LONG-TERM CARE INSURANCE (EX) TASK FORCE

Long-Term Care Insurance (EX) Task Force Dec. 4, 2020, Fall National Meeting Minutes
Long-Term Care Insurance (EX) Task Force Nov. 2, 2020, Conference Call Minutes (Attachment One)
Comment Letters Regarding the 2021 Proposed Charges (Attachment One-A)
2021 Proposed Charges (Attachment One-B)
Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup Nov. 30, 2020, Minutes (Attachment Two)
Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup Oct. 1, 2020, Minutes (Attachment Two-A)
Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup Sept. 15, 2020, Minutes (Attachment Two-A1)
Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup Aug. 24, 2020, Minutes (Attachment Two-A1a)
Comment Letter Regarding the Draft Reduced Benefit Options Principles Document from American Council of Life Insurers (ACLI) and America’s Health Insurance Plans (AHIP), California Health Advocates (CHA and The Center for Economic Justice (CEJ) (Attachment Two-A1a1)
Public Exposure of the Draft Reduced Benefit Options Principles Document (Attachment Two-A1a2)
Comment Letter Regarding the Draft RBO Principles Document from American Council of Life Insurers (ACLI) (Attachment Two-A1b)
Draft RBO Consumer Notices Principles Document (Attachment Two-A1c)
Draft Checklist (Attachment Two-A1d)
Pennsylvania Insurance Department Long-Term Care Insurance (LTCI) RBO Letter Best Practices Document (Attachment Two-A2)
Draft Consumer Document (Attachment Two-A3)
Draft Checklist (Attachment Two-A4)
Draft Consumer Document (Attachment Two-B)
Draft RBO Principles Document (Attachment Two-C)
Comments Regarding the Draft Consumer Document and RBO Principles Document from American Council of Life Insurers (ACLI) and America’s Health Insurance Plans (AHIP) (Attachment Two-D)
Comments Regarding the Draft Consumer Document and RBO Principles Document from California Health Advocates (CHA) (Attachment Two-F)
Final Consumer Document (Attachment Two-G)
Final RBO Principles Document (Attachment Two-H)
Reduced Benefit Options Associated with Long-Term Care Insurance Rate Increases (Attachment Three)
Reduced Benefit Options Consumer Notices Principles (Attachment Four)
The Long-Term Care Insurance (EX) Task Force met Dec. 4, 2020. The following Task Force members participated: Scott A. White, Chair (VA); Michael Conway, Vice Chair (CO); Lori K. Wing-Heier (AK); Jim L. Ridling (AL); Alan McClain represented by Carroll Astin (AR); Evan G. Daniels (AZ); Ricardo Lara represented by Perry Kupferman (CA); Karima M. Woods represented by Philip Barlow (DC); Trinidad Navarro (DE); David Almtaier (FL); Colin M. Hayashida (HI); Doug Ommen represented by Klete Geren (IA); Dean L. Cameron (ID); Robert H. Muriel (IL); Stephen W. Robertson represented by Karl Knable (IN); Vicki Schmidt represented by Nicole Boyd (KS); James J. Donelon represented by Rich Piazza (LA); Gary Anderson (MA); Eric A. Cioppa (ME); Anita G. Fox represented by Karen Dennis (MI); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers (MO); Mike Chaney represented by Bob Williams (MS); Mike Causey represented by David Yetter (NC); Jon Godfread represented by John Arnold (ND); Bruce R. Ramge (NE); Marlene Caride (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson (NV); Glen Mulready (OK); Andrew R. Stolfi represented by TK Keen (OR); Jessica K. Altman (PA); Elizabeth Kelleher Dwyer (RI); Raymond G. Farmer (SC); Larry D. Deiter (SD); Carter Lawrence (TN); Texas represented by Doug Slape (TX); Tanji J. Northrup (UT); Michael S. Pieciak represented by Anna Van Fleet (VT); Mike Kreidler (WA); Mark Afable (WI); James A. Dodrill represented by Tonya Gillespie (WV); and Jeff Rude (WY).

1. Adopted its Nov. 2 and Summer National Meeting Minutes

Commissioner White said the Task Force conducted an e-vote that concluded Nov. 2 to adopt its 2021 proposed charges for the Task Force and its subgroups.

Commissioner Altmaier made a motion, seconded by Commissioner Kreidler, to adopt the Task Force’s Nov. 2 (Attachment One) and Aug. 7 minutes (see NAIC Proceedings – Summer 2020, Long-Term Care Insurance (EX) Task Force). The motion passed unanimously.

2. Received a Report of the Long-Term Care Insurance Multistate Rate Review (EX) Subgroup

Commissioner Conway said the Subgroup met Oct. 22 and Oct. 8 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss specific insurers in connection with the Subgroup’s efforts to design a state-based framework for analyzing insurer rate increase requests.

Commissioner Conway said the Subgroup’s work is the centerpiece of the Task Force and to consider the work regarding reduced benefit options (RBOs) and non-actuarial considerations. The Subgroup aims to develop a more consistent state-based approach for reviewing long-term care insurance (LTCI) rate increase filings, resulting in actuarially appropriate increases granted by the states, in a timely manner. The Subgroup’s goal is to reduce and/or eliminate existing cross-state rate subsidization and improve future parity of rate-levels across the states.

Commissioner Conway said nearly every Task Force member responded to a recent survey on views relative to the multistate review process, which indicates that the vast majority of members viewed the multistate process and advisory reports as a positive development toward a more consistent and effective approach to rate filings. Many states indicated a willingness to rely on these reports in rate-making decisions, while others indicated a moderate level of reliance on such reports. Only a handful of states indicated a somewhat level of reliance on such reports. The Subgroup is still learning lessons and assessing the needs of state insurance departments relative to a multistate process that state insurance regulators will have confidence in. Commissioner Conway said the Subgroup encourages the Task Force’s continued support.

Mr. Andersen said the multistate actuarial (MSA) review team is composed of state insurance department actuaries from Connecticut, Minnesota, Nebraska, Texas and Utah and is overseen by the Long-Term Care Insurance Multistate Rate Review (EX) Subgroup. The MSA review team performs a single actuarial review of a rate increase filing that can be relied upon or otherwise considered by the state insurance departments in their respective rate review analyses. Mr. Andersen said regarding the review process, the MSA review team considers the past experience and future expectations filed by the requesting insurance company on a block of business. The team considers actuarial issues, including those discussed at the Long-Term Care Pricing (B) Subgroup over the past several years, including handling shrinking blocks and disallowing inappropriate inclusion of past losses in remaining policyholders’ rates. The team is collaborating with the Interstate Insurance Product...
Regulation Commission (Compact). For the filings received, the Compact is being used for efficiency to allow the company to make one initial filing that can be viewed by the MSA review team members and staff from impacted states. For filings related to new products that were approved by the Compact, if the company requests a 15% or lower rate increase, the Compact takes the lead and works together with the MSA review team to observe and learn from each other to establish enhancements to those practices.

