Innovation and Regulatory Change in the LTCI Marketplace

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Agenda

• Challenges in the LTCi World
• Challenges with Current LTCi Product Design
• Innovation – John Hancock’s Path of Innovation
  – Performance LTC
• Why Regulatory Change is Needed to Help Innovate and Expand the LTCi Marketplace in the Future
• The Goals of Innovation in the LTCi Marketplace
• Areas of Regulatory Change to Allow for LTCi Innovation & Market Expansion
• Where LTCI Innovation Legislative/Regulatory Changes Will Need to Be Made
About John Hancock

- John Hancock is a market leader in many product lines including LTC, which we have been writing since 1987.

- We are committed to our customers and the LTCi industry.

- Innovation has and continues to be a critical component to everything we do:
  
  - **Shared Care**, which allows spouses to access a combined pool of benefits;
  - offering a more affordable and built-in annually compounded inflation provision that tracks the **Consumer Price Index**;
  - offering our customers the ability to reduce their future inflation index via the **Inflation Reduction Landing Spot** when faced with a rate increase; and
  - **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.
## Challenges with the Current LTCi Product Design

| Consumer | • In-force rate increases can be substantial and unpredictable  
|          | • Policies lack transparent mechanisms that help customers understand how company experience is unfolding over time |
| States   | • Market for LTC insurance is shrinking, shifting costs to state Medicaid budgets  
|          | • In-force rate increases dominate regulator discussions  
|          | • Must deal with complaints from residents who did not expect rate increases |
| Company  | • Non-uniformity in approval process among states leads to regulatory risk  
|          | • Inefficient way to pass through experience: susceptible to sudden, surprising in-force rate increases |
# Challenges in the LTCi World

| Education                                      | Consumers believe that Medicare/Medicaid, health care reform or traditional health coverage will cover their future long-term care needs  
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<th></th>
<th>Consumers don’t understand the cost of long term care</th>
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| Continued Reality                             | LTCi sales remain stagnant  
|                                               | Past years have been challenging with low interest rates and volatile equity markets  
|                                               | Product development needs to take into consideration economic uncertainties and learnings from claims |

| Claims Trends                                  | Industry is still young and claim experience has not fully developed |

| A Carrier’s Reality                           | Carriers need to be assured of a stable regulatory environment where actuarially justified rate increases are granted in order to stay in the market  
|                                               | Carriers need to be assured of speed to market and a nationally consistent framework of LTCi regulation  
|                                               | Solution = Interstate Compact  
|                                               | Most carriers with extensive experience have raised premiums for inforce over past several years  
|                                               | Aging distribution, difficult to recruit new producers due to LTC specific training requirement barriers (as opposed to including in the life and health training requirements |
Recent Innovation – John Hancock’s Response

• Performance LTC provides traditional LTC benefits at an affordable price

• New product design with “Flex Credits” that reflect experience in a fair, efficient, and transparent manner

• Policy Premiums are priced with a conservative set of assumptions
  – Claims are 65% higher than expected
  – Investment yields range from 1 to 3%

• When experience is better than the conservative assumptions, policyholders receive an experience credit, “Flex Credit” which is primarily used to offset Policy Premiums

• Many benefits for multiple stakeholders
  ✓ Consumer: a more stable product than the old design – much less risk of the large, surprising in-force rate increases late in the policy’s life
  ✓ States: rate stability minimizes the likelihood of significant rate increases; consumer satisfaction
  ✓ Company: more stable risk & financial management for the future
Why Regulatory Change is Needed to Help Innovate and Expand the LTCi Marketplace of the Future

• We and industry believe that a fresh look is needed to reflect:
  – customer/family evolving needs;
  – consumer choice;
  – advancements medical treatment and care supports & technologies;
  – affordability;
  – purchasing methods; and
  – the financial environment.

• The current regulatory setting dates back to the late 1980s at the state and NAIC level and was then overlaid with new and significant federal requirements in the mid-1990s via HIPAA and in 2005 with the DRA.

• Over time, this regulatory box has become more of a barrier to LTCi product innovation.

