

Draft: 6/14/21

Senior Issues (B) Task Force
Virtual Meeting
June 8, 2021

The Senior Issues (B) Task Force met June 8, 2021. The following Task Force members participated: Marlene Caride, Chair (NJ); Lori K. Wing-Heier, Vice Chair, represented by Sarah Bailey (AK); Jim L. Ridling represented by Anthony L. Williams (AL); Evan G. Daniels represented by Steve Fekety (AZ); Ricardo Lara represented by Tyler McKinney (CA); Michael Conway represented by Peg Brown (CO); Andrew N. Mais represented by Paul Lombardo (CT); Karima M. Woods represented by Howard Liebers (DC); Trinidad Navarro represented by Susan Jennette (DE); David Altmaier represented by Chris Struk (FL); Colin M. Hayashida represented by Kathleen Nakasone (HI); Doug Ommen represented by Andria Seip (IA); Dean L. Cameron represented by Weston Trexler (ID); Amy L. Beard represented by Rebecca Vaughan (IN); Vicki Schmidt (KS); Sharon P. Clark (KY); James J. Donelon represented by Ron Henderson (LA); Gary D. Anderson represented by Kevin Beagan (MA); Kathleen A. Birrane represented by Joy Hatchette (MD); Eric A. Cioppa represented by Sherry Ingalls (ME); Anita G. Fox represented by Renee Campbell (MI); Grace Arnold represented by Jan Ludwigson (MN); Chlora Lindley-Myers (MO); Troy Downing represented by Ashley Perez (MT); Mike Causey represented by Robert Croom (NC); Jon Godfread represented by Yuri Venjohn (ND); Eric Dunning represented by Martin Swanson (NE); Chris Nicolopoulos represented by Roni Karnis (NH); Judith L. French represented by Tynesia Dorsey (OH); Glen Mulready represented by Mike Rhoads (OK); Andrew R. Stolfi represented by Gayle Woods (OR); Jessica K. Altman (PA); Larry D. Deiter (SD); Carter Lawrence represented by Vickie Trice (TN); Doug Slape (TX); Jonathan T. Pike represented by Tanji J. Northrup (UT); Scott A. White represented by James Young (VA); Mike Kreidler (WA); Mark Afable represented by Jennifer Stegall (WI); and James A. Dodrill (WV). Also participating were: Eric Anderson (IL); Bob Williams (MS); Bogdanka Kurahovic (NM); Martin Wojcik (NY); Andrew Dvorine (SC); Brenda R. Clark (VT); and Mavis Earnshaw (WY).

1. Adopted its Feb. 23 and Oct. 20, 2020, Minutes

The Task Force met Feb. 23 and Oct. 20, 2020. During its Oct. 20, 2020, meeting, the Task Force adopted its Oct. 8, 2020; Sept. 2, 2020; and 2020 Summer National Meeting minutes. During its Feb. 23 meeting, the Task Force discussed its 2021 agenda.

Director Lindley-Myers made a motion, seconded by Mr. Henderson, to adopt the Task Force's Feb. 23 and Oct. 20, 2020 minutes. The motion passed unanimously.

2. Heard a Presentation on Bundling Medicare Supplement and Short-Term Care Insurance

Commissioner Caride introduced Ken Clark (Milliman) and Robert Eaton (Milliman) to discuss their article. Mr. Eaton said he and Mr. Clark looked at both products, Medicare Supplement (Medigap) and short-term care (STC); where it may make sense to bundle the sale of these products; and what the benefits of such bundling would be. He said looking at the long-term care (LTC) product, including the newer STC products, they are triggered by the inability to do activities of daily living (ADLs). He said both have steep claim costs curves, and people need the benefit a lot more later in life. He said the pricing of these LTC products hinges on key actuarial assumptions, such as lapse assumption, which is critical. He said he and Mr. Clark believe a company may benefit from having both these policies sold to the same policyholder. He said if you look through the list of key risks for all these policies, such as persistency, morbidity and selection risk, the joining of these products may be beneficial to both the insurer and the consumer policyholder.

Mr. Eaton said the article looks at the hedging of risks of combining these two products. He said if looking at other products that hedged the risks by combining (e.g., LTC and life insurance), the increasing sales of the combined product (e.g., the natural hedging of risks with mortality) is a positive. He said he and Mr. Clark believe this could be done with STC and Medigap, where the policyholder is given an incentive to buy these policies at the same time through something like a discount and recognizing that purchasing together means a better risk profile and the insurer is able to offer a lower price on the STC policy. He said he and Mr. Clark wrote the article to illustrate a case study of the potential advantages—i.e., interns of the volatility of future earnings—for a company that offers both these products combined.