Mr. Anderson said the pilot project is underway. The MSA review team is currently reviewing rate filings from several insurers. The product of the analysis of each rate increase filing is a detailed Rate Advisory Report. Rate Advisory Reports for two rate increase filings have been produced and disseminated to the Task Force members. A third report is nearing completion. The intention of these reports is to provide an analysis and a recommendation that state insurance departments can rely on. However, each state maintains its authority for approving, partially approving or disapproving the final rate increase that its policyholders are subject to. The rate increase in a Rate Advisory Report for a particular state is a recommendation, not a requirement and, therefore, not binding.

Commissioner Conway said the Subgroup is learning lessons and receiving feedback from the Task Force members on how to improve the usability of these Rate Advisory Reports. The Subgroup anticipates such work will continue over the next three months. The pilot project work will inform the Subgroup on the appropriate design and needs for a workable state-based review process that supports the goal of the Task Force. The Subgroup’s work will also account for the RBO Principles and RBO Consumer Notices Principles documents.

Commissioner Conway said the Subgroup has drafted an outline of a framework for the multistate rate review process, which has been distributed to Subgroup members for comment. The Subgroup expects to begin drafting a framework document that reflects lessons learned and to have a draft by the 2021 Spring National Meeting. Through this process, the Subgroup will incorporate RBO and non-actuarial considerations.

Commissioner Conway said regarding the data call analysis completed by a consultant on the degree to which variations and state review practices can result in different premium levels, the Subgroup is weighing the findings and working with the consultant on the best public presentation.

Jan Graeber (American Council of Life Insurers—ACLI) asked when the Subgroup will meet in open session. Commissioner Conway said the Subgroup will meet in a public forum when it is ready to discuss the framework in more detail. The Advisory Review Reports from the pilot project are confidential.

Birny Birnbaum (Center for Economic Justice—CEJ) asked if the consultant’s report on the data call has been received and the reason why it is not released to the public. Commissioner Conway said the report has been received. He said the information is confidential because the companies that participated in the data call were told their information would be confidential. The Subgroup is also considering the concerns of member state insurance regulators regarding what information should be confidential. The Subgroup will work through these issues to make as much public as possible. Mr. Birnbaum said he hopes the Subgroup makes this information public and expedites its review.

Mr. Birnbaum asked if the Rate Review Advisory reports are prepared by the multistate group of actuaries and provided to state insurance departments for their use. Mr. Andersen said that is a good high-level summary.

Mr. Birnbaum asked if the reports are public. Commissioner Conway said the reports are not public. They are confidential to encourage state insurance regulators to engage in this work and to use the information in the reports in different ways.

Mr. Birnbaum said he thinks a company would want to know the basis for the disposition of a rate filing. He said if a state insurance regulator contracts the rate review to a consultant, he thinks the consultant’s report that the state insurance regulator relied on would be available to the insurance company and the public. He said he hoped the reports would be public so stakeholders like himself and others who are interested in consumer protection can review the basis for the state insurance regulator’s decision. He asked the Subgroup to keep these concerns in mind. Commissioner Conway said if Colorado hires a consultant and the consultant’s report is used to reach a decision, that report may necessarily be public. He said individual states need to and do explain how decisions are reached on rate increases or other matters. He said regarding public information on the Subgroup’s work, the focus will be on the framework. Once the Subgroup begins drafting the framework, it will provide the opportunity for everyone to see what the MSA review team has been working on and how it reached the results of the reviews.

Mr. Birnbaum said the Maine Insurance Department released an examination report on a company in which the long-term care (LTC) reserves were deficient and noted in the report that the company issued dividends to the parent. He asked if the MSA
review team takes dividends into consideration. Mr. Commissioner said the specific circumstances would be reviewed on a case-by-case basis.

Mr. Andersen said nearly every state law uses a lifetime loss ratio approach to evaluate rate increases. The lifetime loss ratio approach contemplates that all premiums and related investment income is available to pay claims and related expenses for that block of business. To the extent there were past shareholder or other dividends paid out of that block, the company would not get credit for that. The company would not be able to say that it has additional losses related to this block of business due to dividends. He said he does not believe past shareholder dividends is an issue affecting rate increases. In a typical case, the financial condition of the insurer is not a basis for the rate increase decision. He said it is contemplated in the lifetime loss ratio approach. State insurance regulators have thought through how focusing on financial condition would play out. If financial condition were considered, a worst-case scenario would result in a healthy company receiving low or no increases and an unhealthy company receiving a large rate increase, which could inspire companies to move blocks of LTCI to unhealthy companies in order to get bigger rate increases. The lifetime loss ratio laws prevent that from happening, treat the block of LTCI as a self-contained company, and avoid issues with solvency and dividend impacts.

Superintendent Cioppa said he agrees with Mr. Andersen. He said Maine’s examination report should be read and evaluated based on the whole picture of the company, what took place and the plan to cure the deficiency. The Maine Bureau has worked with the company for several years on the analysis of the LTCI reserves, evaluated the capital structure, and in looking at the dividends carefully evaluated the need for reserve strengthening. The Bureau will be monitoring the company. He said he thinks it is a mischaracterization to summarize that the reserves are deficient, and they are issuing dividends. He encouraged anyone to read the report and reach out to the Bureau if they have questions. Mr. Birnbaum said he did not think there was a mischaracterization.

Commissioner White said the Task Force has had discussion on the questions raised about confidentiality, which involves balancing different considerations. The issues raised will be carefully considered.

Commissioner Altman made a motion, seconded by Commissioner Conway, to receive the report of the Long-Term Care Insurance Multi-State Rate Review (EX) Subgroup. The motion passed unanimously.

3. Received the Report of the Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup

Commissioner Altman said the Subgroup met four times since the Summer National Meeting. During its Nov. 30 meeting, the Subgroup addressed comments received and adopted the RBO Principles and RBO Consumer Notices Principles, which completes the charges assigned to the Subgroup.

