# AUTHORITY

The Long-Term Care Insurance Reduced Benefit Options (RBO) (EX) Subgroup is composed of regulators from 17 state insurance departments. It has been tasked with assisting the Long-Term Care Insurance (EX) Task Force in completing the following charge:

*Identify options to provide consumers with choices regarding modifications to long-term care insurance (LTCI) contract benefits where policies are no longer affordable due to rate increases.*

The workstream members have established the following as part of the work plan to complete the charge:

* Evaluate quality of consumer notices and reduced benefit options materials presented to policyholders
* Consider the relevant lessons learned and consumer focus group studies from the Penn Treaty liquidation
* Review existing reduced benefit option consumer notice checklists or principle documents from multiple states (VT, TX, NE, PA)
* Address pertinent comments submitted on the reduced benefit option principles document

# INTRODUCTION

This document seeks to provide guiding principles in answering this question:

What are the recommendations for ensuring long-term care insurance policyholders have maximized opportunity to make reduced benefit decisions that are in their best interest?

National Association of Insurance Commissioners (NAIC) Principles on Long-Term Care Reduced Benefit Options Presented in Policyholder Notification Materials

**RECOMMENDS** that insurance companies adhere to these fundamental principles.

**CALLS ON** all insurance companies to consider the following principles in communicating reduced benefit options available to consumers in the event of a rate increase.

**UNDERLINES** the following principles are complementary and should be considered as a whole.

# Filing Rate Action Letters

Rate actions should only happen after the state has approved the rate action. Rate actions should become effective on a policy anniversary date. Rate increase notification letters should be mailed 45-60 days prior to the policy anniversary date when rates will change.

Phased-in rate increases should notify policyholders 45-60 days in advance of each phase of the rate increase. Phased-in rate increase notification letters should disclose all associated future planned rate increases approved by regulators.

The SERFF filing should include rate action letter templates that are easy to follow.

* The regulator should be able to easily identify what the letters will communicate and what supplemental materials will be included in the mailing.
* Letter templates should include statements of variability and sample letters highlighting the differences between the communications.

Innovative options should be presented to the state regulators prior to filing the option to evaluate potential anti-selection, adverse morbidity, and implications to the consumer and claims experience.

# Readability and Accessibility

The communication should be organized, easy to follow, flow logically, and display the essential information or primary action first followed by the nonessential information.

The information should be presented in a way that is comprehensible, memorable, and adjusted to the needs of the audience.

* The letter should consider the use of plain language, headers, maximized white space, appropriate font size and reading level.
* Letter should utilize bullets, illustrations, and graphs or charts using a side-by-side comparison.
* If complex terms are used the letters include a definition of the terms.
* If a term, subject, or warning is repeated throughout the communication, the language should be consistent and not change throughout the document.
* If including Q&A’s be succinct but answer the commonly asked questions in plain language.

The company should provide accessibility of its online and written material to all interested parties, including those with disabilities such as blindness or low vision, deafness and hearing loss, learning disabilities, cognitive limitations, limited movement, speech disabilities, photosensitivity and combinations of these. The company should provide access to translation services as needed for policyholders for whom English is not a first language.

# Identification

Policy holders should be able to easily identify what the communication is about. The letter should help the policy holder answer:

* What is happening?
* Why it is happening to them?
	+ Ensure the letter does not negatively reference the department of insurance.
* When is it happening?
* What can they do about it?
* How do they take action?

# Communication Touch and Tone

The communication should help the policy holder envision or reflect on the reason(s) why they purchased a long-term care insurance policy.

The communication should convey as much empathy as possible regarding the impact a rate action(s) may have on the policy holder(s).

All reduced benefit options should be presented fairly.

Policy holders should understand which option is elected most often.

The option to maintain current benefits and pay the increased premium should appear before other options.

* Refrain from the use of bolding, repeating, or emphasizing one option over another.
* Consider how words could influence a policy-holder’s decision.
	+ For instance, consider using “Now” instead of “Must” or “Mitigation Options”, “Offset Premium Impact” or “Manage an Increase” instead of “Avoid an Increase”

# Consultation and Contact Information

The communication should list multiple contacts in an easy to identify location to include the phone number, email address, and website information when available. For example:

* Customer Service
* Third Party Notifier
* Their Producer
* Department of Insurance
* Area Agency on Aging
* State Health Insurance Assistance Program (SHIP)

The communication should suggest the policy holder consult with one or more sources. For example:

* Family members
* Third party notifier
* Producer
* Financial Advisor
* CPA or Tax Advisor (in the event there are cash buy outs offered)

# Understanding Policy Options

## Presentation:

* The policy holder should be able to identify what necessitated the communication from the first page. For example, the header could say, “Your Long-Term Care Premiums Are Increasing”.
* Reduced benefit options should be included with the rate action letter.
* The options should be limited to a reasonable number of options (market research suggests no more than 4-5 options).
* The communication should clearly identify any reduced benefit options that are available only during the 45-60 day decision window.
* The communication should advise the policy holder they can ask about reducing their benefits at any time regardless of a rate increase.
* Supplemental materials should not be required to make a decision but could be refenced to enhance understanding if the policy holder wants more information.

