and Compliance.

We welcome the opportunity to present our views on MetLife's long-term care insurance and to answer your questions. Thank you also for providing this forum for Maryland citizens, including our valued customers, to express their views and comments on the filings. Our brief presentation will include a description of the steps we have taken to mitigate the impact of the proposed increases. We also hope to provide a greater understanding of why the increases are necessary and the process MetLife uses to evaluate the underlying assumptions and risks that we are required to assess before filing for an increase with the administration.

Please keep in mind that this presentation will highlight and expound upon certain areas relating to MetLife's comprehensive filings made with the administration on August 29th of this year. The filings present the full and complete actuarial basis for the requested rate increases and constitute MetLife's official requests and represent our individual LTC business.

MetLife's decision to file for rate

increases was made only after careful and in-depth analysis of the experience relating to the policies that are the subject of these filings. We are proposing these increases in light of the information that has emerged over the years these policies have been in force, including claim experience and persistency, and the changes in assumptions underlying these policies since they were first issued.

MetLife believes that the rate filings made with the administration clearly demonstrate that the increases are needed because the experience relating to these policies has been and is expected to remain materially worse than initially anticipated. This is also my professional opinion. We believe that the proposed premium schedules are not excessive nor unfairly discriminatory and the benefits provided are reasonable in relation to the proposed premiums based on the lifetime loss ratio being in excess of minimum requirement set by Maryland insurance law.

I an now going to turn the presentation over to my colleague, Tom Reilly who will provide an overview of the scope of MetLife's application for rate increases.

MR. REILLY: Thank you for the opportunity to speak with you about our filings. As background to our filings, I think it would be helpful to briefly explain the scope of the applications that are the subject of today's hearing. MetLife is seeking approval on two segments of our long-term care insurance business. The first segment includes policy forms associated with MetLife's Individual LTC business. The policy forms were issued between 2000 and 2012. The increase percentage that MetLife is requesting on these forms is up to 15 percent. The increase percentage that MetLife is requesting on these forms is up to 15 percent. Approximately 3,901 insureds from this business may be impacted by this rate increase.

The second segment includes policy forms issued by Teacher's Insurance and Annuity Association of America TIAA-CREF Life Insurance Company individual business which MetLife acquired in 2004. After acquiring this business, MetLife did not market or sell new policies associated with Teacher's business. These policy forms are issued between 1991 and 2004. The increase percentage that MetLife is requesting on these forms is 15 percent. Approximately 755 insureds from the Teacher's business may be impacted by this rate increase.

Jonathan will now address the actuarial aspects of the filing.

MR. TREND: As previously mentioned, MetLife believes that the application demonstrate that the requested increases are justified to meet all Maryland requirements for approval. To assist you with the review, I will briefly speak to the application and why we believe the requested increases are reasonable. I will start by referring you to specific portions of the filings that demonstrate that the loss ratio on Maryland policies, after application of the requested increase, will remain far in excess of the minimum loss ratio required for rate revisions under Maryland insurance law.

Loss ratios: The term loss ratio used throughout our testimony is here defined as the ratio of incurred claims, the monies paid to claimants, to earned premium, the monies we collect from our policyholders. References to past, future and lifetime loss ratio or similar qualifiers indicate the inclusion of interest, time value of money, in the calculations which is required and accepted actuarial practice.

As part of the business by completing periodic analyses of persistency rates, how many policyholders keep their policies, mortality rates, how long policyholders live, and morbidity rates, the frequency and severity of claims. The findings from these analyses were used in projecting the future performance of in force business to determine the effect of experience on the projected lifetime loss ratio. The reason we study these parameters is because they bear directly on projected levels of claims and premiums over the lifetime of the policies.

As explained in the memoranda, overall actual persistency rates have been higher than that assumed when the policies were priced, mortality rates have been lower than that assumed in pricing and morbidity rates have been lower than that. The combined assumed in pricing. The combined result of past experience and future projections based on current assumptions, without a rate increase, are loss ratios that far exceed the minimum requirements. In fact, the current projected lifetime loss ratios in Maryland range from 85 percent to 130 percent. This means that our current rate bases have us paying out from $85 to $130 in benefits for every $100 we collect in premium. Even after rate increases at the levels requested in our applications, the loss ratios for the Maryland policies will range from 79 percent to 114 percent. Again, well in excess of minimum requirement. Tom will now conclude our testimony.