Commissioner Altman said the RBO Principles started development in the RBO workstream, which was tasked with assisting the Task Force in completing the following charge: Identify options to provide consumers with choices regarding modifications to long-term care insurance contract benefits where policies are no longer affordable due to rate increases. The RBO Principles are intended to provide guidance for evaluating RBO offerings by insurers. In summary, the RBO Principles document addresses issues related to:

- Fairness and equity for policyholders that elect a reduced benefit option or that choose to accept the rate increase and continue their coverage at the current benefit level.
- Clarity of communication with policyholders eligible for a reduced benefit option.
- Any policy or regulatory requirements for an insurer to offer certain RBOs.
- State insurance regulators’ consideration of the potential impact on remaining policyholders in the block, the insurer’s finances and/or the impact on Medicaid budgets, if encouraging or requiring reduced benefits.
- Innovation, particularly where an outcome of improved health and lower claim costs are possible.
- Types of widely established RBOs in lieu of rate increases.

Commissioner Altman said the RBO Consumer Notices Principles document seeks to provide guiding principles in evaluating the quality of consumer notices and RBO materials presented to policyholders. The RBO Consumer Notices Principles addresses various issues insurers should consider related to:

- How long before insurers should deliver rate action letters to policyholders.
- Frequency of insurer notices to policyholders that are subject to rate increases that are phased-in over multiple years, along with disclosure of all approved future planned rate increases in each notice.
- Readability and accessibility issues for policyholders, such as: making the rate action easy to understand; presenting RBOs in a way that is comprehensible, memorable and adjusted to the needs of the audience; including definitions of complex terms used; and providing a question-and-answer (Q&A) section that answers commonly asked questions in plain language.
Draft Pending Adoption

- Identification to policyholders of what is happening, why it is happening to them, when is it happening, what can they do about it and how they can take action.
- Touch and tone of the communication to policyholders—for example, drafting the communication in a way that helps policyholders reflect on the reason(s) why they purchased an LTCI policy, conveying as much empathy as possible regarding the impact a rate action(s) may have on policyholders, presenting RBOs fairly without emphasizing one option over another, communicating policyholders’ ability to maintain current benefits by paying the increased premium, and using word choices that appreciate how those words could influence policyholders’ decisions.
- Providing contact information for sources that can answer policyholders’ questions, and suggesting policyholders consult a family member or other trusted advisor prior to making a decision.
- Providing the right amount and type of information such that policyholders can make decisions about policy options that meet their needs.

Commissioner Wing-Heier made a motion, seconded by Ms. Van Fleet, to receive the report of the Subgroup (Attachment Two) and to refer the Reduced Benefit Options (RBO) Principles (Attachment Three) and RBO Consumer Notices Principles (Attachment Four) to the Long-Term Care Insurance Multistate Rate Review (EX) Subgroup. The motion passed unanimously.

Bonnie Burns (California Health Advocates—CHA) experienced technical difficulties during the meeting and was unable to voice her comments. She provided the following written comments immediately following the Task Force meeting and are included with permission from the Task Force chair.

“Regulators don't know much about the effects of these rate increases and RBOs on policyholders. Our organization has had experience with many different consumer issues that have arisen following a rate increase. We think regulators need data and information from insurers to understand what happens after these rate increases have been imposed. For instance, how many partnership policyholders have lost asset protection by exercising an RBO? This should be a concern to state regulators since policyholders are unlikely to fully understand the implications of the loss of asset protection until benefits are needed. Were policyholders given enough information and choices to reduce benefits, durations or inflation protection that would allow them to stay within the minimum requirements of a partnership program? A simple warning about a particular choice would be insufficient for this population. Is the value of lost asset protection a factor in the pricing of a particular RBO? When a policyholder gives up or reduces a benefit, is the value of that change of greater benefit to the insurer than the lowered premium to the policyholder? We are hearing from agents that some companies do not notify them of premium increases and will not give them any information about their clients so that they can help them consider the RBOs they've been offered, while other companies have sent out detailed policyholder lists to their agents. Older blocks of policyholders are often orphaned from their agent. Agents attempting to help an orphaned policyholder are often shunned by a company that refuses to work with an agent who is not the agent of record. This practice deprives a policyholder of the technical assistance they may need to make informed choices about RBOs they have been offered. We wonder about the effect on commissions, if any, when an RBO is exercised. Is there any reason an agent would favor one RBO over another? Why are so many agents referring to RBOs as a formula for induced lapse? Many of the agents who contact our program are angry about RBOs and think they favor the insurer. What is the pattern of lapse six months or more following a rate increase? We have had family members bringing in unopened notices of a rate increase months after they were mailed to a policyholder. Do insurers always, never or only sometimes allow policyholders the same or different choices of RBOs outside the period of the initial increase notice? We have had cases where a policyholder has failed to respond or reply to a notice, which creates the impression they have accepted the increased premium amount. However, what happens later may result in a lapse when a policyholder is unable to support the increased cost. In the case of automatic bank payments, it may result in the inability to pay monthly bills or result in one or more overdrafts before coverage is terminated. These are just a few of the issues I wanted to encourage regulators to consider and realize there is much more information needed to fully understand what happens to consumers following these rate increases and RBO choices were made, or not made, to reduce the impact of significantly higher premiums.”

4. Discussed Engaging a Legal Consultant

Commissioner White reported that the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee exposed a fiscal impact statement regarding the engagement of an outside legal consultant to assist the Task Force on matters relating to restructuring LTCI policies for a 15-day public comment period ending Dec. 22.

Having no further business, the Long-Term Care Insurance (EX) Task Force adjourned.
The Long-Term Care Insurance (EX) Task Force conducted an e-vote that concluded Nov. 2, 2020. The following Task Force members participated: Scott A. White, Chair (VA); Michael Conway, Vice Chair (CO); Lori K. Wing-Heier (AK); Jim L. Ridling represented by Steven Oistolud (AL); Ricardo Lara (CA); Karima M. Woods represented by Philip Barlow (DC); Trinidad Navarro represented by Frank Pyle (DE); David Altmäier (FL); Colin M. Hayashida (HI); Doug Ommen represented by Andría Seip (IA); Stephen W. Robertson represented by Karl Knable (IN); Vicki Schmidt (KS); Sharon P. Clark (KY); James J. Donelon represented by Rich Piazza (LA); Gary Anderson (MA); Eric A. Cioppa (ME); Anita G. Fox represented by Karen Dennis (MI); Grace Arnold (MN); Chlora Lindley-Myers (MO); Matthew M. Rosendale (MT); Jon Godfread represented by Chrystal Bartuska (ND); Bruce R. Ramge (NE); Marlene Caride (NJ); Russell Toal (NM); Barbara D. Richardson (NV); Jessica K. Altman (PA); Elizabeth Kelleher Dwyer (RI); Raymond G. Farmer represented by Joseph Cregan (SC); Hodgen Mainda represented by Rachel Jrade-Rice (TN); Kent Sullivan represented by Doug Slape (TX); Tanji J. Northrup (UT); Mike Kreidler (WA); Mark Afable (WI); James A. Dodrill represented by Tonya Gillespie (WV); and Jeff Rude (WY).

