



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
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Correspondence Memorandum

Date: July 22, 2016
To: Group Insurance Board
From: Shayna Schomber, Self-Insured Health Benefits Manager
Office of Strategic Health Policy
Subject: Long-Term Care Insurance Proposal for 2017

Staff recommends the Group Insurance Board (Board) approve the proposal by Mutual of Omaha to continue offering long-term care insurance to eligible state employees and annuitants.

Background

Since 1987, the Board has been authorized under Wis. Stat. 40.55 to provide Long-Term Care (LTC) insurance. The insurance is optional and there is no state contribution toward premiums. LTC insurance is marketed as individual insurance, with each policy issued directly to the purchaser. Eligible individuals are state employees and annuitants, their spouses, partners, parents and in-laws. Proposals to market LTC insurance to eligible subscribers, under Wisconsin Statutes Chapter 40, must meet the Board's *Standards for Proposing and Providing Long-Term Care Insurance* (Standards).

Mutual of Omaha has been offered to state employees and their families since 2011. Mutual of Omaha changed its name from United of Omaha in 2014, and is marketed by HealthChoice, LLC.

Proposal

Mutual of Omaha submitted a proposal to ETF to continue offering LTC insurance in 2017. The proposal submitted was timely and contained the elements required in the Standards. A cover letter from Mutual of Omaha (Attachment A) outlines the qualifications of that insurance broker, and highlights ways in which the plan meets the Standards for coverage and premiums.

Reviewed and approved by Lisa Ellinger, Director, Office of Strategic Health Policy

Electronically Signed 8/8/16

Board	Mtg Date	Item #
GIB	8.16.16	5

Actuarial Review & Recommendation

Milliman, the Board's consulting actuary for LTC insurance, has reviewed the Mutual of Omaha proposal and finds the policy, assumptions, and premium rates reasonable (Attachment B). Milliman verified that the proposal and benefits are in compliance with the Standards, including the most recent changes to the Standards, which were updated and approved by the Board in May 2016.

ETF recommends that the Board approve the proposal by Mutual of Omaha to offer LTC care insurance to State of Wisconsin employees, annuitants, and their families, subject to negotiations between Mutual of Omaha and ETF that results in a signed contract. As a reminder, ETF was unable to come to an agreement with Mutual of Omaha for 2016.

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

Attachment A: Mutual of Omaha Cover Letter

Attachment B: Milliman Actuarial Review Letter

UNITED of OMAHA LIFE INSURANCE COMPANY
Mutual of Omaha Plaza
Omaha, NE 68175
402 342 7600
mutualofomaha.com



June 13, 2016

Ms Roni Harper
Manager of Optional Insurance Plans and Audits
Department of Employee Trust Funds
Wisconsin Group Insurance Board
roni.harper@etf.state.wi.us
608 264-7905
Fax- 608 266-5801

RE: Mutual of Omaha Wisconsin Group Insurance Board Approval

Dear Ms. Harper,


This letter is to request approval from the Wisconsin Group Insurance Board (GIB) and you to continue to market the Mutual of Omaha ICC13- LTC13-AG policy form to the State of Wisconsin Employee Trust Funds (ETF) group. Specific details on Standards 5.A.1, 5.A.1.a, 5.A.1.b can be found on Tab 1 (1.1 - 1.3).

As requested, enclosed you will find additional information on the Mutual of Omaha Long Term Care Insurance product in order to provide to the Wisconsin Group Insurance Board (GIB) at the upcoming August 16, 2016 meeting.

