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CORRESPONDENCE MEMORANDUM

DATE: February 6, 2014

TO: Group Insurance Board

FROM: Roni Harper, Manager, Optional Insurance Plan Programs
Mary Statz, Director, Health Benefits and Insurance Plans Bureau

SUBJECT: Consideration of Replacement Long-Term Care Insurance Policy

Staff recommends the Group Insurance Board (Board) approve the updated Long-Term Care insurance policy (LTC13-AG) proposed by Mutual of Omaha, to be marketed to State of Wisconsin employees, annuitants, and their families, through HealthChoice Long-Term Care Solutions (HealthChoice).

Background:

Since 1987, the Board has been authorized under §40.55 to provide Long-Term Care (LTC) insurance. The insurance is optional and there is no state contribution toward premium. All plans are individual insurance policies issued directly to the purchaser. Eligible individuals are employees and annuitants, their spouses, partners, parents and in-laws.

Policies may be offered if they are approved by the Commissioner of Insurance and meet additional product and marketing requirements found in Employee Trust Funds (ETF) Administrative Rule 41 and in the "*Guidelines for Optional Group Insurance Plans Seeking Group Insurance Board Approval for Payroll Deduction Authorization"* (Guidelines).

Currently, the Board has approved insurance policies through United of Omaha Insurance Company (United). Mutual of Omaha (Mutual), the parent company of United, has removed this product line from the marketplace and is requesting approval to offer a replacement under the Mutual of Omaha name. HealthChoice, the current marketing agent, will continue this role.

Action by the Board on any replacement policy will have no effect on existing policies.

Reviewed and Approved by Lisa Ellinger, Administrator, Division of Insurance Services

Lisa Ellinger

Electronically Signed: 02/10/2014

Board	Mtg Date	Item #
GIB	2.19.14	6A

Discussion:

Mutual has combined the benefit design of its current offerings into one policy. Staff has reviewed the policy and noted no concerns with the benefit levels. The replacement policy will continue to meet program requirements, including inflation protection requirements that offer 5% annual benefit increases and additional guaranteed purchase options.

The proposed policy has been filed with the Interstate Insurance Product Regulation Commission, known as the Compact. Approval by the Compact provides automatic filing with OCI. The policy is tax-qualified and complies with Wisconsin Partnership standards--meaning its benefits will be recognized to offset required spend-down of assets if a policyholder must eventually apply for Medicaid to cover LTC expenses.

While the benefits are essentially identical, this policy increases prices significantly over those which it replaces. In addition, as noted in the company's cover letter (Attachment A), premium pricing will be gender-based: Premiums for women will be higher than for men of the same age. The Board's consulting actuary, Deloitte Consulting LLP (Deloitte), calculated that the average premium rates for new purchasers will be approximately 40-50% higher and, for some age/gender rate categories, premiums will more than double (Attachment B). These rate increases are also influenced by low interest rates, higher claim costs, longer life spans and low lapse rates.

Gender-based pricing is becoming common in the industry, although it is not without controversy. The rationale is that women make up more than half of the claims because they live longer than men on average and are less likely to have a partner to provide informal in-home care. On the other hand, legal challenges have been raised by advocacy groups, as critics point out that this pricing is unfairly discriminatory because women have lower lifetime earnings to provide for infirmities of aging and have longer life expectancies.

However, all but two states allow this pricing. In addition, the largest providers of LTC insurance have adopted this pricing structure, including Transamerica, John Hancock, and now Mutual of Omaha.

Premiums for LTC insurance have increased significantly in recent years. In addition to the factors already discussed, this is in part because regulators have focused on pricing the products correctly upon initial offering so as to limit the potential for group premium increases in the future. Therefore, a purchaser can be more assured than in the past that the premium at which they bought a policy will not change over time.

Purchasers in the State of Wisconsin group will continue to receive a 5% discount on premiums, as compared to the similar plan marketed to other qualified employer groups and associations. The replacement policy would be marketed upon approval by the Board.

Mutual of Omaha is rated A1 (Good) by Moody's and A+ (Strong) by Standard and Poor's. The company has been in the financial protection business for over 100 years.