Mr. Clark said health arena Medigap and STC are kind of unique in that they are both priced on a lifetime basis versus Medicare Advantage or commercial business insurance. He said if a carrier wants to be profitable and competitive with Medigap, they really need good persistency, which is at odds with STC models where too good persistency could result in

potential losses. He said he and Mr. Eaton used a simple case study of a carrier having both products and selling them together, showing that there would be some crossover in terms of membership of both products. He said under the current regulatory environment, it would not be possible to actually create a hybrid-type product. He said nothing like that exists today.

Commissioner Caride asked if there were any questions. Mr. Lombardo asked Mr. Eaton and Mr. Clark to talk more about the loss ratios for both products. He said they mentioned that both products are priced on a lifetime concept, and that is true for LTC and STC; but for Medigap, there are fairly quick durational loss ratio requirements by plan, so he asked if they could provide more background on lifetime loss ratio pricing for Medigap.

Mr. Clark said in their case, they assumed Medigap as an attained age product; but even so typically, there is a durational pattern for Medigap. He said depending on the state and what is allowed in the state, there can be a durational component of loss ratio; but it is definitely flatter than what is assumed for STC products, and they typically level out at a point in time for Medigap. He said even if the loss ratio increases, it does not increase the magnitude of STC products.

Commissioner Caride asked about the pricing for the consumer and how affordable it would be for the consumer. Mr. Eaton said an average stand-alone STC policy may be about \$800 to \$900 a year; but overall, it would probably be south of \$1000 a year and north of \$500 a year. Mr. Clark said to keep in mind that Medigap rating, like STC, will go up by age; but the ballpark range would be about \$150 to \$250 a month. He said that would be for middle range, not necessarily something all-inclusive, and of course it would vary by state.

Commissioner Caride asked if there is a chance that the consumer may be paying double for service of the crossover benefits. Mr. Eaton said one of the reasons they like this pairing of Medigap and STC is that STC usually picks up where original Medicare leaves off, at least in terms of facilities days. He said this is why there is a kind of prevalence of a 90-day elimination period and LTC or STC come in after Medicare. He said there may be some overlap in the benefits; but generally, they are usually separate.

Commissioner Caride said she asked this because she had an incident of a company wanting to offer a product already offered in Medigap and charge seniors for that when there was no reason to do that. Mr. Clark said as long as the STC product is just for custodial care and there are no other bells and whistles, then he does not believe there would be a crossover.

Mr. Trexler asked if this could be structured as an innovative benefit for Medigap. Mr. Clark said in his opinion and from a regulatory point of view of what would be allowed, it seems that innovative benefits are intended to be little or small additional benefits. He said if it were added as an innovative benefit, it would be half or almost as big as the Medigap benefit itself. He said some states obviously do not allow innovative benefits, so it would not be possible to be done nationally; but if a state wanted to, it would be hard because it would be difficult to add an innovative benefit that large. Mr. Trexler agreed that the usual innovative benefit is for vision or dental; but he asked whether from what they are describing with STC products, none of that is duplicative with Medicare or Medigap. Mr. Clark said no as long as it is just custodial, such as home care or nursing care. Mr. Eaton said this is one of the paths forward to solve the LTC and STC risk issues. He said there is a lot of coverage for the first 90 days in the skilled nursing facility after an inpatient stay, then that risk for any of those long-term needs is transferred to the policyholder. He said some of them may have an LTC policy of a hybrid combo product, but the incentives are created when a carrier is incentivized to deliver the best care to the policyholder, whether they are kind of within the first 90 days or after that. He said he believes there is some benefit in a confluence of incentives to have that managed in some part by a single entity, but an entity to be at risk for both portions for someone's LTC stay.

Mr. Trexler asked if Mr. Clark or Mr. Eaton are aware of companies that offer both Medigap and STC or if they are usually different types of companies. Mr. Clark said both he and Mr. Eaton are aware of companies. He said there are more Medigap carriers than STC carriers, but they both know of companies.