After reviewing the revised Standards for Proposing and Offering Long-Term Care Insurance for the State of Wisconsin employees, we are able to provide the necessary information needed for the GIB's review with the understanding that Mutual of Omaha will not be responsible to pay fees as outlined in Standard 7.A.1(Actuarial fee) or 8.A.4 and 8.C.4 (Administrative fee). However, HealthChoice (Equisource Corp) the marketer, will be responsible for payment of these fees as they have in the past. In addition under Standard 5.C.1 (Reporting), we currently provide an annual report that contains the following information: inforce summary, claim summary, inforce policies, policy-claim detail and the top 3 diagnosis. Any personally identifiable information cannot be provided without direct individual authorization due to privacy laws. Please note that Mutual of Omaha does not have any Managing General Agents (as defined in Wisconsin law) involved in this proposal. Rather, for the policies issued by Mutual of Omaha, Standards 4.A.4 and 4.A.5 pertain, in part, to compliance by HealthChoice for updating and reporting. Finally there are references in Standards 5.A.1 and 5.E to Mutual of Omaha providing ETF prior notices of any premium rate increases. We can notify ETF prior to premium rate increases on future new business, but cannot commit to making these notifications to ETF on in-force, existing, past policyholders.

If you have any further questions, please feel to contact me.

Sincerely,


Adam Walling, FSA, MAAA
LTC Product Performance Director

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



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July 18, 2016

Ms. Eileen Mallow
Deputy Director
Office of Strategic Health Policy
Wisconsin Department of Employee Trust Funds
Madison, WI 53707

Re: Review of Mutual of Omaha Long-Term Care Policy for Wisconsin ETF

Dear Eileen:

Thank you for engaging Milliman (“us” or “we”) to assist the Wisconsin Department of Employee Trust Funds (ETF, or “you”) in reviewing Mutual of Omaha’s proposal to continue to market their long-term care (LTC) policies to Wisconsin state employees. The purpose of this letter is to provide you with the results of our review.

Background

You have requested that we review Mutual of Omaha’s June 13, 2016 proposal to continue to market long-term care (LTC) policies to Wisconsin state employees. You provided us with this proposal and the accompanying cover letter, “RE: Mutual of Omaha Wisconsin Group Insurance Board Approval”.

The *Standards for Proposing and Offering Long-term Care Insurance to State Employees* (Standards), ET-7423 (1/23/15) rev draft 4-21-16, were provided to Milliman in a June 23, 2016 email. We reviewed Mutual of Omaha’s June 13, 2016 proposal against these Standards.

Mutual of Omaha has proposed to ETF that they wish to continue marketing the LTC policy form ICC13-LTC13-AG in 2017. This policy form is currently marketed to Wisconsin state employees, and ETF commissioned a review of this policy form in 2014. The 2014 review was conducted by Deloitte, and we received a copy of the February 6, 2014 letter from Deloitte (RE: Assessment of Mutual of Omaha’s updated Long-Term Care Insurance Plan LTC13-AG”).

We discussed our review with you on a phone call on July 12, 2016. During that call you indicated that you wish for us to review the premium rates for this policy and confirm that these are reasonable.

Given that this Mutual of Omaha LTC policy has been previously approved by ETF, this report focuses on:

1. a high-level review of the proposal's compliance with the Standards;
2. a review of the compliance of the proposal with the changes implemented in the latest Standards (which were not in effect during the prior review of this policy); and
3. a review of the reasonableness of premium rates.

Results

High-level review of compliance with Standards

We have reviewed Mutual of Omaha's proposal against the ET-7423 (1/23/15) rev draft 4-21-16 Standards provided by ETF. Mutual of Omaha submitted a document with their proposal ("Checklist for submitting a long term care insurance proposal to the WI ETF.docx"), documenting how their proposal addresses each item in the Standards. We have reviewed Mutual of Omaha's proposal, and we conclude that this proposal is in compliance with the Standards. Please see Appendix A documenting Milliman's review of each item.

We also reviewed the benefit standards outlined in Attachment II of the Standards. We determined that the plan benefits offered by Mutual of Omaha, as outlined in the file "Tab 1.3_5.A.1.b._Plan Benefits Summary.PDF" continue to meet all of the benefit standards. In particular, Mutual of Omaha complies with the following key benefit standards:

LTC Benefit	ETF Benefit Standard	Mutual of Omaha LTC Plan Benefit
Levels of Care	Defines nursing home (NH), home health care, personal care, adult day care, AND assisted living residential facility, with more adaptability. Specifically cannot require home care to be Medicare certified.	Plan benefits include nursing home, home health care, adult day care, and assisted living facility. Home care is not required to be Medicare certified.
Minimum \$ Benefit	NH care: \$120/day Community: 50% of NH base (i.e.\$60/day)	\$3,600 - \$10,000 / month (i.e. at least \$120 / day) for NH. Home and community care at least 50% of NH.
Lifetime Maximum	\$120,000 lifetime maximum (retain minimum one year per OCI)	\$120,000- \$500,000
Elimination Period	Not more than 120 days	0, 30, 60, and 90 day options available