## Window of Time to Act:

* The communication should clearly indicate what their premium will increase to and by when.
* The due date(s) should be easy to locate and repeated multiple times throughout the document.
* If certain options are only available for a limited time, the notification should clearly differentiate a due date for selection of those options.

## Disclose Past and Future Rate Actions:

* Rate increase letters should advise the policy holder that:
	+ Policy is guaranteed renewable
	+ Future rate actions could occur
	+ If prior rate actions have or have not occurred to include:
		- Policy form(s) impacted
		- Calendar year(s) the policy form(s) was available for purchase
		- Percent of increase approved to include the minimum and maximum if it varied by benefit type

## Advise of Current Benefits:

* The communication should disclose the policy holder’s current benefits to include:
* Daily maximum amount
* Inflation option
* If Partnership protection applies
* Current pool of benefits (reflective of approximate amount available for claim)
* If inflation applies, also include the projected pool of benefits five and fifteen years into the future.

Support Personal Needs Decision Making:

* Reduced benefit options should only be listed for what is available to the policy holder.
* The options should provide the policy holder with information to help them reflect on how each option could impact them personally.
* The communication should prompt the policy holder to consider their unique situation to include their current age, health conditions, financial position, availability of caregivers, spouse or partner impacts, and the potential need for institutionalized care.
* The communication should include information regarding the cost of care in their area:
* What is the average age of a long-term care claim?
	+ What factors influence the average age, duration, and cost of a claim?
* What is the average duration of claim for in-home care and nursing home care?
* What is the average cost of care for in-home care, assisted living, and nursing home in their area?
* What is the average inflation rate for the cost of care for in-home and nursing home care in their area?

### Options and Disclosures

* Reduced Daily or Monthly Amount Disclosure
	+ A reduction in the minimum daily or monthly that falls below the cost of care in their region, should be disclosed to the policy holder
* Paid Up Option Disclosure
	+ The paid-up elections should disclose to the policy holder the expected duration of care the reduced amount could cover based on the cost of care in their region
* Buy Out or Cash Out Disclosures
	+ The cash offerings should disclose to the policy holder that the option could result in a taxable event and they should consult with their certified personal accountant or tax advisor before electing this option

## Value of the Options:

* The options should indicate the most popular option elected by policy holders.
* The options displayed should be valuable to the policy holder.
	+ Actuarial Value
		- If the reduced benefit options are not actuarially equal the options should include a disclosure to advise the policy holder they may not be of equal value.
	+ Economic Value
		- The communication should display a unit value for each option to help the consumer understand which option has the best economic value.
		- The options should be limited to choices that have higher economic value to avoid bad decisions, confusion, and raising suspicions about company’s intensions. For example, a reduction in the maximum daily benefit was ranked very low by policyholders as they would only reduce the daily amount as a last option to keep their policy affordable.
	+ Present and Future Value
		- The communication should advise the policy holder if reducing to the lowest option available, they may have limited options to react to future increases.

## Impact of Decision:

* The options should be displayed in a way that enables the policy holder to compare the options side-by-side to include details such as:
	+ Daily/Monthly Benefit
	+ Benefit Period
	+ Inflation Option
	+ Maximum Lifetime Amount
	+ Value Indicator
	+ Premium Increase Percent
	+ Benefit Decrease Percent
	+ NFO or CNF Amount
	+ If Still Partnership Qualified
	+ Current Premium
	+ New Premium
* Explain current inflation and how the reduction would affect the premium, daily/monthly amount, and the current and future maximum lifetime amounts.
	+ Illustrate the change in the benefit pool to five and fifteen years into the future.
	+ Illustrated amount should be reveal how the inflation is being recalculated.
* The communication should explain the pros/cons of each reduction option.
	+ What will happen if they take no action?
	+ What happens if they make no payment before the policy anniversary date?
	+ If they accept the full increase without reducing their benefits, how will they handle potential future rate increases?
	+ If they elect the cash buy out, there could be tax implications.
	+ If they elect a paid up nonforfeiture option, how long will the reduced benefit last if they had a claim?
	+ If they were to increase their elimination period from 30 days to 100 days, do they have enough funds to cover those expenses?
	+ Partnership policies: Will reducing the benefits remove partnership qualification? If so, the letter should explain how their asset protection is removed or reduced.

## Rate Actions Spanning Multiple Years (Phased):

* Rate actions that span over multiple years should specify in the communication if the premium increase referenced is the first, second, third, etc.
* Contingent Nonforfeiture offering should be based on the full increase and offered with each phase of the rate action.