



Written Statement
Department of Commerce Public Hearing on the State of Long-Term Care Insurance
and Appropriate Regulatory Guidelines
August 27, 2015

We are pleased to provide this written statement on behalf of the American Council of Life Insurers (ACLI), America's Health Insurance Plans (AHIP), and the Minnesota Insurance and Financial Services Council (MIFSC).

AHIP's members provide health and supplemental benefits to 200 million Americans through employer-sponsored coverage, the individual insurance market, and public programs such as Medicare and Medicaid. Our industry processes millions of claims, eligibility requests, payments and other administrative and clinical transactions on a daily basis.

ACLI is a Washington, D.C. based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care (LTC) and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums.

MIFSC is a trade association for Minnesota's life insurance and financial services industry with over 25 member companies doing business in Minnesota, the United States, and internationally. MIFSC members provide financial security for all stages of a consumer's life. Products offered by MIFSC members include life and LTC insurance, annuities, retirement plans (IRAs, 401Ks, etc.), and mutual funds. MIFSC members are also leaders in promoting financial literacy throughout the State.

Value of LTC Insurance

We would like to thank the Department of Commerce (Department) for holding the public hearing on LTC insurance. The benefits of private LTC insurance are significant for both individuals and states. LTC insurance provides protection against the substantial risk from expensive LTC services that may quickly deplete an individual's retirement savings, and it affords independence and greater consumer choice in making quality of life decisions for individuals requiring LTC services. In the absence of private LTC insurance, many individuals

are left with spending down their assets and relying on state Medicaid programs as their only viable option. Therefore, a robust private LTC insurance market is critical in Minnesota and across the states where LTC can consume as much as one-third or more of a state's Medicaid budget.

Value for Minnesotans

LTC insurance provides important protections to Minnesota residents. In Minnesota, the 2015 median hourly cost for the services of a home health aide of \$25 easily adds up to over \$50,000 a year. The median cost for a year's stay in an assisted living facility and in a private room in a nursing home in Minnesota is \$41,613 and \$96,021 respectively.¹ At the end of 2013, LTC insurers paid over \$197 million in benefits in Minnesota and covered over 208,000 Minnesotans.² Studies have shown that there is a nearly 70 percent chance that a person age 65 will need some LTC in his or her lifetime. The private LTC insurance market has been working to serve Minnesota residents since the 1970s.

Value Across the States

It is important to note that the value of LTC insurance reaches beyond policyholders to include family caregivers. States and their public programs – specifically Medicaid – benefit too, enjoying reduced expenditures on LTC services. Below, we summarize the general value that LTC insurance provides to policyholders, caregivers and Medicaid. These findings are based on analyses of empirical data collected over decades of research.³

Policyholders

- The industry can expect to pay out roughly \$700 billion in claims based on the current in-force policyholder base of 7.4 million people.
- LTC insurance claimants reduce their out-of-pocket costs by between \$3,000 and \$5,000 a month on LTC expenses depending on the service setting.
- The vast majority of consumers are satisfied with the way that their LTC insurance company has serviced their claims. Ninety-four (94) percent of people filing claims reported having no or satisfactorily resolved disagreements with their insurance company, while only about four percent reported that their claims were denied.
- LTC insurance provides claimants with greater service choice flexibility and ease of accessing services while increasing their ability to obtain services where they want to receive them.
- Privately insured individuals receive 35 percent more total hours of care than those without private insurance.

Family Caregivers

- Individuals caring for family members with private LTC insurance are nearly twice as likely to be able to work compared to those whose family members do not have insurance.

¹ Genworth, *2015 Cost of Care Study*, March 2015.

² National Association of Insurance Commissioners, *Long-Term Care Insurance Reports for 2013, 2014*.

³ LifePlans, Inc. *The Benefits of Long-Term Care Insurance and What They Mean for Long-Term Care Financing*, AHIP, November 2014.

- Caregivers for LTC insurance claimants experience less stress in finding appropriate care for their relative with disabilities because they receive assistance with navigating and finding services from care coordinators provided by LTC insurers to their customers.
- Satisfaction with the paid care LTC insurance consumers receive enables caregivers to focus on companionship with their relatives with disabilities.

Medicaid

- LTC insurance is effective in reducing Medicaid spend-down rates because it covers a majority of LTC costs for individuals who need services.
- In the absence of their LTC insurance policy, between 22 and 33 percent of nursing home claimants would spend down in order to be covered by Medicaid. LTC insurance allows policyholders to protect their assets.
- Current policyholders are expected over their lifetime to save the Medicaid program \$75 billion. Annual Medicaid savings per in-force policy are roughly \$500.