1. **Adopted its 2021 Proposed Charges**

The 2021 proposed charges for the Task Force and its Subgroups were exposed for a 14-day public comment period ending Oct. 7. Comments were received from Indiana and the Center for Economic Justice (CEJ) (Attachment One-A). Commissioner White and Commissioner Conway informed the Task Force, interested state insurance regulators, and interested parties via e-mail that while the comments are instructive to future work products of the Task Force, the decision was made to refer the comments to the Long-Term Care Insurance Multistate Rate Review (EX) Subgroup for further consideration and to forego a public conference call to potentially revise the charges further. A majority of the members voted in favor of adopting the 2021 proposed charges of the Task Force and its Subgroups as originally exposed (Attachment One-B). Indiana opposed. The motion passed.

Having no further business, the Long-Term Care Insurance (EX) Task Force adjourned.
Comments from Indiana
Exposure Draft. Send comments by Oct. 7, 2020 to jkoenigsman@naic.org

Proposed 2021 Charges:

The Long-Term Care Insurance (EX) Task Force will:

1. Recognizing the gravity of the threat posed by the current long-term care insurance (LTGI) environment both to consumers and our state-based system of insurance regulation, this Task Force is charged to:
   a. Develop a nationally consistent state based approach for reviewing LTCI rates. Develop a consistent national approach for reviewing LTCI rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization. This should result from an analysis of the actuarially appropriate rates for each state from inception, the implied level of rates provided to the consumer, and the historical experience of the company. Any national approach developed does not supersede each state’s own authority to review and approve rates.
   b. Identify Further evaluate and recommend options to provide consumers with choices regarding modifications to LTCI contract benefits where policies are no longer affordable due to rate increases.
   c. Deliver such a proposal to the Executive (EX) Committee by the 2021 Fall/Summer National Meeting.

2. Provide periodic reporting to the Long-Term Care Insurance (EX) Task Force to help ensure coordination between the two task forces on LTCI issues. Unless otherwise affirmatively extended or modified by the Executive (EX) Committee, the Task Force and its charges will expire Jan. 31, 2021.

NAIC Support Staff: Jeffrey C. Johnston

The Long-Term Care Insurance Multistate Rate Review (EX) Subgroup will:

Develop a consistent national approach for reviewing LTCI rates balanced with a state based approach that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization. The Subgroup should complete its charges by the 2021 Summer National Meeting.

NAIC Support Staff: Eric King

Commented [KKJ1]: This statement assumes that cross-state rate subsidization is a given whereas we do not think this is always true and would be better worded as "and provides an analysis on any possible cross-state rate subsidization"
The Long-Term Care Reduced Benefit Options (EX) Subgroup will:

- Identify options and develop recommendations for the rate review approach that provides consumers with choices regarding modifications to LTCI contract benefits where policies are no longer affordable due to rate increases. The Subgroup should complete its charges by Dec. 31, 2020.

NAIC Support Staff: Eric King

The Long-Term Care Insurance Financial Solvency (EX) Subgroup will:

1. Explore restructuring options and techniques to address potential inequities between policyholders in different states; and techniques to mitigate policyholders’ risk to state guaranty fund benefit limits including states’ pre-rehabilitation planning options. Evaluate the work of the consultant and report on the work to the Task Force.

2. Evaluate the results of consultants’ work on the completion of a data call and report on the work to the Task Force.

3. Monitor work performed by other NAIC solvency working groups and assist in the timely multi-state coordination/communication of the review of the financial condition of LTC insurers.

The Subgroup should complete its charges by the 2021 Summer National Meeting.

NAIC Support Staff: Jane Koenigsman, Eric King
Comments for the Center for Economic Justice

To the NAIC LTCI (EX) Task Force

Regarding Proposed 2021 Charges

October 7, 2020

The Center for Economic Justice offers the following comments on the proposed 2021 charges of the LTCI (EX) TF.

1. Under TF charge 1.a., we suggest replacing "eliminates" with "preventing." The use of "eliminates" assumes an outcome that has not yet been demonstrated. We note that charge 1 for the LTCI Financial Solvency subgroup refers to "potential" inequities between policyholders in different states." Changing “eliminates” to “preventing” would be consistent with the solvency subgroup phrasing.

2. Under TF charge 1.a., we suggest replacing "actuarially appropriate increases" with "rate changes that represent a fair allocation of responsibility for insurers' pricing errors and are actuarially justified." We object to reducing the issue of rate increases to purely actuarial terms when the issues involving rate increases involve policy decisions regarding who is responsible -- insurers, investors, management, taxpayers or policyholders -- for insurers' business errors.

3. Under TF charge 1.b, we suggest this charge be revised to "Evaluate and recommend reduced- and alternate-benefit options and related communications, disclosures and information to assist consumers in evaluating alternatives to full rate increases." The introductory "further" serves no purpose and is not needed. Consumers may wish to take advantage of reduced- or alternative-benefit options for a variety of reasons other than affordability or lack thereof. Further, innovative alternative benefits may not reduce benefits for consumers but may provide equivalent or superior benefits at lower cost.

4. Under LTCI Multistate Review, as indicated in point 2, above, we suggest this charge be revised to "Develop a consistent national approach for reviewing LTCI rates that result in rate changes that represent a fair allocation of responsibility for insurers' pricing errors and are actuarially justified in a timely manner by states and prevents cross-state rate subsidization."
5. Under LTCI Financial Solvency subgroup, charge 1 includes "evaluate the work of the consultant." We understood that the work of the consultant was directly related to the multi-state review charge and the potential for rate subsidization among the states. Consequently, evaluating the work of the consultant would seem to be better placed with TF as opposed to this subgroup.

6. We are troubled by the fact that the charges do not include public disclosure of data collected by and the analysis of the consultant. We have previously written to the TF on the importance of such disclosure to allow non-insurer interested parties to be able to meaningfully participate in the TF discussions.

