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August 24, 2015

Hon. Commissioner Michael Rothman
Minnesota Department of Commerce
Insurance Division
85 7th Place East, Suite 500
St. Paul, MN 55101

Re: Minnesota Public Hearing on Long-Term Care Insurance – August 27, 2015

Dear Commissioner Rothman:

Thank you for your call to Linda Watters and me on Thursday. It was a pleasure speaking with you and we greatly appreciate you reaching out to John Hancock and inviting us to participate on an Insurer Executive Panel at the August 27th Minnesota Public Hearing on Long-Term Care Insurance (LTCi). Members of our Executive team, however, are unfortunately unable to rearrange previously scheduled commitments due to the lateness of the hour. Even so, I want to take this opportunity to personally thank you and your Senior Staff for both the courtesy and accessibility your Staff has shown to John Hancock this past summer. Our Life and LTCi Senior Management teams had the privilege of coming to St. Paul and visiting with your Senior Staff on two separate occasions regarding our new innovative life insurance Vitality Benefit enhancement and LTCi rate increases. Indeed, we appreciate the opportunities given us over the past three years to brief the department in detail about the need for LTCi rate increases.

While our Executives are unable to attend the August 27th Hearing, as a leader in the LTCi marketplace, we do feel it is very important that John Hancock provide you with our position on the current state of LTCi as well as additional information on how we operate our business.

<u>Background Regarding John Hancock's Long-Term CareInsurance Business</u>

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 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. We also insure and administer the Federal Long-Term Care Insurance Program. Over the years John Hancock has paid more than $5.7 billion in LTCi claims, and today pays more than $2.8 million in claims per day. We currently insure 17,149 Minnesotans and have paid out more than $32.9 million to Minnesota families as of June 30, 2015. 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. John Hancock's Shared Care, for example, allows spouses to access a combined pool of benefits. Among our more recent innovations is a more affordable and more relevant approach to inflation protection, a built-in, annually compounded inflation provision that tracks the Consumer Price Index. Finally, we are very proud of the fact that we launched our new innovative Performance LTC product earlier this 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.

A Changing Landscape & the Need for Premium Adjustment

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 and perhaps even no one 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.

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.

Mitigating the Impact of Premium Increases on Our Policyholders

We recognize that premium increases are difficult for many policyholders to afford. It is with that knowledge in mind, we believe we have done more than any other company to help to ease the burden on our insureds:

- We have applied NAIC rate stability rules to all policies including our pre-rate stability block. This includes making the 2014 enhanced contingent nonforfeiture benefit available to insureds as applicable.

• We have ensured that the resulting premiums on our inforce business are not more than our comparable new business rates (in fact, they are often much less than our new business rates).
• We have provided numerous benefit reduction alternatives to mitigate the impact of premium increases.
• Most importantly, in 2010 we developed a unique and **innovative alternative to completely offset the rate increase** by lowering the future inflation increases from 5% to a lower amount on a prospective basis (Future Inflation Reduction Landing Spot).

Future Inflation Reduction Landing Spots

To help our customers affected by rate increases retain their valuable protection, in 2010 we pioneered a method to completely eliminate the rate increase for those with fixed automatic inflation coverage. These plans already had the highest premiums and the rate increases needed on these plans were more than the increases needed on plans without inflation coverage.

The increases that were needed tended to be higher for plans with automatic built-in inflation (5% compound and 5% simple.) The reduced future inflation option allows insureds to keep their current premium by lowering their future inflation increases. Past inflation accruals at 5% are retained by the policyholder and only future indexation rate is reduced. Recent annual inflation levels in long-term care services have been in the range of 2%-4%, but even lower for home care services (around 1% per year). Home care is the most utilized benefit for those with LTCi policies. We believe that the reduced inflation landing spot option still helps our policyholders manage inflation.

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. We note that when we implemented our 2010 rate increases in Minnesota, 74% of our Minnesota insureds where eligible for the inflation landing spot and 53% of the population elected this option.

Consistent with national experience from our 2010 rate increase implementation initiative (when we first introduced the landing spots), the landing spots helped reduce lapses in Minnesota. For plans that were not eligible for the landing spots, the average 2010 premium increase was 23.3% and the lapse rate at the time of the increase was 4.3% (our normal expected lapse rate is about 1%). For Minnesota plans that were eligible for the landing spots, the average 2010 premium increase was 50.2%, more than 2 times the increase for those not eligible for the landing spot, yet the lapse rate for those eligible for the landing spot was *lower* (3.3%) as compared to those not eligible. With more than 2 times the premium increase, if not for the landing spot, we would have expected to see much higher lapses.

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 effective mitigation alternative.

Recommendation

LTCi and the laws and regulations that govern it have evolved over time to keep up with consumer demands and changing environment. John Hancock actively supports the current 2014 NAIC Model Long-Term Care Insurance Act and Regulation as well as the 2013 Bulletin which addresses filing guidance for pre-rate stabilization blocks (NAIC Models). In fact, we have a demonstrated a long history of proactively meeting new NAIC consumer protection standards throughout the nation well in advance of their ultimate state adoption, including but not limited to the implementation of: independent 3rd party review of benefit trigger claim denials, the contingent nonforfeiture benefit, benefit upgrade and downgrade provisions, all NAIC recommended disclosures, and – of particular note - the application of key post-rate stabilization actuarial standards to pre-rate stabilization business as it relates to inforce rate increases. We encourage Minnesota to adopt the latest version of the NAIC models as they include greater consumer protection provisions (enhanced disclosure, a more accessible contingent nonforfeiture benefit, independent 3rd party review of benefit trigger claim denials, and prompt payment of LTCi claims) as well as provide more robust guidance for rate increase filings.

John Hancock as well as our industry colleagues are committed to working with you to ensure a vibrant and responsible LTCi marketplace in Minnesota.

Thank you.

Sincerely,

James D. Gallagher
Executive Vice President, General Counsel & CAO

cc: Linda Watters