MR. REILLY: Please be assured that while MetLife believes the requested increases are necessary, justified and permitted under Maryland's insurance laws and regulations, we also understand that any approved increases may cause some policyholders to consider canceling their coverage even in the face of rate increases.

MetLife's experience shows that the vast majority of policyholders choose to maintain their coverage even in the face of rate increases. For all policyholders, including those who may consider ending their coverage because of any approved rate increase, we will offer them multiple options where available to modify their coverage to keep their premiums at a level similar to their current premiums. In addition, we are extending the use of the non-forfeiture endorsement which was previously authorized by your department. This endorsement will provide a non-forfeiture benefit so that all policyholders who choose to stop paying premiums in response to a rate increase can still maintain some paid-up coverage. This means that for these policies, every premium dollar previously paid, minus any benefits already received will be available as a benefit if the insured goes into claim.

In closing, we feel the value provided by these coverages is significant and we are proud of the service we have provided to MetLife policyholders especially at the time of claim. Since entering the long-term care insurance market, MetLife has paid out approximately $5 billion in claims.

Thank you for the opportunity to testify in support of MetLife's applications. We respectfully request that the administration approve the filings as submitted. This concludes our prepared remarks.

MR. REDMER: Thank you. I only have one question. I didn't catch, when did Met buy the Teacher's block?

MS. THOMAS: 2004.

MR. REDMER: Todd?

MR. SWITZER: So, again for context, just looking at risk based capital, 2018, 710 percent, good strong level. Dividends, paid 148 million in 2018. My first question in the filing noted that justifiable rate increase -- well, I'll relay your definition in a minute, led to needed increase of, call it, 52 percent using Minnesota's if new method.

So, the if new method does not bring in -- and you've mentioned loss ratio bases for determining the increase. Investment income was not brought into the derivation of that 52 percent; is that correct?

MR. TREND: Interest is used as part of the calculation as I described in my testimony.

MR. SWITZER: You mentioned the time value of money, but I didn't like, for example, when you issued, for the most populated plan with 2000 members issued in 2002, and some issues in the nineties if you invested in bonds, was the earnings on bonds part of the calculation of the 51.9?

MR. TREND: Not directly. So, the premiums we take in obviously to your point are invested in securities that earn a return that are managed in our portfolio. That diffuse liabilities and other lines of business. For purposes of the rate application, the interest rate we assume in our filings is consistent with the NAIC model line which defines the appropriate interest rate to use as the valuation --

MR. SWITZER: The valuation.

MR. TREND: Which is typically about 4.5 percent.

MR. SWITZER: Right. With the 51.9, just for the sake of discussion, not bringing in the cost of delay, the 15 percent, so, you would expect, not holding you to anything, about three more increases after this one if 15 were granted to get to the 52?

MR. TREND: If things pan out, yes.

MR. SWITZER: Lastly, I see that the

business for this particular populated tranche of the 2000 is split between limited benefit and unlimited 76 percent, 24 percent and compound 5 percent interest, 51 percent are in that benefit plan. Do you typically look at the experience by those breaks? Do you break it that way?

MR. TREND: We do not. So, we have a relatively socialized view of the way we do our experience studies and the way we file for rate increases. Our philosophy going into rate increases a decade ago was that this was not the time to re-adjudicate any potential subsidies that were not intended at pricing with the exception of gender. This was all sex rated. And we have socialized our plan.

So, both in our experience, studies and rate application, everybody under that policy is in.

MR. SWITZER: Thank you.

MR. REDMER: Anybody else?

MR. JI: How often do you do experience study?

MR. TREND: Every study.

MR. JI: Have you seen any part of lifetime loss ratio from impact?

MR. TREND: Certainly from the basis for our application indicate that there have been some significant changes. I would characterize recent changes to be tweaks because we look at it frequently. We don't give a whole lot of time for things to change. There's been a slow decrease among traits, nothing that's endemic across the industry. Mortality actually goes up and down a little bit. It's pretty steady. And morbidity, again, is kind of a mixed bag. So, small changes each year. That's why we do the study every year, make sure things don't get away from us.

MR. JI: Overall, lifetime loss ratio --

MR. TREND: The lifetime loss ratio, I mean, it's a highly leveraged business, so changing one assumption by a small amount has a compound effect over years. The lifetime loss ratios move around in five-points in a given year. It could go up, it could go down. Some stay the same. But not dramatically.