LTC Insurance Market and Regulation

Our member companies offer a wide variety of LTC insurance policies on an individual basis or through group policies sponsored by employers or associations. They offer customers with choices regarding their coverage and type of care they may receive. This includes:

- the types of services covered, such as nursing home, home health or assistant living facilities;
- the level of coverage, usually a fixed dollar amount per day or month;
- the duration of coverage, usually categorized by the number of years of covered benefits; and
- a waiting period or elimination period before LTC insurance payments begin.

LTC insurers recognize the concerns expressed by consumers regarding the need for carriers to raise LTC premiums. These increases are necessary for the sustainability of the policies and the solvency of insurers to provide future benefits to consumers. The LTC insurance marketplace has faced a number of financial challenges in recent years that have put upward pressure on premiums.

LTC costs continue to escalate. Costs associated with LTC (institutional and home health care) total over \$200 billion, or 10 percent of total health expenditures, according to government data on national health expenditures, and they continue to increase every year. Seniors are living longer and with a higher prevalence of chronic disease. Over the next 40 years, the population of people over 65 is projected to double, and the population over 85 is expected to triple.

As the need for LTC increases sharply with age, costs for LTC are expected to rise significantly. Like many other insurance products, premiums collected from beneficiaries are invested over time to pay claims in the future when they are needed. As a result of the economic downturn, low interest rates have greatly diminished the expected returns on this invested capital, putting additional pressure on premiums.

A compounding reality is the fact that many individuals hold LTC insurance for extended periods of time, resulting in policy lapse rates much lower than originally anticipated. Current regulations allow companies to file actuarially-justified rate increases. Our member companies have been working closely with state insurance departments to offer policyholder options, such as the ability to adjust their benefits, to mitigate all or a portion of these rate increases.

The National Association of Insurance Commissioners (NAIC) has created comprehensive models for regulating the business of LTC insurance, which includes detailed provisions regarding the standards for LTC insurance, including: consumer right to prompt payment of claims and independent review of benefit trigger denials; enhanced rate stability and consumer disclosure provisions; and administrative procedures for providing notice and review of scheduled increases to the premiums or rates charged to consumers who have purchased or are purchasing LTC insurance.

The LTC insurance industry is committed to continuing to work with individual states and the NAIC to take actuarially-justified pricing action on blocks of existing LTC business and to provide rate increase alternatives to affected consumers. Our recommendation below would further these mutually obtainable goals and would support the sustainability of the LTC marketplace for the benefit of all.

Recommendation

To ensure a stable regulatory environment that provides Minnesota consumers with choice, transparency and protections for LTC insurance, we encourage the Department to adopt the most recent changes to the *NAIC LTC Insurance Model Regulation* (NAIC Model), as well as issue the *NAIC LTC Insurance Rate Increase Model Bulletin on Alternative Filing Requirements for LTC Premium Rate Increases* (NAIC Bulletin).

NAIC Model

The revised NAIC Model requires companies to make an annual actuarial certification of their rates and disclosures to consumers about rate increases. We believe in clear and “easy to understand” disclosure at the time of a rate increase. The NAIC Model, if adopted by Minnesota, would ensure that rate increases notices to consumers include appropriate and robust disclosure elements. Such disclosure will provide insureds with the foundation to make informed decisions when responding to a rate increase. The NAIC Model also includes strong consumer protections in regards to prompt payment of claims and independent third party review of claim denials, and extends certain non-forfeiture benefits to a broader population of policyholders.

NAIC Bulletin

The NAIC Bulletin is intended to provide a uniform approach to addressing significant rate increases in existing blocks of LTC insurance policies. It requires rate increase submissions to

be filed with and approved by the Department and encourages the Department and companies to work together to determine a rate increase implementation schedule that would best serve policyholder interests.

Under the NAIC Bulletin, if a full rate increase is approved, the company would not implement future rate increases for the affected policies for at least three years. In lieu of a single increase, it provides for approval of the full increase and requires the increase to be implemented in a series of annual segments. The NAIC Bulletin also advises that the Department may consider other options that may be made available to insureds to mitigate the impact of the rate increases or alternative actuarial methodologies relating to the rate increase. In addition, the NAIC Bulletin applies a “dual loss ratio” standard to rate increases whereby a higher percentage of the premiums associated with rate increases must be used to pay future claims.

Conclusion

We appreciate the opportunity to provide this statement and look forward to working with the Department on creating a regulatory environment that ensures a robust private LTC insurance market that provides consumers with a choice of solid and dependable coverage for their LTC needs. We are committed to ensuring that consumers continue to enjoy the greater peace of mind that comes with knowing their coverage will be there when and for as long as they need it.