Actuarial Review:

Deloitte has reviewed the proposal. The firm's assessment (Attachment C) indicates the proposal follows industry trends and is reasonable in its justification for premium rates that reflect gender differences, lower interest rates, longer lifespans, and lower lapse rates among all purchasers of LTC insurance.

Deloitte notes that the proposed policy complies with the Guidelines of the Board for approval of LTC insurance. Based on Deloitte's analysis of loss ratios, the expected aggregate loss ratio would be 60%, which is lower than the goal of 75% set for most insurance by the Guidelines. However, it is consistent with this type of insurance product. Therefore, in accordance with an exception allowed by the Guidelines, they find the pricing to be reasonable in relation to the benefits provided.

Conclusions and Recommendation:

The proposed replacement policy maintains benefit levels but increases premiums substantially for men and generally more so for women. Even so, the premium and benefits are consistent with those available in the industry today.

Based on review by ETF staff and Deloitte, the proposal meets current requirements and staff recommends that the Board grant approval of the Mutual of Omaha proposal for marketing to eligible persons in the state of Wisconsin, with the option of premium payroll deduction.

Staff will be at the Board meeting to answer any questions.

Attachment A: Mutual of Omaha cover letter
Attachment B: Deloitte pricing comparison (Confidential)
Attachment C: Deloitte analysis summary letter

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December 20, 2013

Ms Roni Harper
Manager of Optional Insurance Plans and Audits
Department of Employee Trust Funds
Wisconsin Group Insurance Board
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RE: Mutual of Omaha New Long Term Care Insurance Product Offering

Dear Ms. Harper,

This letter is to request approval from the Wisconsin Group Insurance Board (GIB) and you to market the new Mutual of Omaha LTC13-AG policy form to the State of Wisconsin Employee Trust Funds (ETF) group.

Mutual of Omaha has consolidated its offerings of the long term care insurance portfolio. Going forward, we are only offering long term care insurance under Mutual of Omaha. The United of Omaha portfolio is being replaced by the Mutual of Omaha portfolio.

The new product is necessary due to the market shift in offering sex-distinct rates. It is important to understand Mutual of Omaha considers LTCi a core product, which means it's a major part of our long-term business strategy. As we remain committed to this market, it is critical that we actively monitor emerging industry trends. During the course of developing the product, we updated all of our assumptions. The most significant change in the product offering is that the rates are now sex-distinct instead of unisex. Although our assumptions have always considered the differences associated with gender, this is the first of our products that utilizes sex distinct pricing. Given the market has moved to sex distinct pricing, we have also changed our pricing to reduce anti-selection. In addition to the premium varying by sex, the other key items that influenced these rate changes include the continued low interest rate environment, higher claim costs, improved persistency and demographic shifts. All assumption changes were filed and approved with the Wisconsin Office of the Commissioner of Insurance. We have attached a pdf of the entire filing which includes the pricing assumptions for the new product.

As we are all aware, investment rates continue to remain at lower levels and this has impacted the reserve valuation rate. This has caused us to have higher required reserves for any policy issued in 2013 or thereafter. In addition, our long term investment assumption has been reduced due to our long term expectation of returns.

Morbidity continues to be reviewed and adjusted annually at Mutual of Omaha. Morbidity assumptions were updated based on industry trends as well as company experience which was evaluated both internally and through a third party review by Milliman. Main adjustments include married selection factors, overall utilization assumptions, and future assumptions for claim terminations.

Our ultimate lapse rate assumption continues to be very low (0.75%) for married individuals. We continue to update our experience and incorporate these assumptions into our modeling.

Attachment A

Based on the above assumption changes and the shift in the market to sex distinct pricing, it was necessary for us to create a new product with updated pricing assumptions. This action will help ensure that we remain a major player in the LTCi market for years to come.

We believe the new product is very competitive in the current market place and has many benefits to offer to your association members. If you have any further questions, please feel to contact me.