MR. REDMER: Anybody else? Thank you, gentlemen. We appreciate it. We will do our final two together, Time Insurance Company II and Union Security

Insurance Company. Marie, thank you for joining us.

MS. ROCHE: Good morning, everyone. My name is Marie Roche and I'm assistant vice president of government relations at John Hancock. I want to take this opportunity to thank Commission Redmer and his staff for providing us the opportunity to participate in this important hearing.

I'm here today to address two long-term care rate increase filings currently pending before the department. In March of 2000, John Hancock entered into agreement whereby it would administer and reinsure the block of business. That is now known and is basically split between two companies, the Time II Insurance Company and Union Security Insurance Company. Through this coinsurance arrangement, John Hancock is doing the administration and servicing of the financial risk, the administration responsibility for paying claims and maintaining sufficient reserves for the policy as well as for the underlying financial and actuarial analysis supporting these filings.

So, as indicated, we currently have two filings pending before the MIA. Both filings were submitted late in August of 2019. The Union Security filing consists of two policy forms sold between 1999 and 2003. This filing impacts 421 Maryland insureds. The Time II filing consists of four policy series sold in 1999 and this filing impacts 115 Maryland insureds.

After correspondence with the MIA and in consideration of the MIA's annual 15 percent limitation, we have amended each filing to propose a single flat 15 percent rate increase. But, I do want to note that the original request on Union Security was a rate increase of 245 percent and the Time II was 323.9 percent.

We believe that the original requests are actuarial justified and we will continue to seek additional rate increases until the actuarial amounts have been received. Please note that we are not trying to recover any past losses in these filings, rather the increases are needed to cover projected future losses.

I also wanted to take an opportunity consistent of what my colleagues have said of why these rate increases are needed. Long-term care insurance is a long duration product. Uses and expenses are difficult to predict for many decades in the future. Most of the earlier premium increases in the industry were due to lower than expected voluntary lapse rates. Current premium increases are driven more by claims and mortality experience.

This is still a relatively young line of business and many companies have just recently started to get a significant amount of claims experience at older retained ages and later policy durations where the vast majority of claims will happen. That's in individuals' late eighties and early nineties. We are seeing, the good news is that people are living longer, but unfortunately they're also living longer in a much frailer state. And we're seeing a higher rate of claims than expected and longer lasting claims than expected for those who make it through to those older ages.

Putting our customers first has been and continues to be a critical component of everything we do. And we believe very strongly that it's important for your policyholders to retain their long-term care coverage.

I want to turn to how we can help our policyholders mitigate the impact of the rate increase. We will provide the following benefit alternatives to help our policyholders impact the rate -- impact -- or mitigate the impact of the rate increases. They include reducing the daily benefit or benefit period, increasing the elimination period or dropping optional benefits or a combination of any of those. And in addition, we'll also offer all eligible insureds a contingent non-forfeiture benefit so long as the insured meets the current NAIC model long-term care regulation threshold triggering requirements for this benefit.

Now, the vast majority of this block is pre-rate stabilization. So, we're making it contingent non-forfeiture benefit available to folks who are in the pre-rate stabilization block. And due to the administration and pricing complexities introduced by the 15 percent cap requested by the MIA, John Hancock's new shared cost option will not be available to Maryland insureds to offset the rate increases. Nor will we be offering a paid-up policy option. However, as stated above, we'll continue to provide all insureds a contingent non-forfeiture benefit.

Thank you again for allowing me to address the current Union Security and Time II filings and I will be happy to answer any questions that you have.

MR. REDMER: I didn't catch the relationship between Time Union, and -- did Hancock buy that business or they just administering it?

MS. ROCHE: We did not. We -- basically it's a hundred percent reinsurance. So, the block remains on Time II and Security paper, but we have full responsibility for the administering and the servicing of that block.

MR. REDMER: Got it. Thank you. Anybody else?

MR. SWITZER: First I want to thank you for the last hearing. As you recall, one of our seniors stayed after and spoke with you and you wanted to understand her premium better and you wrote a very thorough, thoughtful letter back to her and I really appreciate that. Thank you.

Noting in the filing on page 13 that the company said an effective date of 8/1/17 was assumed as we do not want to charge policyholders for the company's delay if filing. Appreciate just steps like that about timing and when the company could have acted of your own volition.

