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CORRESPONDENCE MEMORANDUM

DATE: July 27, 2010

TO: Group Insurance Board

FROM: Betty Wittmann, Manager
Optional Insurance Plans and Audits

SUBJECT: Long-Term Care Insurance Rate Increase Proposal – John Hancock

Staff recommends the Group Insurance Board (Board) approve the Long-Term Care Insurance (LTC) rate increase with benefit revisions including the 5% compound inflation and the Guaranteed Purchase Option (GBO) offering from John Hancock, submitted by Senior Care Insurance Services, Inc. (Senior Care).

Background

John Hancock is one of two companies currently offering LTC policies to state employees and annuitants as provided in Wis. Stat. § 40.55 and Wis. Admin. Code Ch. ETF 41. Senior Care is the General Agent responsible for marketing the John Hancock Policy. The Board previously approved a rate increase for the John Hancock Custom Care II Enhanced (Enhanced) LTC policy in April of 2009. The existing premium rates will no longer be available for sale in Wisconsin, effective September 20, 2010, when the new rates go into effect. All state employees, state annuitants, and their eligible family members who have purchased the current Enhanced policy will continue to hold those policies uninterrupted.

Senior Care has been the marketing arm for John Hancock since 1999 and utilizes licensed insurance agents to sell the Board-approved John Hancock LTC policies to state employees, annuitants and eligible family members.

Discussion

John Hancock is requesting up to a 32% premium increase (varies by age and benefits selected) for the Enhanced policy. John Hancock indicates this is due to the low interest rate environment and recent claims experience. In addition, John Hancock will discontinue offering the unlimited (lifetime) benefit period, and will be reducing the discount for those who meet the preferred health underwriting guidelines because of lower mortality rates.

Reviewed and approved by Tom Korpady, Division of Insurance Services.

Signature ______ Date 8/2/10

Board	Mtg Date	Item #
GIB	8.24.10	4C

The Board's consulting actuary, Deloitte Consulting, LLP (Deloitte), has reviewed the proposal. The Deloitte review (copy attached) indicates that the proposal, when sold with the 5% compound inflation rider, plus the Guaranteed Purchase Option (GPO), meets the requirements outlined in the Board's guidelines and Administrative Code. The policy was approved by the State of Wisconsin Office of the Commissioner of Insurance on June 25, 2010.

The Enhanced policy offering will be either a Partnership or a Non-Partnership policy and meets the minimum benefits required by the Board. Board members may recall that a Partnership policy is designed to allow participants in claim status to disregard assets from their estate in an amount equal to the benefits paid by the policy should Medical Assistance (Medicaid) be needed. The Partnership Program requires all policies to be sold with a minimum 3% annual compound inflation, which differs from the inflation protection standards required by Wis. Admin. Code Ch. ETF 41.02 (5) outlined in Deloitte's memo.

John Hancock is also requesting to offer an inflation option that increases benefits based on the Consumer Price Index (CPI). Deloitte's memo details their analysis of the CPI Inflation offering and indicates CPI has historically not increased at a rate greater than the nursing home costs in Wisconsin. In addition, the Genworth 2010 Cost of Care Survey reports that Wisconsin is the 11^{th} most expensive state (13% greater than the median annual rate of $43,472) for home care services and identifies that 78% of those receiving long-term care services chose the nursing home. Therefore, staff recommends the Board not approve the CPI Inflation offering.

Conclusion
Based on staff review, and the attached Deloitte evaluation, the staff recommends approval of John Hancock's Custom Care II Enhanced policy rate increase with the 5% compound inflation and GPO offering. However, it should be noted that the policies sold to our members would not include the "No Inflation" or the "CPI Inflation" options, as they do not meet the standards specified in ETF 41.02.

Staff will be available at the meeting to answer any questions you may have regarding this proposal.

Attachments: Attachment A: Deloitte Consulting Actuarial Memorandum
Attachment B: John Hancock Long-Term Care Rate Increase Proposal (Confidential)

Deloitte.

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July 13, 2010

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Re: John Hancock New Business Rate Submission for the Custom Care II Enhanced Long-Term Care Plan – Review of the CPI Compound Inflation Benefit Option

Dear Betty:

John Hancock notified the Department of Employee Trust Funds ("ETF") in a letter dated June 22, 2010, of its intent to adjust new business premium rates for the Custom Care II Enhanced Long-Term Care (LTC) Insurance plan ("the policy"). Also in the letter, John Hancock requested that the ETF consider allowing the CPI Compound Inflation benefit option ("CPI benefit option") to be made available with the policy. You asked us to review the CPI benefit option and determine if the option meets Group Insurance Board requirements. We find that the option does not meet the Group Insurance Board requirements.

We note that we did not review in detail the set of new business rates for the policy (including the rates for the CPI benefit option) as those rates were reviewed by the Office of the Commissioner of Insurance (OCI) and approved on June 25, 2010. We observed that premium comparisons showed that the 5% compound inflation option for the policy is generally more expensive than the 5% compound inflation option available from John Hancock's competitors. Based on our experience, the insurance industry has historically underpriced LTC premium rates for compound inflation options and in some cases companies have subsidized compound inflation rates with non-inflation rates, so comparing compound inflation premium rates between companies can sometimes be misleading. We did not find anything during our review that indicated that the new business rates for the policy were unreasonable.

