



RATE INCREASES: Reality in Today's LTCl Marketplace

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THE ELEVENTH ANNUAL INTERCOMPANY LONG TERM CARE INSURANCE CONFERENCE





Rate Increases: Reality in Today's Marketplace

Third Party Administrator Perspective

Lane Kent



Rate Increases, A Historical Perspective

- Early products positioned as “level” premiums
 - Little disclosure of RI potential at point of sale
 - Pricing threats not well understood
- First RI filed October 1991 for 40%*
 - Policy form first sold in 1988 (three years prior)
 - Filed in multiple states
 - Several increase requests were rejected outright
 - Most approved as requested
- RI’s ranging from 10% - 53%
- Average RI requested between 20%-25%

*California DOI Website



Operational Considerations

- An Administrators Perspective
 - Univita has implemented rate increases on over 700,000 policies (10% of all in-force lives)
 - Various approaches
 - » Flat rate factor by class
 - » Variable rate factor by product specifications
 - » With and without alternatives to the increased premium
- Do's
 - Define operational requirements first
 - » Passive acceptance
 - » Timing of mailings and grace period for responses
 - » State specific variations
 - » Producer considerations (commissions, orphans)
 - Educate, early and often “you cannot do to much”



Communication Considerations

Timing

Tier I

Reasoning

Pre- notice

- Actuarial
- Legal
- Senior Leaders
- Sales Leaders
- PR/Marketing
- State DOI's
- Vendor Partners