My question is, I was listening, I did hear you say that -- I'm talking about Time for a minute, the one with 115 Maryland members, the needed increase is 324 percent and that you will keep filing based on what's actuarially justified. I see that -- so, the policy was issued in '99, started at $1,300 a year, it's currently at 1,951, three increases have been put forward. For these 115 members, I calculate that in order to get to bringing in the 324 percent increase that the premium would need to get eventually to $9,000 a year. I estimate that that would, based on this 15 percent increase, would generate less than $100,000 in premiums for 115 members. My question is, are there any circumstances, any exceptions to the rule as the block dwindles, again similar to previous question, where that kind of dynamic would be brought in and maybe increases halted in certain pockets?

MS. ROCHE: I absolutely believe there would be. But, Todd, unfortunately, I'm not an actuary and I'm not really qualified to respond to that. But what I will do is take it back to our actuaries at the company and we will have a response to you before the 14th. All right? If that's acceptable.

MR. SWITZER: That's great. What you said helps and I appreciate that too.

MR. REDMER: Anybody else? Jeff?

MR. JI: My question is, so, the two buyers, one either 245 percent rate increase, the other 324 percent. Since you will approve the rate filing of 15 percent, why you wait now for years for the past rate increase request?

MS. ROCHE: The approval dates were back in 2016 and these were -- and began to be implemented in March of -- I'm sorry, '15. You're right. I'll be honest. I'm not sure why. I think it's just because of the way things came up in the queue. But, again, policyholders would not be negatively impacted by any delay that was our responsibility.

MR. JI: Thank you.

MR. REDMER: Anybody else?

MR. COONEY: I apologize in advance if I misunderstood what you said, but for options to avoid the increase, as you mentioned that contingent non-forfeiture based on seniors eligibility will be available, but you will not be offering any paid-up coverage. From Maryland law, Section 18-416.1 which were to become effective in 2018 was revised this past year. If the policy has been in force for at least 20 years, others require non-forfeiture agreement if any of these policies were issued in 1990.

MS. ROCHE: I apologize for the misunderstanding. We're in complete compliance with the NAIC requirements that were adopted in Maryland. But, outside for John Hancock's book of business, the paid-up option that I'm talking about is an enriched contingent non-forfeiture benefit where the premium value was 150 percent, not the hundred percent. So, we're in complete compliance with that. Sorry about that.

MR. COONEY: Thank you.

MR. ZIMMERMAN: I looked on the NAIC

website for some information about the form five filing for Time II and the form five outlines all the long-term care and none is available. Is that because the company is not domiciled in the United States? Do you know if there's different reporting requirements for that?

MS. ROCHE: I could find that out. Time II has been taken over by a company that's domiciled in Puerto Rico. I don't know if that makes a difference, but I can find out and I can include that in the response.

MR. ZIMMERMAN: That would be great. Thank you.

MR. REDMER: Anybody else? Thank you very much. We will now go to the phones. I would first like to invite any legislators that might be on the phone to introduce yourselves and if you have any questions to go ahead and ask them. Any legislators? Going once, twice, three times.

Okay. We will now go to any other interested parties that may be on the phone and interested in making either comments or asking questions. If you're speaking now is a good time to unmute the phone.

I'm not hearing anybody. Before we do wrap-up, you will, for those of that you are here, will notice that some of us are a little less clean shaven than normally. We are participating in no shave November to bring awareness to prostate cancer. So, for all of you have guys of a certain health, certain age I should say, make sure you take your health seriously. With that, again thank you for participating and we will adjourn the meeting. Thanks a lot.

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

State of Maryland
City of Baltimore, to wit:

I, Louisa B. McIntire-Brooks, a Notary Public of the State of Maryland, Anne Arundel County, do hereby certify that the within-named proceedings took place before me at the time and place herein set out.

I further certify that the proceedings were recorded stenographically by me and this transcript is a true record of the proceedings.

I further certify that I am not of counsel to any of the parties, nor an employee of counsel, nor related to any of the parties, nor in any way interested in the outcome of this action.

As witnessed my hand and notarial seal this 25th day of November, 2019.

Louisa B. McIntire-Brooks

Louisa B. McIntire-Brooks
Notary Public

My commission expires:
November 13, 2023