As part of our analysis of the CPI benefit option, we reviewed the description of the option as contained in the Outline of Coverage and the Actuarial Memorandum and Certification for the policy, and compared the benefit description to the requirements set forth in *Guidelines for Optional Insurance Programs: Chapter ETF 41 – Long-Term Care Insurance* ("ETF 41"). Section ETF 41.02(5) of ETF 41 states the following in regards to inflation protection requirements for LTC policies:

> "(5) INFLATION PROTECTION. (a) Each policy shall provide for one of the following:
>
> 1. Any insured not receiving benefit payments may purchase additional coverage during an annual enrollment period established by the board in an amount not less than $10 per day at the price then in effect for the insured's age group.
>
> 2. Benefits shall increase automatically to a minimum of 10% per year for 10 years.
>
> 3. Benefits shall be payable as a percentage of the cost of care.

4. The policy shall increase daily benefits and any benefits remaining toward the policy's maximum benefit level at a rate not less than 5% compounded annually, and shall guarantee the insured the right, without evidence of insurability or health status, to periodically increase daily and remaining lifetime maximum benefit levels by an amount not less than the amount by which the inflation index specified in the policy and approved by DETF exceeds the annually compounded 5%.

(b) For purpose of par. (a) 4., the insurer shall offer the insured the opportunity to secure additional coverage at least once every 3 years. If the offered increase in a daily benefit would be less than $10, the policy may include language that extends the period beyond 3 years. If the insured declines an offer for additional coverage, the insurer may not offer the additional coverage during that period. If the insured rejects 3 consecutive offers for additional coverage, the insurer is not required to make further offers."

We first considered whether the CPI benefit option meets the requirements of section ETF 41.02(5)(a)4 in regards to benefits increasing by at least by 5% compounded annually. Since the CPI benefit option increases benefit amounts annually by the percentage change in the Consumer Price Index for All Urban Consumers, All Items ("CPI-U"), we reviewed recent CPI-U data published by the U.S. Department of Labor to determine whether it is reasonable to expect the CPI-U to increase by 5% compounded annually in the future. The CPI-U increased by 2.6% compounded annually during the period December 2004 to December 2009 and we do not find it reasonable to expect the CPI-U to increase by 5% or more in all future years.

We also considered whether the Guaranteed Purchase Option (GPO), when used in conjunction with the CPI benefit option, would allow an insured to purchase additional coverage such that the total benefit amount increase each year would be 5% or more. The GPO is automatically included in the policy and allows the insured to purchase an additional $20 per day of benefit amount every three years without underwriting. Due to the amount of benefit available under the GPO and historical changes in the CPI-U, we would not reasonably expect insureds with the CPI benefit option to be able to increase total policy benefit amounts by at least 5% compounded annually by purchasing additional benefit amounts through the GPO. Therefore, we find that the CPI benefit option does not meet the requirements of section ETF 41.02(5)(a)4.

We next considered if the CPI benefit option adequately covered increasing costs of care it would meet the requirements of section ETF 41.02(5)(a)3 in regards to benefits being payable as a percentage of the cost of care. We reviewed nursing home cost of care data published by Genworth and MetLife, two leading LTC insurers, to determine whether the CPI-U has historically increased at a rate at least as great as nursing home costs in the State of Wisconsin. During recent years, the CPI-U has not increased each year at a rate at least as great as the increase in the daily cost of a room in a nursing home in the State of Wisconsin. For example, the *Genworth 2010 Cost of Care Survey* showed a 5% annual compound increase in the cost of a private room in a nursing home (7% for Assisted Living Facilities) in Wisconsin over the most recent five year period, which is greater than each December to December annual change in the CPI-U over the period 2004 to 2009 where the annual change in the CPI-U ranged from 0.1 to 4.1%.

The below table compares annual changes in the CPI-U to annual changes in Wisconsin nursing home costs over recent time periods as shown by Genworth and MetLife cost of care surveys:

Wisconsin Nursing Home Costs vs. CPI-U

Comparison vs. MetLife Cost of Care Surveys from 2005-2009

	Compound Annual Change
CPI-U[1]	2.1%
Madison Private Room	1.1%
Madison Semi-Private Room	2.4%
Milwaukee Private Room	5.6%
Milwaukee Semi-Private Room	3.5%

Comparison vs. Genworth 2010 Cost of Care Survey (2005-2010)

	Compound Annual Change
CPI-U[2]	2.4%
State of Wisconsin - Private Room	5.0%
State of Wisconsin - Semi-Private Room	5.0%

1 The CPI-U compound annual change is based on the period 9/2005 to 9/2009, to be consistent with our understanding of the time periods used in MetLife's surveys.

2 The CPI-U compound annual change is based on the period 3/2005 to 3/2010, to be consistent with our understanding of the time period used in Genworth's survey.

Based on our analysis, we would not reasonably expect the CPI-U to increase at a rate each year such that the CPI benefit option would cover increases in the cost of care in the State of Wisconsin in the same year. Therefore, we find that the CPI benefit option does not meet the requirements of section ETF 41.02(5)(a)3.

We note that the CPI benefit option can provide value to insureds as it provides a level of protection against increasing nursing home costs at a premium amount much less than that for policies with 5% compound inflation protection. However, because we determined that the CPI benefit option does not meet the requirements of items 3 and 4 of section ETF 41.02(5)(a), and because the description of the CPI benefit option does not indicate that the requirements in either item 1 or 2 of section ETF 41.02(5)(a) are met, we conclude that the CPI benefit option does not meet the requirements of section ETF 41.02(5) and therefore does not meet the requirements of the Group Insurance Board.

Timothy D. Gustafson

Timothy D. Gustafson
Principal