Project Management
Data Analysis
Planning/Execution
Approval

Tier II

With notice

- Distribution Partners
- Call Centers
- Field Agents
- Direct Media Services

Maintain Relationships
Public Relations

Tier III

Post-notice

- Company Employees
- NAIC Leaders
- State DOI's
- Rating Agencies
- Reinsurers

Contractual

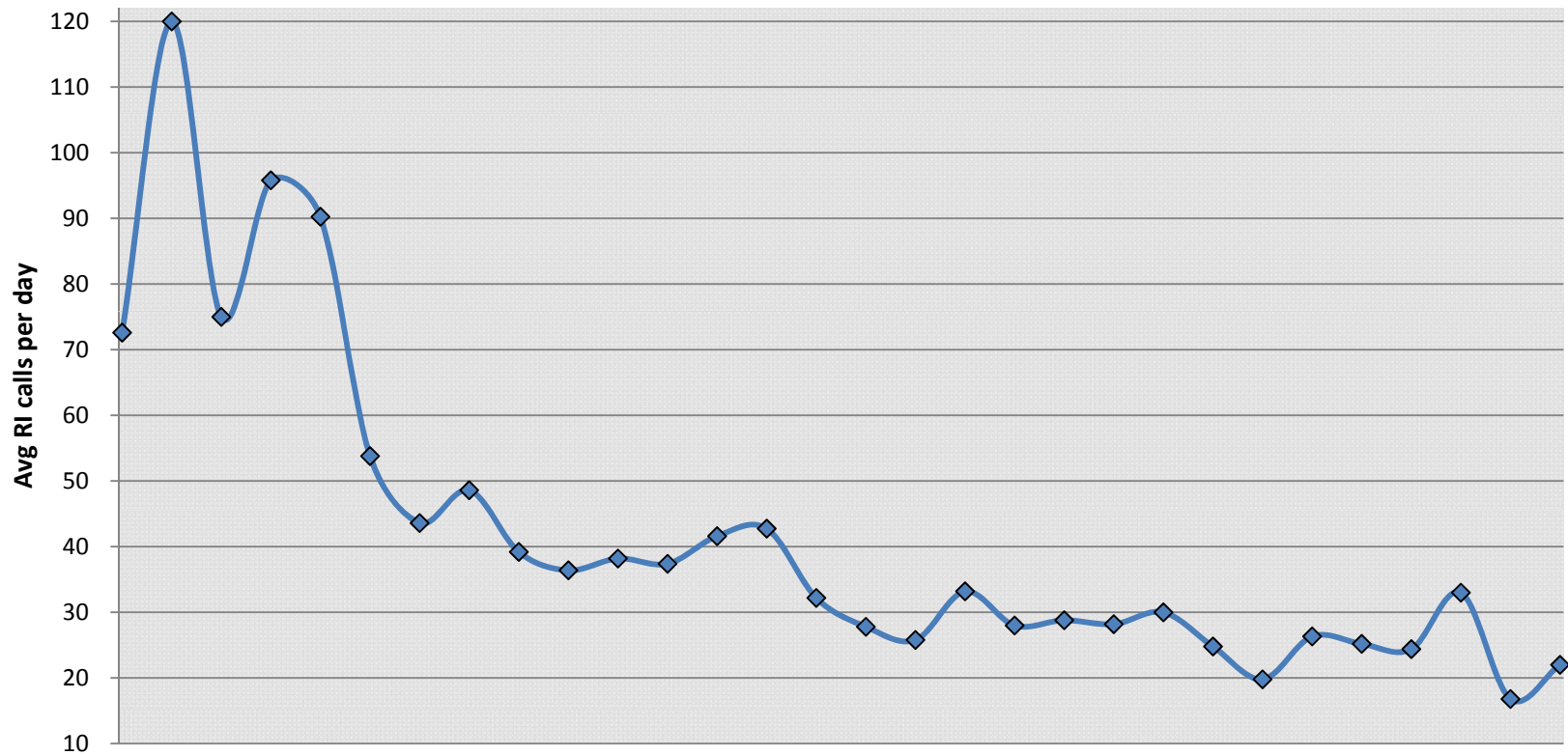


Operational Considerations

- More Do's
 - Define systems implications
 - Define processing volumes and service levels
 - » Mail volumes (inbound and outbound)
 - » Termination percentage – assume low lapse
 - » Demographic changes
 - » Reduced Benefit Offering
 - » Returned mail / Deceased letters
 - » Customer service call volumes
 - » Rate quotes
 - Get ready!!
 - » 55-60% of incoming calls come within the first 30 days



Call Volume Trend



Six Months following consumer receipt of notice



Description of the Call

Description of the call	Total Calls	% of Total Calls
Explain RI letter options & effect on benefits	13,646	68.0%
- General review of letter options		
- Can I make a different coverage change?		
- When will the RI go into effect on my policy?		
- What if I don't send my RI form back?		
- Please explain my confirmation letter		
Questions on how to terminate policy	1,729	8.6%
- I've reviewed my options and want to term		
General RI frustrations	1,589	7.9%
- I was under the impression rates would never rise		
- Threats of class action litigation, complaints, etc.		
Receipt of RI form verification	1,474	7.3%
Why RI is necessary	889	4.4%
- Why are you raising rates again?		
- Didn't this just happen recently?		
- Can we expect future RI's every few years?		
Explain new invoice	636	1.8%
Opting for automated information only	4,704	19.0%
TOTAL CALLS	24,772	100.0%



Policyholder Selections

Multiple increases over 7 year span

Approved RI launch	Average RI %	Offers	Accept	Decreased	Ave Acceptance %
RI 1	22%	11,980	10,137	1,813	84.62%
RI 2	21%	9,163	7,732	1,414	84.38%
RI 3	20%	8,009	6,007	1,309	75.00%
RI 4	17%	2,448	1,557	382	63.60%

First Increase, larger sample (over 50,000)

RI selection	Percentage
Accepted Premium Increase	86.92%
Selected MDB Reduction	10.33%
Selected Benefit Period Reduction	2.75%
Totals:	100.00%
Total Acceptance %:	86.92%
Total Decrease %:	13.08%



Consumer Response

Letters



Rate Increases: Reality in Today's Marketplace

Carrier and Policyholder Perspectives

Jodi Anatole

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Carrier Perspective

- Recent Regulatory Inquiries
- Media Attention
- Communications
- Carrier Survey