<p>Inflation Protection</p>	<p>Under age 65: automatic compound inflation protection must be included at a rate of at least 3%, at a rate based on changes to the CPI, or at a rate of 5% for 20 years or until age 76, whichever is earlier.</p> <p>At least age 61 but less than 76: At least 3% simple inflation and a guaranteed bi-annual purchase option for 10 years or until age 76, whichever is earlier.</p> <p>At least age 76: inflation protection not required.</p>	<p>5%, 4% or 3% Compound Lifetime or 10 or 20 year compound depending on age and partnership.</p>
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Review of compliance with latest changes to the Standards

A correspondence memo from April 21, 2016 (ET-7423 (1/23/15) rev draft 4-21-16) documents the latest changes to the Standards. Six changes are listed in the correspondence memo, four of which are administrative in nature and do not impact the insurer’s proposal (e.g. “The ‘Objectives’ section has been retitled as ‘Purpose,’ and its narrative shortened.”).

Two changes to the Standards will impact insurers’ proposed LTC plans, and these changes occurred following the prior review of Mutual of Omaha’s LTC policy. We find that Mutual of Omaha’s current proposal remains in compliance with these changes to the Standards.

1. The role of the insurer in meeting the Standards has been made primary—see sections 4 and 8.
2. The role of a managing general agent or other intermediaries is outlined as being under the insurer.

Mutual of Omaha’s current proposal does not delegate primary responsibility in meeting the Standards to any other entity (e.g. managing agents), and the proposal addresses all of the current Standards. Mutual of Omaha’s cover letter to their proposal documents that they do “not have any Managing General Agents (as defined in Wisconsin Law)”.

We believe that Mutual of Omaha is in compliance with the latest Standards, though we note that HealthChoice (Mutual of Omaha’s marketer) is assuming partial responsibility for complying with Standards 4.A.4. and 4.A.5. We have also not independently verified that HealthChoice is not a Managing General Agent as defined by Wisconsin Law. We recommend that ETF fully understand the extent to which HealthChoice assumes responsibility for complying with Standards 4.A.4. and 4.A.5, but we do not view this as an obstacle to accepting Mutual of Omaha’s proposal.

Review of the reasonableness of premium rates

We reviewed the supporting actuarial memorandum to determine the reasonableness of the premium rates provided in Mutual of Omaha's proposal. Per our July 12, 2016 conversation, you expressed a specific interest in understanding if premium rates were sufficient, or if they may be subject to future rate increases.

Risks for these policies are long-term in nature. Underlying morbidity, mortality, and lapse experience emerge over decades, and as such, it is not possible to conclude that these policies may or may not be subject to future rate increases. We reviewed the actuarial memorandum supporting the premium rates to understand how assumptions were set, to determine if premium rates for this policy may still be reasonable, and we conclude the following:

Morbidity: Claim incidence, continuance, and utilization rates were developed from the 2011 Milliman Long-Term Care Guidelines (the Guidelines). The 2011 Guidelines are a collection of over \$10.5 billion of incurred claims (including \$7.7 billion of paid claims) and 15.3 million life years of exposure. Claim experience from nine of the top 15 companies as measured by inforce lives are either directly or indirectly included in the Guidelines.

Mutual of Omaha blended Milliman's industry Guidelines experience with company historical experience through the use of actual-to-expected adjustments.

We find this set of underlying morbidity assumptions to be a reasonable approach to developing premium rates.

Mortality: Mutual of Omaha based the LTC policy mortality assumption on the Annuity 2000 mortality table, with 0.5% annual mortality improvement applied to historical years up to the pricing date. No future mortality improvement was included. Underwriting selection factors grading from 0.40 in duration 1 to 1.00 in durations 10+ were used.