7. We suggest the addition of the following charge to the TF: "Evaluate the impacts of systemic racism in the work streams of the TF and subgroups." The NAIC has committed itself to addressing issues of systemic racism and inherent bias in insurance. To accomplish this, each working group, task force and committee of the NAIC must examine the impact of systemic racism on their particular topic areas. This is as true for the LTCI Ex TF as any other NAIC group because of the potential for unfair outcomes on the basis of race for each of the group's work streams.
2021 Proposed Charges

LONG-TERM CARE INSURANCE (EX) TASK FORCE

Ongoing Support of NAIC Programs, Products or Services

1. The Long-Term Care Insurance (EX) Task Force will:
   A. Recognizing the gravity of the threat posed by the current long-term care insurance (LTCI) environment both to consumers and our state-based system of insurance regulation, this Task Force is charged to:
      1. Develop a consistent national approach for reviewing LTCI rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization.
      2. Identify further evaluate and recommend options to provide consumers with choices regarding modifications to LTCI contract benefits where policies are no longer affordable due to rate increases.
      3. Deliver such a proposal to the Executive (EX) Committee by the 2021 FallSummer National Meeting.

2. Provide periodic reporting to the Long-Term Care Insurance (E/B) Task Force to help ensure coordination between the two task forces on LTCI issues. Unless otherwise affirmatively extended or modified by the Executive (EX) Committee, the Task Force and its charges will expire Jan. 31, 2021.

NAIC Support Staff: Jeffrey C. Johnston

3-2. The Long-Term Care Insurance Multistate Rate Review (EX) Subgroup will:
   A. Develop a consistent national approach for reviewing LTCI rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization. The Subgroup should complete its charges by the 2021 Summer National Meeting.

NAIC Support Staff: Eric King

4. The Long-Term Care Reduced Benefit Options (EX) Subgroup will:

5. Identify options and develop recommendations for the rate review approach that provides consumers with choices regarding modifications to LTCI contract benefits where policies are no longer affordable due to rate increases. The Subgroup should complete its charges by Dec. 31, 2020.

6. NAIC Support Staff: Eric King

7-3. The Long-Term Care Insurance Financial Solvency (EX) Subgroup will:

A. Explore restructuring options and techniques to address potential inequities between policyholders in different states; and techniques to mitigate policyholders’ risk to state guaranty fund benefit limits, including states’ pre-rehabilitation planning options. Evaluate the work of the consultant and report on the work to the Task Force.

B. Evaluate the results of consultants’ work on the completion of a data call and report on the work to the Task Force

C. Monitor work performed by other NAIC solvency working groups and assist in the timely multi-state coordination/communication of the review of the financial condition of long-term care (LTC) insurers.

C. The Subgroup should complete its charges by the 2021 Summer National Meeting.

NAIC Support Staff: Jane Koenigsman, Eric King
The Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup of the Long-Term Care Insurance (EX) Task Force met Nov. 30, 2020. The following Subgroup members participated: Jessica K. Altman, Chair, and Shannen Logue (PA); Lori K. Wing-Heir (AK); Perry Kupferman (CA); Phillip Barlow (DC); Trinidad Navarro (DE); Andria Seip (IA); Rich Piazza (LA); Karen Dennis (MI); Fred Andersen (MN); Rhonda Ahrens (NE); Larry D. Deiter (SD); Carter Lawrence (TN); Tomasz Serbinowski (UT); Bob Grissom (VA); Anna Van Fleet (VT); Mike Kreidler (WA); and Joylynn Fix (WV).

1. **Adopted its Oct. 1 Minutes**

   The Subgroup met Oct. 1 and took the following action: 1) discussed a draft Reduced Benefit Options (RBO) Consumer Notices Principles document (Consumer Document); and 2) exposed the Consumer Document and an RBO Principles Document for a 30-day public comment period.

   Mr. Andersen made a motion, seconded by Mr. Piazza, to adopt the Subgroup’s Oct. 1 minutes (Attachment Two-A). The motion passed unanimously.

2. **Adopted a Draft Consumer Document and RBO Principles Document**

   Commissioner Altman gave an overview of versions of the draft Consumer Document (Attachment Two-B) and draft RBO Principles Document (Attachment Two-C) that include discussion of comments received from the American Council of Life Insurers (ACLI) and America’s Health Insurance Plans (AHIP) and California Health Advocates (CHA) (Attachments Two-D and Two-E) during the 30-day public comment period. She proposed a treatment of suggestions offered in the comment letters. The Subgroup agreed to the treatment of the comment suggestions.

   Mr. Andersen made a motion, seconded by Ms. Fix, to adopt the version of the Consumer Document (Attachment Two-F) and the RBO Principles Document (Attachment Two-G) as agreed to by the Subgroup. The motion passed unanimously.

   Having no further business, the Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup adjourned.
The Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup of the Long-Term Care Insurance (EX) Task Force met via conference call Oct. 1, 2020. The following Subgroup members participated: Jessica K. Altman, Chair, and Shannen Logue (PA); Lori K. Wing-Heir (AK); Perry Kupferman (CA); Phillip Barlow (DC); Trinidad Navarro (DE); Andria Seip (IA); Rich Piazza (LA); Karen Dennis (MI); Fred Andersen (MN); Rhonda Ahrens (NE); Larry D. Deiter (SD); Hodgen Mainda (TN); Tomasz Serbinowski (UT); Scott A. White (VA); Anna Van Fleet (VT); Mike Kreidler (WA); and Joylynn Fix (WV).

1. **Adopted its Sept. 15 Minutes**

The Subgroup met Sept. 15 to discuss a draft Reduced Benefit Options (RBO) Consumer Notices Principles document (Consumer Document).

Mr. Andersen made a motion, seconded by Mr. Piazza, to adopt the Subgroup’s Sept. 15 minutes (Attachment Two-A1). The motion passed unanimously.

2. **Discussed Penn Treaty Materials**

Ms. Logue gave an overview of a Pennsylvania Insurance Department Long-Term Care Insurance (LTCI) RBO Letter Best Practices document (Attachment Two-A2) that resulted from focus groups and telephonic interviews with policyholders conducted by Penn Treaty to evaluate potential rehabilitation plan options, including necessary benefit and rate changes. She said this work was done during the Penn Treaty rehabilitation and liquidation period from 2009 to 2017.

Mr. Kupferman asked if the actual policyholder election of a cash buyout option was as high as the 20% indicated in the survey of policyholders and if the cash buyout option benefited Penn Treaty financially. Ms. Logue said she does not know if the company benefited financially, and the actual policyholder uptake of the cash buyout option was closer to 12%.

Bonnie Burns (California Health Advocates—CHA) asked what it means to convert a policy from non-tax qualified to tax qualified. Ms. Logue said it may have been intended to convert from a tax qualified policy to a non-tax qualified policy, and she will investigate the possible error and determine exactly what is being offered to policyholders.