Recent Regulatory Inquiries

- **U.S. Senate – Joint Hearing – October 14, 2009**
 - U.S. Senate Special Committee on Aging and the Homeland Security and Governmental Affairs Committee, Chaired by Senator Kohl
 - Hearing underscored rate problems of the Federal Long Term Care Insurance Program, with similar issues occurring with private insurance nationwide
- **September 29, 2010 Federal Examination – LTCI rate increases**
 - Henry A. Waxman (D-CA), then Chair of the committee on Energy and Commerce – U.S. House of Representatives and Frank Pallone (D-NJ), then Chair Subcommittee on Health – U.S. House of Representatives initiated request
 - Request to 8 carriers for history of rate increases to policyholders in the state of New Jersey
 - Requested examples of marketing materials/customer communications and documents submitted to The New Jersey Department of Banking and Insurance, or to any other regulatory agencies relating to the rate increases



Recent Regulatory Inquiries Cont'd.

- **CA DOI investigatory hearing – October 26, 2010**
 - 7 carriers participated in hearings, requested by CA Department of Insurance (Commissioner Poizner)
 - Purpose: understand carrier rate increases in spite of rate stabilization regulations
 - Themes from California Hearings
 - Are there appropriate consumer disclosures?
 - Are agents appropriately trained?
 - How could rate increases be needed on post rate stabilization policies?
 - What is the appropriate margin for moderately adverse?
 - Won't closed blocks result in rate spirals?
 - If approved, should there be a single increase or should the increase be phased in?
- **CT Legislature holds LTCI rate hearings – December, 2010**
 - LTCI joint hearing by The Connecticut Select Committee on Aging and the Insurance & Real Estate Committee
 - Focus: rate increase filed by company, approved by CT Department of Insurance
 - Outcome: Legislators filed legislation calling for more transparency in rate filing process and public hearings on rate increases (Senate Bill 15 introduced January 5, 2011, requires public comment prior to Insurance Commissioner's approval)



Media Attention

- 2009*: 31% of LTCI industry articles mentioned rates
- 2010*: 50% of LTCI industry articles mentioned rates
- Some articles raised concerns that if carriers couldn't get assumptions right in the past and now were asking for large rate increases, how do consumers know that carriers now have it right
- The message point that needs to be reinforced is that as this product ages, there is more experience to draw from

*Source: Factiva data base



Is there one best way to communicate and implement a rate increase?

- Should policyholders first be notified when a carrier files for an increase or when the increase is approved and applicable to the policyholder?
- Should policyholder options be outlined in letters that are mailed or should policyholders be referred to a call center for options?
- How much time should policyholders be given to make a decision regarding their increase rate increase?



Is there one best way to communicate and implement a rate increase? Cont'd

- Should all policyholders in a state be notified at the same time regardless of their anniversary date or just prior to their specific anniversary date?
- What information do producers need regarding a rate increase?
- What information do Call Centers need to have available?



MultiLife Programs and Inforce Rate Increases

- Program sponsors should receive communications in advance of policyholders
- Likely that not all policyholders within a group will get the same level of increase or at the same time
- Employer paid program sponsors have decisions to make on continuing to pay premium
- Policyholders ultimately make the decision on their coverage



Carrier/Provider Survey Questions

1. With your most recent in-force rate increase, what options did you offer to insureds as an alternative to accepting the rate increase? (Choose as many as apply)
 - Decrease coverage to any coverage feature available **100%**
 - Decrease DBA **80%**
 - Decrease Lifetime Maximum **80%**
 - Decrease/drop inflation protection or change type of inflation protection **60%**
 - Drop other policy riders – this does not include dropping inflation protection (e.g. restoration of benefits; cash benefit rider; etc) **20%**
 - Change from comprehensive to facility care only **40%**
 - Other (please specify) **20%**



Carrier/Provider Survey Questions

2. Did you offer any new benefits to insureds in order to minimize the impact of the premium increase? If yes, please specify.

Yes 20%

No 80%



Carrier/Provider Survey Questions

3. What percent of insureds took the following actions in response to the inforce rate increase? Please estimate if you do not have exact figures.

