CALIFORNIA HEALTH ADVOCATES
Medicare: Policy, Advocacy and Education

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Comments: REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Commissioner Altman, Chair
NAIC Workstream #3
Long-Term Care Insurance (EX) Task Force

California Health Advocates Comments on Workgroup principals

We appreciate the opportunity to comment on this important topic and appreciate the principals laid out for the work stream. We view modification of existing long term care insurance contracts to be a very important topic with serious implications for policyholders. It is critical that policyholders have a clear understanding of any options they are offered and the long term consequences of any changes they might make to their existing benefits or contracts.

Our experience with a variety of options insurers have offered as part of a premium increase informs our comments on this topic. Many of these notices were multi-page notices informing policyholders of a premium increase that also offered complex options to reduce the effect of those increases.

- Some insurers offered a limited number of choices, while others offered a wide range of options that included a resulting premium for each choice.
- Some insurers offered a few options encouraging policyholders to call for information about others and the resulting reduction in premium
- Some described options in detail, others provide little information.

There are no clear requirements for what options can be offered, how they are described, what information must be included, or how or in what format that information is presented to policyholders. In some instances these notices seemed to be drafted to give one option more prominence than another. Several agents complained to us that these notices were intended to promote lapses, or a shortened benefit period without further premium payments. All of these issues points to a need for a common form and format and instruction on content for these notices.

Our primary concern for policyholders is that long standing coverage be preserved and that the options they select to reduce cost maintain reasonable amounts and duration of coverage. Most policyholders that came to our organization or the local SHIPs were confused about the information they received and worried about losing coverage or making the wrong choice. Some considered just giving up their coverage.

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Some clients needed to combine options to achieve a reasonable premium going forward, and leave room to exercise additional options if later premium increases occurred. Having individual help to sort through their options and financial circumstances resulted in retention of meaningful coverage at a price a policyholder was able to pay.

One issue that had to be considered time and again was to ensure that a policyholder didn't reduce their daily benefit amount so low that they had no room for further reduction in the event of subsequent premium increases. Clients had little understanding or appreciation for which benefit option had more importance than another if further premium increases occurred that required additional decisions about coverage.

We are concerned that one reduced benefit option (RBO) in particular may be promoted over other options that might be available. Each one of these options can apply differently to a policyholder depending on their own unique situation. These include their current age, their health conditions and near term need for benefits, their financial condition, their current marital status, potential caregivers, and their ability to receive benefits at home or their need for institutional care. These are all factors to be considered in making changes to their existing benefits and their ongoing ability to finance those benefits.

In regard to inflation protection in particular, all of the factors cited about apply to decisions about eliminating that benefit, reducing it, or retaining the current benefit. Some insurers have offered to drop it entirely but had no option to reduce it. We think every insurer should offer the option to reduce inflation protection to a lower percentage for those policyholders who could benefit from retention of some amount of inflation protection. In other cases, particularly when a policyholder is of an advanced age it might not make sense to retain any inflation protection and instead rely on the current already inflated amount. In no circumstances should insurers be allowed to claw back current inflated benefits if inflation protection is modified or dropped.

Attached is a document we drafted for the SHIP programs and is in use in the California SHIP (HICAP). In that document we attempt to explain each option we've seen to help SHIP counselors understand the function of each option. We also point out that one or more of these options might have more value to one policyholder than another, depending on their particular financial situation, their age, and how close they might be to using their benefits. Policyholders deserve the right to tailor their coverage to their current situation and they need clear, concise plain language information about each option they are offered.

Thank you for the opportunity to comment on this important work.

Sincerely

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Counseling Policyholders on Options to Reduce Premium Increases

The notices policyholders receive about the premium increase may contain a number of options they can exercise to offset some or all of the premium increase. Each option needs to be carefully considered by each policyholder based on their specific needs, their age, the cost of care in their area, and their financial circumstances. Most policyholders, or their families, are likely to need help to determine the value and the impact of one or more of the offered options.

When assisting a policyholder or a family member with decisions about reducing premiums, it's important to consider their age, financial situation, their future care needs, the costs of care they may need in the future, and whether future increases are likely.

For spouses it's important to consider the impact of these options and changes if one spouse will live on a reduced income when the other spouse dies. It's possible that a policyholder might combine two or more of the options offered to them to achieve the greatest premium reduction, but a careful review of each option and its consequences should be made first. One spouse may need to maintain greater coverage than the other because one is older than the other or is in worse health than the other.

For Partnership products it's important to know any minimum benefit requirements to ensure that the daily benefit amount, amount or years of coverage, and any inflation protection are not reduced below the levels required to maintain Partnership asset protection.

Reduce Or Eliminate Their Inflation Protection: A policyholder is offered the option to reduce their inflation protection benefit, or the option to eliminate it entirely, in return for a reduction in the new premium. (An inflation protection benefit increases the policy's daily benefit amount to protect against increases in the cost of care.) While it may make sense at some older ages to reduce or eliminate an inflation protection benefit, it's important to know **if** that reduction or elimination will be applied back to the original daily benefit at the time the policy was purchased. If this is true and a policyholder opts to eliminate the inflation protection benefit, they might lose all the inflation adjustments that increased their daily benefit since they bought the policy. The option to reduce or eliminate inflation protection should only be applied from the current date forward, and any inflated benefits should be retained at the current inflated amount.

Reduce The Daily Benefit Amount: A policyholder is offered the option to reduce the dollar amount of their daily benefit in return for some reduction in the new premium. Careful consideration must be given to the amount of the reduced daily benefit relative to the current cost of care and how choosing that option would reduce the new premium.

It's also important to consider that if they choose to reduce the daily benefit now that if there are premium increases in the future, they may not be able to offset those premium increases by reducing the daily benefit again if that benefit is already much lower than the cost of care.

Reduce The Duration Of Benefits: A policyholder is offered the right to reduce the number of years that the policy will pay benefits. A policyholder with only 2 or 3 years of coverage may not be able to reduce their coverage any further. Reducing the benefit from lifetime coverage to a fixed number of years may substantially reduce the premium for younger policyholders but the reduction may be much less for those who are older. Policyholders will need to weigh the consequences of fewer years of benefits and the total dollar amount of benefits against any reduction in premium that they are offered

Paid-Up Policy: A policyholder may be offered a paid-up policy with no need to make any future premium payments. This option keeps the policy in force, but limits the total dollar amount of benefits that will be paid to the amount of premiums that have already been paid since the policy was purchased. The amount of care that can be provided by the dollar amount of paid premiums that makes up the total paid up benefits should be weighed against the ability of a policyholder to pay the increased premium.

Cash Out: A policyholder is offered a specific dollar amount to cancel their policy. Some of these cash outs may be many thousands of dollars. While the prospect of a large cash payment may be momentarily attractive, the policyholder is giving up all future benefits for long-term care. If a person is eligible for public benefits now, or might be in the future, the receipt of a large cash payment could affect eligibility for those benefits. A policyholder should seek advice from a trusted financial advisor to fully understand all of the consequences of this decision before exercising this option including whether there are any potential tax implications for taking this option.

Policyholders can always contact their company to ask questions about the offered options, and to seek other changes that might be more beneficial. It's important to remember that any offers to reduce premium increases, or to make any other changes to their long term care contracts should always be supported in writing. Any documents sent to policyholders should be retained and attached to their existing policy.