Birny Birnbaum (Center for Economic Justice—CEJ) asked what influence the value indicators presented for each option influenced by policyholder RBO election. Ms. Logue said she will contact Penn Treaty staff and ask if they have this information. Mr. Birnbaum said the differences in value indicators implies that the various options are not actuarially equivalent. He said the options should all provide value that is equal across the selections.

Commissioner Altman said she believes the research conducted by Penn Treaty was intended to ensure clarity in its communications to policyholders, and the results of actual communications and election of RBOs was not evaluated in depth. She said because of this, some of Mr. Birnbaum’s questions may not be able to be answered.

3. **Discussed a Draft Consumer Document**

Commissioner Altman presented a draft Consumer Document (Attachment Two-A3) and a draft checklist (Attachment Two-A4). She asked if state insurance regulators have any questions about the Consumer Document and if there is anything that should be revised before it is exposed for public comment. Ms. Ahrens said the document should be reviewed for the proper usage of “should,” “must” and “consider” as they apply to the principles.

Jan Graeber (American Council of Life Insurers—ACLI) said the ACLI wants to know how the Subgroup envisions the Consumer Document being used. She asked if the Subgroup views the principles as considerations for insurers or as requirements. Commissioner Altman said the Subgroup intends to use the Consumer Document as a way to inform the Multistate Actuarial LTCI Rate Review Team (MSA Team) of considerations when reviewing RBOs and their communication, realizing that the ultimate decision concerning all aspects of the rate increase determination is the decision of each state.
said the Subgroup will need to work with other NAIC groups to determine if elements of the Consumer Document, as well as the RBO Principles Document, will need to be incorporated into relevant NAIC model laws and regulations.

Mr. Andersen said after exposure comments have been received, the Subgroup will be in a better position to determine if the Consumer Document is intended as guidance or as something more prescriptive. He said the Subgroup desires greater uniformity, but the ultimate decision is to be made by each individual state.

Commissioner Altman said the main purpose of the Consumer Document is to inform the MSA Team of aspects the Subgroup believes need to be considered in RBO review, but it can also be used as a resource for states apart from advisory opinions produced by the MSA Team.

Ms. Van Fleet said the checklist is intended as a tool for state insurance regulators that will help them to ask all the questions needed to do a thorough RBO communications review.

Commissioner Altman asked if sample letters should be a part of the formal Consumer Document product. Mr. Birnbaum said the CEJ supports the inclusion of sample letters. The Subgroup determined that sample letters will be developed after the Consumer Document has been completed so it can inform the content of the sample letters.

4. Exposed a Draft Consumer Document and RBO Principles Document

Commissioner Altman said the Subgroup will formally expose the Draft Consumer Document and Draft RBO Principles Document for a 30-day public comment period.

Having no further business, the Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup adjourned.
Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup
Conference Call
September 15, 2020

The Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup of the Long-Term Care Insurance (EX) Task Force met via conference call Sept. 15, 2020. The following Subgroup members participated: Jessica K. Altman, Chair, and Shannen Logue (PA); Perry Kupferman (CA); Phillip Barlow (DC); Trinidad Navarro (DE); Andria Seip (IA); Robert H. Muriel (IL); James J. Donelon (LA); Karen Dennis (MI); Fred Andersen (MN); Rhonda Ahrens (NE); Hodgen Mainda (TN); Tomasz Serbinowski (UT); Scott A. White (VA); Anna Van Fleet (VT); Michael Bryant (WA); and Joylynn Fix (WV). Also participating were: Karl Knable (IN); and Matt Gendron (RI).

1. **Adopted its Aug. 24 Minutes**

The Subgroup met Aug. 24 to discuss comments received on the draft Reduced Benefit Options (RBO) Principles document.

Mr. Andersen made a motion, seconded by Mr. Muriel, to adopt the Subgroup’s Aug. 24 minutes (Attachment Two-A1a). The motion passed unanimously.

2. **Discussed Comments Received on the Draft RBO Principles Document**

Jan Graeber (American Council of Life Insurers—ACLI) gave an overview of a comment letter (Attachment Two-A1b) that was submitted by ACLI and America’s Health Insurance Plans (AHIP) that was submitted in response to the public exposure of a draft RBO Principles document.

3. **Discussed a Draft RBO Consumer Notices Principles Document**

Commissioner Altman presented a draft RBO Consumer Notices Principles document (Document) (Attachment Two-A1c), a draft checklist (Attachment Two-A1d) and three associated sample policyholder letters (Attachment Two-A1e). She said none of the documents have been exposed for public comment. She said Ms. Logue and Ms. Van Fleet will give overviews of the documents, and they will be exposed for public comment after all the documents have been explained.

Ms. Logue and Ms. Van Fleet gave an overview of the Document. Ms. Logue said during the exposure of the RBO Options document, comments were made on the importance of how RBOs are presented and explained to policyholders, and that those comments were considered as a part of the drafting process for the Document. She said sample letters were drafted to demonstrate the application of principles in the Document to actual communications with policyholders.

Ms. Logue said the checklist is a combination of principles found in the Document and elements from checklists currently used by various states.

Ms. Van Fleet gave an overview of the three sample letters. She said she believes there are three different categories of policyholders: 1) those with inflation protection; 2) those with an unlimited benefit period; and 3) those without inflation protection. She said that the three different types of policyholders need different information to make an informed RBO choice and that having three distinct letter types helps to ensure that only relevant information is presented in order to reduce confusion that may be caused by extraneous information.

Mr. Gendron asked if research has been conducted that determines if the order in which RBO types are presented affects which RBO is elected and, if so, whether the order of presentation should be an element of the principles. Ms. Logue said she is not aware of any such research. Ms. Van Fleet said she thinks accepting the rate increase and keeping current benefits should be the first option presented, and the nonforfeiture option should be the last option presented. Ms. Ahrens said no RBO should be portrayed as being a better value than retaining current benefits. She said that assigning value to any RBO is very difficult, as the value of any given RBO varies among policyholders. She said she agrees that accepting the rate increase and keeping current benefits should be the first option presented.
Mr. Knable asked how the letters can be structured so policyholders are very clear as to when and how much rate increases will be. Ms. Van Fleet said she thinks that the grid at the top of the letters clearly illustrates when increases are scheduled to occur and how much the increased premium will be.