• Carriers also need a stable and uniform regulatory landscape in which to operate as well as speed to market.
The Goals of Innovation in the LTCi Marketplace

The suggestions for regulatory change that follow check off at least one of the goals of innovating the LTCi marketplace:

☑ A better informed consumer
☑ Improved consumer choice
☑ Affordability
☑ Attractiveness to younger buyers
☑ Make available products that are relevant to a consumer’s life stages
☑ More tightly focused consumer disclosure
☑ Tax incentives to reward purchase
☑ A uniform regulatory framework that will encourage carriers to enter into and remain in the LTCi market
## Areas of Regulatory Change to Allow for LTCi Innovation & Market Expansion

<table>
<thead>
<tr>
<th><strong>Consumer Education</strong></th>
<th>• We encourage the development of federal and/or state consumer awareness campaigns to focus on the LTC need, cost and options</th>
</tr>
</thead>
</table>
| **DRA Reform**         | • Simplicity – if it is TQ, it is DRA Partnership qualified  
• Allow for all types of inflation coverage including no inflation  
• Eliminate state variations in disclosure, inflation and administrative processes – need a simple national standard |
| **Product Enhancements** | • Flexible premium structures should be allowed  
  • Allow for a choice of increasing premium over time to recognize person’s income stream  
• Allow for cash value beyond return of premium  
• Expand combination products to address consumer’s life needs over time -  
  • allow for transitional products, morphing products as well as combining LTCi with health, DI, CI, etc. |
### Areas of Regulatory Change to Allow for LTCi Innovation & Market Expansion – (continued)

| LTCi Regulatory Uniformity | National uniformity in LTCi requirements and improved speed to market - recommend all remaining non-IIPRC states join the IIPRC for LTC  
|                           | Uniform national approach to dispositions of actuarially justified rate increases |
| Disclosure                | Need to focus on the amount of disclosure that a consumer receives at time of sale – concern that key messages are lost  
|                           | How best do we deliver LTCi in electronic age |
| Producers                 | Separate requirements are a barrier for new producers  
|                           | Make LTCi training part of a producers normal life/A&H training |
| GLTC & Worksite           | Need to allow GLTC in cafeteria plan to expand market  
|                           | Additional federal or state incentives to employers to offer LTCI coverage (i.e., tax, subsidies, etc.)  
|                           | Encourage uniformity of law via situs state |
| Fed/State Tax Incentives   | More generous federal & state tax incentives  
|                           | Above the line |
Where LTCI Innovation Legislative/Regulatory Changes Will Need to Be Made

<table>
<thead>
<tr>
<th>Recommended Solution/Change(s)</th>
<th>Federal*</th>
<th>NAIC Models</th>
<th>State</th>
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</thead>
<tbody>
<tr>
<td>Federal and/or state sponsored consumer awareness</td>
<td></td>
<td></td>
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<tr>
<td>If it is TQ, it is also DRA qualified</td>
<td>✔ D</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Eliminate DRA state variations (disclosure, inflation and unique admin)</td>
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<td>✔</td>
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<tr>
<td>Flexible premium structures and/or cash value allowed</td>
<td>✔ H, D</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Inflation reform</td>
<td>✔ H, D</td>
<td>✔</td>
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<tr>
<td>Expand combo products; allow for - transitional products (i.e., combining health, CI or DI with LTC, morphing products, etc.)</td>
<td>✔ H, D</td>
<td>✔</td>
<td>✔</td>
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<td>National uniformity in LTCi requirements and improve speed to market - recommend all remaining non-IIPRC states join the IIPRC for LTC</td>
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<tr>
<td>Disclosure reform (including disclosure in an electronic age)</td>
<td>✔ H, D</td>
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<td>✔</td>
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<tr>
<td>Merge LTC training into Life/A&amp;H producer requirements</td>
<td>✔ D</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Create an appropriate regulatory environment for GLTC and worksite</td>
<td>✔ H, D</td>
<td>✔</td>
<td>✔</td>
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<td>More generous federal and state tax incentives</td>
<td>✔ H</td>
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* H – HIPAA; D - DRA
We would be happy to address any questions.

Thank you for allowing us to appear today and we look forward to work with our regulators on Innovation in the LTCi Marketplace.