Sincerely,

Mary Swanson

Mary Swanson, FSA, MAAA
LTC Product Performance Director

CC:
HealthChoice Long-term Care for State Employees and Annuitants
Bob Pearson
Cliff Morris

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February 6, 2014

Roni Harper
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Division of Insurance Services
Department of Employee Trust Funds
801 West Badger Road
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Re: Assessment of Mutual of Omaha's updated Long-Term Care Insurance Plan LTC13-AG

Dear Roni:

We have reviewed the materials submitted by Mutual of Omaha (MoO) and HealthChoice related to Mutual of Omaha's updated Long-Term Care (LTC) Insurance policy, LTC13-AG. The proposal materials we reviewed included correspondence from both HealthChoice and MoO describing the need for the policy change, policy forms and applications, the policy's certified actuarial memorandum, marketing materials, and sample premium rate schedules .

Based on our assessment, we believe the proposed policy and premium rates are reasonable and satisfy the Group Insurance Board's requirements.

The remainder of this document summarizes specific issues examined during our analysis.

Adherence to ETF 41 Guidelines

We reviewed the proposal materials in light of the guidelines established in ETF 41 for Long-Term Care Insurance and confirmed that the proposed policy is in compliance. As discussed below, the only significant change between the proposed policy and a previously approved MoO policy is the move to gender-distinct premium rates. As such, MoO provided exhibits demonstrating that critical policy features such as minimum daily benefits and inflation protection remained the same to a previously approved policy. We verified these exhibits were internally consistent with the policy form, actuarial memorandum, and proposed marketing materials.

Gender-Distinct Premium Rates

The only significant change in the new product offering is that the premium rates are now gender-distinct instead of unisex. Per MoO the set of new rates is necessary due to the market shift in offering gender-distinct rates to reduce anti-selection. The overall rates were also increased due to unfavorable updates to key pricing assumptions, including investment rates, morbidity, and lapse rates. Our recent experience with other LTC insurers in the industry suggests that a trend has emerged to move from unisex rating to gender-distinct rating, and we agree that low interest rates, higher morbidity rates, and lower lapse rates continue to put pressure on LTC insurers to increase premiums. We therefore find this justification reasonable.

Additionally, we reviewed the premium rate tables and the sample rate comparisons MoO provided for reasonableness and find the proposed rates to be within a range of what we would typically expect in light of current industry trend and business environment. In particular, we noted that:

- Female rates are significantly higher than male rates, a commonly observed actuarial phenomenon for health insurance products due to female increased life expectancy and higher utilization of LTC services.

- Policies for younger age groups received higher rate increases, on a percentage basis, relative to policies for older ages, which we find reasonable given that younger policies generally persist longer than older policies, and are therefore more sensitive to fluctuations in interest rates.

- Utilizing the expected age distribution of new enrollees in in the ETF's LTC program and a standard gender distribution, we calculated the overall rate table increase imposed on new contracts to be approximately 40% for single plans and 50% for partner plans. Based on our experience, such increases are consistent with current rate actions by LTC insurers as the experience supporting the actuarial assumptions continues to deteriorate. In a letter dated December, 20, 2013, MoO asserts that the key items that influenced the rate table increase are "the continued low interest rate environment, higher claim costs, improved persistency and demographic shifts". We find this justification reasonable.

Overall, we find the premium rates to be reasonable and in-line with the updated assumptions. For your reference, we have included a table in Appendix A that quantifies the difference between the male and female rates on a percentage basis. We also compare the updated rates to the previously approved unisex rates as a means of gauging the expected premium rate increase separately for male and female employees.

Anticipated Loss Ratios

Per your request, MoO provided an exhibit demonstrating anticipated claim loss ratios by policy year for a sample policyholder. We utilized this information to calculate the overall lifetime loss ratio to be approximately 60%, which is consistent with what we typically see in the industry. Based on this analysis, we find the pricing of the proposed policy to be reasonable in relation to the benefits provided.

Summary

In summary, we believe the proposed policy and premiums are reasonable and satisfy the Group Insurance Board's requirements.

Timothy D. Gustafson

Timothy D. Gustafson, FSA, MAAA
Principal