Mr. Sundberg said he had two questions. He said his first question was whether Mr. Clark and Mr. Eaton are thinking of a particular plan to pair this bundling. He said Plan A does not cover nursing home benefits and have generally higher premiums because of other regulations around it. He said his second question was whether they intended for companies to only offer the Medigap product to the folks that get the STC type option, because in his experience over time, the Medigap rates for a company can become stale and no longer marketable to the general public. He said that can take a cycle of five years, but limited LTC or STC companies usually have those rates available for five to 10 years and do not need a lot of manipulation afterward unless there are larger changes. He asked what happens if the Medigap rates are no longer palatable, but the STC product is still palatable. Mr. Clark said he and Mr. Eaton us Plan G in their case study. He suggested starting out with understanding that

these are two products priced on a stand-alone basis and that there may be a program of bonus incentives to agents and encouraging the bundling, but the underlying premise is that these are two separate product lines appropriately priced on a stand-alone basis. He said when it comes to rate actions, he presumes that the Medigap product would go through their normal rate filing increases. He said within each product line, there will be some membership that has both products as policies, and there will be some that only have Medigap policies. He said from an actuarial point of view, the overall rate level needs to be adequate in total, but if pointing out how some carriers might close out blocks of business or sell under a different carrier, that is an issue and a very good point.

Mr. Lombardo asked how a Medigap policy and an STC policy being sold by the same company to an individual when they sign up for Medigap and the individual wants to change Medigap carriers affects the individual's STC policy. Mr. Eaton said one way to envision this is if there was a small discount offered on the STC premium when the products are purchased together, and in that case, the discount may go away, but the STC coverage could continue to stay over. He said a company may decide that the discount is worth keeping and the idea is to kind of incentivize them to the policies together because there are benefits of having both together.

Commissioner Caride asked questions from the chat box, and the first was from Jeffrey M. Klein (McIntyre & Lemon PLLC) asking how deductibles and copayments would be treated with a combined product. Mr. Eaton said they would be handled independently, and the products would each continue to function similar to the stand-alone product; so if one has a deductible for Medigap and they already collected some benefits under STC, the same deductible would continue to apply for the Medigap policy.

Commissioner Caride asked another question from the chat box from Harry Ting (Consumer Advocate Volunteer, Chester County Department of Aging Services – Apprise Program), who asked whether a consumer would be able to purchase the short-term policy later than the supplement (e.g., the supplement at age 65 and the short-term policy at age 75). Mr. Eaton said that is a very good question and he had not contemplated that. He said he does not think that means a company would not be able to do this if, for example, the policyholder already owns a Medigap policy and they want to purchase an STC policy many years later. He said the underwriting would get more difficult the older they get for STC because they would be closer to the age of when they need that care. He said he does not see why it could not be done, but it was not envisioned for the purposes of the article; it was still a great question.

Bonnie Burns (California Health Advocates—CHA) said the Medicare benefit for skilled nursing care is not an easy benefit to get and very few people ever get the full 90 days. She said the average number of days is around 20 days. She said she can see the benefit for companies, but she has a much harder time seeing the benefit for consumers. She said these STC policies have a higher threshold for benefits. She said they can use three ADLs as opposed to two; they have a much lower loss ratio requirement, at 50%; and they often have the same deductible period that LTC does. She said what she has seen with these products is that they are sold in 90-day increments, so people buy benefits for 90 days. She said that is a question of value given the premium. She said if they have a 90-day waiting period and then 90 days of benefits, that seems to be a very questionable benefit for the value related to the premium. She said she is very concerned about any product that is linked to a Medigap in a way that could potentially jeopardize the health care coverage of that individual. She said she wants to interject a little reality about how these policies have been sold, the amounts of coverage, and having a higher threshold for benefits may mean that people are going to have a much harder time getting coverage for their care.

Commissioner Caride asked a question from the chat box from Silvia Yee (Disability Rights Education and Defense Fund—DREDF), who asked if Mr. Clark or Mr. Eaton ever see policies as being in potential conflict. For example, the short-term policy could be drawn down for a period of personal care at home for a few weeks or for more expensive rehab hospital care; and if the short-term policy claim is denied, it increases the chances of a fall in the home that would result in medical claims. Mr. Eaton said that is a good question, and he thanked Ms. Burns for her good observations. He said the reason he and Mr. Clark believe these products may potentially go together quite naturally is that there is very little overlap in the benefits. He said there may be situations where if a claim in one is denied, it makes it tougher for the other; but he believes there is a kind of net gain even if there may be some cases where someone does not end up qualifying for the benefits according to the contract. He said these kinds of incidents are something all companies would want to be aware of when approaching this kind of market; and when selling these products together, they are very clear on the coverages, what that really means, and how they work together or how they do not work together when they are just independent.

3. Discussed Other Matters

Commissioner Caride asked if there are any other matters or issues to be raised before the Task Force. None were heard.

Having no further business, the Senior Issues (B) Task Force adjourned.

G:\Health and Life\SITF\Minutes 06-08-2021.docx