	0-15%	15-25%	26-35%	36-50%	51-64%	65-79%	80-100%
▪ Accepted the rate increase	_____	_____	_____	<u>20%</u>	_____	<u>20%</u>	<u>60%</u>
▪ Accepted a coverage decrease	<u>80%</u>	_____	_____	<u>20%</u>	_____	_____	_____
▪ Cancelled their coverage	<u>100%</u>	_____	_____	_____	_____	_____	_____



Carrier/Provider Survey Questions

4. Did you see an increase in the number of written complaints to as a result of the rate increase?

- Yes **80%**
- No
- Other (please specify) **20%**



Carrier/Provider Survey Questions

5. If you implemented different increase amounts in different states, did you receive more complaints from insureds living in states with a higher increase?

Yes **20%**

No **40%**

There were no state differences in the increase amount **40%**



Carrier/Provider Survey Questions

6. Did you pay a commission on the increase and if so, what type?

- Yes, first year
- Yes, renewals only **20%**
- No/not applicable **80%**



Carrier/Provider Survey Questions

7. Do you have a preference for implementing an increase all at once or for phasing it in over a period of years?
- All at once **80%**
 - Phase it in **20%**
 - Other (please specify)



Carrier/Provider Survey Questions

8. What was your major concern about implementing an inforce rate increase?

- Handling consumer inquiries
- Processing coverage changes
- Negative PR/media **20%**
- Dissatisfaction of the field force
- Losing insureds **20%**
- Loss of premium from benefit downgrades
- Regulatory objections **60%**
- Other (please specify)



What we can do to support producers

- Advanced notification of a rate increase
- Comprehensive Communications
- Information on each of their clients
- Sufficient information on their multilife programs



Rate Increases: Reality in Today's Marketplace

Producer Perspectives

Louis Brownstone



Broker and Agent Attitude

- *Initial panic! OH NO!
- *What should I do? How much information should I divulge and when?
- *Am I capable of preserving my book of business?
- *Am I trained and experienced in handling customer complaints?
- *Can I listen, show empathy, mollify anger, explain causes, show alternatives, etc?



Policyholder Responses

- *Agents and brokers believe that upon receiving notice of a rate increase, about 10% respond to them and 10% respond to the carrier.
- *This means that 80% don't respond at all.
- *Almost all believe that the higher the percentage rate increase, the more likely the policyholder is to respond.*



The Attitude of the Policyholder

- Hostile towards the broker or agent?
- Hostile towards the carrier?
- Hostile towards both?
- Merely trying to understand the reasons for the rate increase?
- Just want to have a conversation with someone?



The Concerns of the Policyholder

- Can't afford the rate increase.
- Doesn't want to reduce benefits or pay more.
- Afraid of more future rate increases.
- Claims that he or she was told that there would never be a rate increase.
- Claims the agent or broker was dishonest during the sale
- Fears the carrier won't pay a claim.
- Claims the carrier is dishonest.



What Is the Outcome of the Call?

- Many policyholders don't tell the agent or broker what they're going to do.
- Of those who do:
 - 80% Accept the rate increase.
 - 15% Reduce their benefits.
 - 5% Lapse their policies.



Other Policyholder Comments

- Many were familiar with media reports about rate increases.
- Many had negative feelings about insurance in general.
- Many felt an affinity with the broker or agent and sought an ally with whom to vent their feelings.



Actions of Brokers and Agents

- A minority immediately contact their policyholders when they learn of a rate increase.
- Almost all take the time to listen to policyholder complaints and show empathy.
- They believe that they handle these calls fairly well, but most feel they could use some coaching.
- They believe that this is the case for other agents and brokers as well.



Was the Policyholder Satisfied?

- Most felt the policyholder was unhappy, but understood the reasons for the rate increase.
- Others felt the policyholder was comfortable and satisfied after the conversation.
- Most felt that these conversations materially reduce lapse rates.
- Most believe that lapse rates after moderate rate increases are in the 2% to 5% range.



Other Comments

- Agents and brokers are evenly split on the question of whether a large rate increase should be a one-time increase or in steps.
- Many believe that policyholders have a hard time reaching the carriers and obtaining a reasonable explanation for the rate increase.
- Many believe that the correction of past actuarial mistakes are unduly influencing the current environment. Education is badly needed.