We believe that this mortality table is reasonable to use in developing long-term care premium rates.

Voluntary Lapse: For married policyholders, and those with inflation protection, Mutual of Omaha assumes initial lapse rates of 4-7% and ultimate lapse rates of 0.75% - 1%. Policyholders who are single, and with no inflation protection, are priced assuming lapses of 10% initially, grading to 1.6% ultimately. The misestimate of lapse rates is a key driver of many premium rate increases currently filed with states, as long-term care is a lapse-supported product. Lapse rates for LTC policies today have emerged far lower than those which were assumed in earlier policy generations. The most recent SOA / LIMRA Persistency study ("U.S. Long-Term Care Insurance Persistency, 2008-2011 Data") published in 2016, shows ultimate Group LTC lapses less than 2% starting in policy durations 13 and later.

In our opinion, the lapse rates used to develop premium rates for this Mutual of Omaha policy are reasonable, and reflect the lower-lapse rate environment we see today.

Investment Rates: Mutual of Omaha assumed a 5.75% investment return in all years, which was based on their investment portfolio experience at the time of pricing. Given the continuing low interest rate environment, this investment income assumption is at the higher end of a range of reasonable assumptions.

We note in the Moderately Adverse Conditions section below that premiums are anticipated to be sufficient to cover costs under a 100 basis point decrease in investment earnings. A combination of lower investment earnings and the unfavorable emerging of experience underlying another actuarial assumption (e.g. morbidity) could result in the erosion of the provision for adverse deviation included in pricing.

We have observed in the LTC industry that very few premium rate increases today are requested on the basis of investment earnings which are lower than anticipated in pricing. If the low interest rate environment continues and unfavorable experience emerges on other actuarial pricing assumptions, it is possible that Mutual of Omaha may request an increase to these premium rates.

Expenses: We did not review Mutual of Omaha's internal expense assumption for reasonableness, as expense assumptions vary greatly by insurance carrier. We note that very few, if any, LTC rate increases requested have been requested on the basis of actual expenses emerging unfavorably compared with expected expenses.

Moderately Adverse Conditions: Mutual of Omaha has certified that the premium rates are sufficient to cover anticipated costs based on the assumptions above, under these moderately adverse conditions:

- a 10% increase in morbidity;
- a 15% decrease in mortality;
- a 35 basis point decrease in voluntary lapse, in durations 4 and later; and
- a 100 basis point decrease in investment earnings.

This set of moderately adverse conditions is reasonable in determining the margin which must be eroded prior to requesting a premium rate increase. We note that Section 10.B.(2)(d)(i) of the NAIC LTC Model Regulation #641 (approved in 2014, following the date of this actuarial memo in 2013) requires a 10% increase in morbidity as a moderately adverse condition in determining premium rates.

We believe that it is reasonable to use these moderately adverse conditions in developing premium rates.

We conclude the assumptions used to determine the premium rates for Mutual of Omaha's LTC policy form ICC13-LTC13-AG are reasonable. This finding does not preclude these policies from potentially requiring a premium rate increase in the future. Based on industry experience to date, we believe the development of the premium rates is reasonable.

Methodology and Data Sources

We based our review on the following information we received from you:

- June 23 email 'Long Term Care Proposal',
 - The attachment "Mutual of Omaha LTCi Proposal to GIB 6-2016.zip", including:
 - Cover Letter.pdf
 - Attachment 14 -ETF GIB Approval Recommendation with Deloitte Actuarial Review For MoO LTC13 2-6-2014.PDF
 - Tab 1.3_5.A.1.b._Plan Benefits Summary.PDF
 - Tab 3.3_7.A.1 - actuarial rate-making and other information MUTM-129022476.PDF
 - Tab 3.3_7.A.1 - Actuarial Memo (marked-up) ICC13-LTC13-AG.PDF
 - Tab 3.3_7.A.1. - Confidential Actuarial Exhibits C D E.PDF
 - et. al.
 - The link to ETF Standards:
 - <http://etf.wi.gov/boards/agenda-items-2016/qib0518/item5b.pdf>

We relied on our conversation from July 12, 2016, as well as our understanding of the Milliman Long-Term Care Guidelines.