Birny Birnbaum (Center for Economic Justice—CEJ) asked: 1) for the three categories of policyholders identified for the three letters, what the age, cognitive ability and reading comprehension characteristics are of each category; 2) whether documentation of consumer testing of RBO communication presentation can be produced; 3) what relationship the most frequently elected RBO has to a policyholder’s election of the RBO that best suits them; and 4) if testing of the hypothesis that order of RBO presentation affects rates of RBO type election is anticipated. Commissioner Altman said the consumer testing referenced relates to that conducted for Penn Treaty and that she will determine if this is information that can be shared publicly. She said the Subgroup has considered consumer testing of various RBO communications and that a determination of whether consumer testing will be conducted will be made as the Subgroup progresses with its work on the Document. She said she thinks information about RBO type election by policyholders has been gathered from regulators’ observations of policyholder behavior.

Ms. Van Fleet said the letters have not been Flesch-tested for readability. She said she used existing content from insurer communications as a starting point where applicable. She said she made attempts to simplify the language, and she asked that any plain language experts that participate in the Subgroup conference calls offer their assistance in further simplifying the letters. She said principles in the Document call for accessibility for all policyholders.

Commissioner Altman said another Subgroup conference call will be scheduled to continue discussion of the Document and letters.

Having no further business, the Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup adjourned.
The Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup met via conference call Aug. 24, 2020. The following Subgroup members participated: Jessica K. Altman, Chair (PA); Lori K. Wing-Heier (AK); Perry Kupferman (CA); Phillip Barlow (DC); Trinidad Navarro (DE); Andria Seip (IA); Rich Piazza (LA); Karen Dennis (MI); Fred Andersen (MN); Rhonda Ahrens (NE); Hodgen Mainda (TN); Jaakob Sundberg (UT); Scott A. White (VA); Anna Van Fleet (VT); Michael Bryant (WA); and Tim Sigman (WV).

1. Discussed Comments Received on a Draft Reduced Benefit Options Principles Document

Commissioner Altman presented comment letters from the American Council of Life Insurers (ACLI) and America’s Health Insurance Plans (AHIP), California Health Advocates (CHA), and the Center for Economic Justice (CEJ) (Attachment Two-A1a1) that were submitted in response to the public exposure of a draft Reduced Benefit Options Principles Document (Attachment Two-A1a2).

Bonnie Burns (CHA) gave a summary of CHA’s comments. Commissioner Altman said the Subgroup is working on a set of principles that is specific to long-term care insurance (LTCI) consumer notices, and the points made in CHA’s comment letter will be addressed. She asked Ms. Burns if she has seen reduced benefit options (RBOs) that she thought were not in the policyholder’s best interest or would not provide meaningful benefits. Ms. Burns said she has seen a notice that has a series of RBO offerings in chart form. She said insurance agents questioned whether the amount the premium was reduced was proportional to the decrease in benefits. She said another insurance agent told her of a consumer notice that, on the third page of the notice, showed a series of percentage increases to rates that the insurer planned to request approval of by state insurance departments. She said the insurance agent saw this, but the policyholder did not. She said being aware of future rate increases is important to the policyholder when making decisions about electing an RBO. She said a policyholder may reduce their benefits so much that there will be no room to make further reductions in the event of a rate increase.

In reference to CHA’s comment that “in no circumstances should insurers be allowed to claw back current inflated benefits if inflation protection is modified or dropped,” Ms. Ahrens said that some LTCI contracts stipulate that this is allowed. Ms. Burns said she thinks that this should never be allowed and that she thinks there are conditions in the Long-Term Care Insurance Model Act (#640) that prohibit such contractual language in the future. She said state insurance regulators should pursue elimination of this contractual provision for new business.

Ray Nelson (AHIP) gave an overview of the ACLI and AHIP’s comments. Mr. Barlow said he thinks actuarial equivalence is an appropriate measure of RBO value, and he asked Mr. Nelson to explain why he thinks actuarial equivalence is not appropriate. Mr. Nelson said the standard recommended by the ACLI and AHIP is one of reasonableness, as creating actuarial equivalence for each policyholder for each reduction in benefit is not feasible. He said definitions of actuarial equivalence may vary from state to state. He said one measure of reasonableness is for the premium charged for the benefits package associated after an RBO is elected to match that of a similarly situated policyholder with the same benefits package using the new set of rates.

Mr. Barlow said if reasonableness is to be used as the RBO evaluation standard instead of actuarial equivalence, the Subgroup should attempt to develop a definition of it. Mr. Sundberg said he agrees that ensuring actuarial equivalence is difficult. He said that he thinks using actuarial equivalence as the standard will make LTCI rate reviews impractical. Mr. Andersen said the uncertainty associated with LTCI pricing assumptions makes determining actuarial equivalence an uncertain activity. He said requiring actuarial equivalence for RBOs may cause harm to policyholders that do not elect an RBO. Ms. Ahrens said contractually available RBOs that policyholders can elect at any time are not necessarily actuarially equivalent. She said ensuring actuarial equivalence in any given pricing cell is a complex procedure, and reasonableness as it relates to value to the policyholder offered by the RBO is instead used as a measure of fairness and equity in the Reduced Benefit Options Principles Document.

Birny Birnbaum (CEJ) gave an overview of the CEJ’s comments.
Silvia Yee (Disability Rights Education and Defense Fund—DREDF) said age-related diseases of the eyes can make reading and understanding RBO communications from insurers difficult for some policyholders. She said these communications should include a phone number to call where a large-font version of the letter or an electronic version that can be enlarged on-screen can be requested.

Ms. Burns said the Subgroup should investigate any taxation issues that may arise from policyholder election of RBOs.

Having no further business, the Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup adjourned.
Commissioner Jessica Altman
Chairman, NAIC LTC Reduced Benefit Options (EX) Subgroup
Pennsylvania Insurance Department

August 3, 2020

Dear Commissioner Altman,

The American Council of Life Insurers1 (ACLI) and the American Association of Health Insurance Plans2 (AHIP) support the work of the NAIC LTC (E) Task Force to achieve its charge of developing a consistent national approach for reviewing long-term care (LTC) rates and identifying options for consumers to modify benefits when faced with a premium increase on their LTC policy.

We appreciate the opportunity to comment on the draft document requesting stakeholder input on issues relating to Reduced Benefit Options (RBOs), exposed by the NAIC LTC (EX) Task Force on July 2, 2020. The information obtained in response to the exposure will help establish a framework to provide guidance in evaluating RBO offers. ACLI/AHIP support providing consumers with fair, equitable and meaningful choices to make modifications to the benefits provided under their LTC policy to help offset a rate increase.