We also relied on the following publicly available information:

- The joint SOA / LIMRA study: U.S. Long-Term Care Insurance Persistency, 2008-2011 Data,
 - <https://www.soa.org/Files/Research/research-2008-2011-ltc-persistency-study.pdf>
- NAIC Long-Term Care Model Regulation #641:
 - <http://www.naic.org/store/free/MDL-641.pdf>

Use of Work Product

Milliman has prepared this letter for the specific purpose of providing you with a review of Mutual of Omaha's proposal to the Wisconsin Department of Employee Trust Funds (ETF) to continue to market long-term care policies to Wisconsin state employees. This letter should not be used for any other purpose. Milliman's work is prepared solely for the use and benefit of the Wisconsin Department of Employee Trust Funds (ETF) in accordance with its statutory and regulatory requirements. Milliman recognizes that the materials that it delivers to ETF may be public records subject to disclosure to third parties; however, Milliman does not intend to benefit and assumes no duty or liability to any third parties who receive Milliman's work and may include disclaimer language on its work product so stating. ETF agrees not to remove any such disclaimer language from Milliman's work. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, ETF agrees that it shall not disclose Milliman's work product to third parties without Milliman's prior written consent; however, that ETF may distribute Milliman's work to (i) its professional service providers who are subject to a duty of confidentiality and who

agree to not use Milliman's work product for any purpose other than to provide services to ETF, or (ii) any applicable regulatory or governmental agency, as required.

In performing this analysis, we relied on data and other information provided by ETF (e.g. Mutual of Omaha policy forms and rates). We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

The services provided for this project were performed under the signed contract between Milliman and State of Wisconsin Department of Employee Trust Funds dated July 31, 2014.

I, Robert Eaton, am a Consulting Actuary for Milliman. I am a member of the American Academy of Actuaries, and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Next Steps

Eileen, it's our pleasure to work with you. We look forward to discussing this memo with you on our next call. If you have any questions or would like to discuss this project at any time, please feel free to call me at (813) 282-9262.

Thank you,

A handwritten signature in black ink that reads 'Robert Eaton'.

Robert Eaton
Consulting Actuary

Appendix A

Tab #	Standard #	Document name/purpose	Notes	Milliman Notes
1		Cover letter from the Insurer, including:	Labeled Cover Letter	Mutual of Omaha has provided this information.
1.1	5.A.1.	-Marketing title, Plan ID as registered with OCI, date of OCI registry	Labeled Tab 1.1_5.A.1._Authorization for Payroll Deduction	Mutual of Omaha has provided this information
1.2	5.A.1.a.	-Plan name and identification number of Plan being replaced, if any.	Labeled Tab 1.2_5.A.1.a._Plan name and number	Mutual of Omaha has provided this information.
1.3	5.A.1.b.	-Brief narrative description of plan, identifying how it conforms to Board Standards for benefits. Please see Attachment II for additional benefit detail.	Labeled Tab 1.3_5.A.1.b._Plan Benefit Summary. NOTE: Please also reference Also n Tab 3.5_7.D._LTC13 Outline of Coverage - ICC13 - M28385-WIAG . Also note: The plan meets and/or exceeds and conforms to all of the new board standards for benefits.	Mutual of Omaha has provided this information
1.4	7.A.1	Acknowledge the requirement to pay the fee for initial actuarial review.	Labeled Tab 1.4_7.A.1._Actuarial Review Fee Acknowledgement- See also Deloitte Actuarial Review named as Attachment 14 - ETF GIB Approval Recommendation with Deloitte Actuarial Review For MoO LTC13 2-6-2014	Mutual of Omaha acknowledges this requirement.
1.5	8.A.4. and 8.C.4.	Acknowledge the requirement to pay annual administration fee.	Labeled Tab 1.5_8.A.4_8.C.4._Annual Administrative Fee Acknowledgement	Mutual of Omaha acknowledges this requirement.

2		Contacts and references:		
2.1	4.A. and 4.A.4.	List of contact persons for managing the proposal review on behalf of the Insurer. Include name, title, email address, phone, and mailing address. Include a name and address to receive the invoice from the Board's actuary.	Labeled Tab 2_2.1_2.2_2.3_Contacts and References	Mutual of Omaha has provided this information.
2.2	5.B.	Functional web addresses for Insurer and Agent, with links to related plans if possible.	Labeled Tab 2_2.1_2.2_2.3_Contacts and References	Mutual of Omaha has provided this information. There are no related plans indicated.
2.3	5.A.1.c)	List of three current or recent employers from which the Insurer collects LTC insurance premiums via electronic fund transfer, including name and contact information for the employee benefits office of each entity. <ul style="list-style-type: none"> • Include at least one government agency. • For government groups, list the number of participants enrolled in previous year, and the number with in-force plan • Include at least one large group, additional references welcome 	Labeled Tab 2_2.1_2.2_2.3_Contacts and References	Three current or recent employers from which the Insurer collects LTC insurance premiums are not listed. No government agency or large group is listed. Mutual of Omaha currently collects premiums from Wisconsin state employees via ETF.
3		Attachments:		
3.1	5.A.1.	Documentation that the plan meets necessary requirements for sale in this state. Include completed copy of OCI's Form Filing Checklist OR IIPRC-LTC-I-3-CORE	Labeled Tab 3.1_5.A.1_Documentation of IC Approval of LTC13 Product AND Tab 3.1_5.A.1_Documentation of IC Approval of GPO Rider for WISE (2 documents)	Mutual of Omaha has addressed this standard.
3.2	5.A.1.	Premium schedule	Labeled Tab 3.2_5.A.1._Premium Schedule	Mutual of Omaha has provided this information.

3.3	7.A.1.	Actuarial Analysis from Insurer's actuary, focused on the assumptions used in setting rates for this specific form	Labeled Tab 3.3_7.A.1.- actuarial rate-making and other information MUIM - 129022476 AND Tab 3.3_7.A.1.-Actuarial Memo (marked-up) ICC13-LTC13-AG AND Tab 3.3_7.A.1.- Confidential Actuarial Exhibits C D E	Mutual of Omaha has addressed this standard.
3.4	7.D.	Application sample with clear identification of policy riders that apply and do not apply to this proposed plan	Labeled Tab 3.4_7.D._LTC13 Application - WIAG. ALSO NOTE: The application is specific to the ETF State plan so all riders that are indicated in the application apply.	Mutual of Omaha has provided such an application sample.
3.5	7.D.	Narrative description of the Chapter 40 policy, including detailed listing of exclusions and limitations	Labeled Tab 3.5_7.D._LTC13 Outline of Coverage - ICC13 - M28385-WIAG	Mutual of Omaha has addressed this standard.
3.6	7.A.2.	Summary of Plan, suitable for comment from member advisors. May be mock-up of brochure, if it accurately depicts the Plan presented to the Board.	Labeled Tab 3.6_7.A.._ MutualCare Plan Brochure LTC13 - WIAG	Mutual of Omaha has provided this information.
4		Service expectations		
4.1	5.C.1.	Detailed description of process to file complaints and grievances with the agent and insurer	Labeled Tab 4.1_5.C.1_Detailed description of process to file complaints and grievances	Mutual of Omaha has provided a description of its process to handle complaints and grievances.

4.2	5.C.1.	Outline demonstrating ability to provide excellent customer service, including data on response rates and complaint resolution	Labeled Tab 4.2_5.C.1_Outline demonstrating ability to provide excellent customer service	Mutual of Omaha has provided customer service statistics.
4.3	4.A.4 and 4.A.5	List of selling agents	Labeled Tab 4.3_4.A.4 and 4.A.5_List of selling agents	Mutual of Omaha has provided this information.
5	4.A.3	Specifications for electronic records exchange	Labeled Tab 5_4.A.3_Specifications for electronic records exchange	Mutual of Omaha has indicated that email is the only means for electronic records exchange.
6	Other	Please label and itemize any additional submissions.	See table of contents with additional named attachments	Mutual of Omaha has provided a table of contents listing additional attachments.