EXECUTIVE SUMMARY

While data supports that an overwhelming majority of LTC policyholders maintain their coverage, even in the face of a substantial increase, industry is committed to working with state regulators to consider options and solutions that are fair and equitable for consumers. ACLI/AHIP support the establishment of consistent high-level principles to guide regulators in understanding the characteristics associated with a particular block of business and how these characteristics impact the choices provided to consumers.

To support this goal, any RBO offer should align with the following overarching principles:

• No policyholder or carrier should be required to modify a contract it has entered into.
• Any offer made should consider the potential impact on remaining policyholders.
• Any offer made should ensure there is no unfair discrimination among policyholders.

Providing fair and meaningful options to consumers starts with considering all aspects of LTC policies. Not all LTC policies are the same. Products vary by carrier and by block of business within a carrier. Key differences underlying the products offered to LTC consumers include:

1 The American Council of Life Insurers advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. Ninety million American families depend on our members for life insurance, annuities, retirement plans, long-term care (LTC) insurance, disability income insurance, reinsurance, dental, vision, and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States.

2 AHIP is the national association whose members provide coverage for health care and related services to hundreds of millions of Americans every day. Through these offerings, we improve and protect the health and financial security of consumers, families, businesses, communities and the nation. We are committed to market-based solutions and public-private partnerships that improve affordability, value, access, and well-being for consumers.

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Mix of business (e.g. average issue age and attained age of policyholders),
- Target markets (e.g. financial position of the policyholders, individual/group/association),
- Distribution of policies with respect to benefit levels and features (e.g. benefit period, daily benefit, inflation protection, elimination period),
- Age of the block,
- Benefit payment methodologies (e.g. reimbursement or indemnity),
- Types of service provided under the policy (nursing home, home health, assisted living facilities),
- Additional features offered (e.g. waiver of premium, restoration of benefits), and
- State laws such as those associated with Partnership programs.

These variations in LTC insurance products were designed to provide policyholders flexibility to choose the product that best fits their personal situation. At the time of purchase, policyholders make different decisions by balancing their financial situation, the type of care they desire and the risks they might face. At the time of a rate increase, policyholders must evaluate how their current goals align with, or have changed from, their goals at the time of purchase. A policyholder’s decision to accept an RBO might not be based on affordability but on changes in their personal situation.

As a result, there is not a one-size-fits-all RBO. While one RBO might work for some policyholders, it will not work for all. Carriers need flexibility to determine what options make the most sense for their blocks of business and their policyholders.

Comments on the specific principles and issues contained in the exposure are provided below. ACLI/AHIP encourages an opportunity to discuss these issues with regulators and other interested parties.

1. Relating to fairness and equity to policyholders electing a benefit reduction option.

Are all policyholders facing a rate increase being offered an RBO?

Most policyholders are provided options to reduce coverage to offset a rate increase. There are situations where an RBOs might not be offered to a policyholder. These situations include, but are not limited to, the following:

- A policyholder currently at the lowest level(s) of benefit available under the policy would not be eligible for an RBO,
- Some states have specific requirements with respect to benefit levels such as a minimum daily benefit or a maximum elimination period, and the policyholder might already be at this level, or
- RBOs might not be offered to policyholders currently on claim.

Not all options will apply to all policyholders and providing too many options could lead to policyholder confusion. The specific RBOs offered to policyholders will vary by carrier and potentially by block of business within a specific carrier. Carriers know their LTC products best and should strongly encourage policyholders to contact the carrier to discuss specific options that are available to them given the policyholder’s personal situation and their current benefit levels.

Do the RBOs provide reasonable value?

ACLI/AHIP support the ability for policyholders to partially or fully offset a rate increase through a reduction in benefits that reflects a reasonable relationship to a reduction in premium; however, the
reasonableness of premiums in relation to benefits can take many forms. As a result, a singular measure of reasonableness should not be mandated.

At the time of pricing, premiums must be reasonable in relation to benefits provided. However, equivalence of value for benefits relative to premium across all cells is not a requirement or a fundamental actuarial principle. Over time, and as experience emerges and assumptions are updated, there will be changes to the relative view of reasonableness of value for benefits relative to premium across cells. Maintenance of the original relative differential across cells might not be an objective for a carrier as it seeks rate increases and introduces new benefit reduction options.

Generally, RBOs available at the time of a rate increase are based on the benefit options previously priced for and approved. In this situation, the policyholder reducing their benefits pays the same premium that other policyholders pay for the same level of benefits, based on their issue age. Existing benefit options that have been approved are deemed to provide a reasonable value.

Companies can, however, decide to develop additional benefit options for consumers. For example, a company that initially priced for a lifetime and a five-year benefit period might subsequently decide to provide the policyholder the option of moving to a three-year benefit period to help offset a rate increase. In these situations, the pricing for the new benefit option must be reasonable in relation to the pricing for the existing benefits.

Fairness and equity can be best achieved by carriers encouraging policyholders to base decisions on the appropriateness of the option to their individual situation. Carriers should remind policyholders to consider consulting with family members or a trusted advisor during the decision-making process. In addition, policyholders are strongly encouraged to contact the carrier to understand the range of options that are available to them.

2. Ensuring fairness and equity for policyholders that choose to accept rate increases and continue LTCI coverage at their current benefit level:

To what extent could anti-selection take place, placing the financial stability of the remaining block of business at further risk?

The degree that anti-selection, if any, occurs depends on various factors including the mix of business, the attained age of the policyholders, the magnitude of the rate increase and the policyholder’s current benefit level. The anti-selection risk associated with RBOs, including any newly developed options offered by the company, should be addressed by the actuary in the rate filing and discussed with the regulator. Potential anti-selection may limit the number and type of RBOs offered to the policyholder by the company.

3. Related to clarity of communication with policyholders eligible for an RBO:

What are recommendations for ensuring policyholders have maximized opportunity to make decisions in their best interest?

Opportunities for policyholders to make decisions that are in their best interest are maximized through clear, meaningful, and transparent communications regarding available options. Principles supporting policyholder communications include the following elements:

**Basic Information Regarding the Rate Increase**

- Communications should encourage the policyholder to contact the company to discuss specific options that are available to them based on their personal situation.
- Communications to the consumer should clearly state:
The current premium and the amount of the increase
The effective date of increase
Additional information regarding future scheduled increases, if any.

Mitigation options
- Include information on at least one mitigation option; however, if a reduction in inflation is presented as an option, include information about the impact on the policyholder’s current daily benefit
- Include information on how to elect the option and when any election period would expire
- Provide direction/contact information as to where the individual may seek information on additional options, if available
- Include reference to the availability of counseling, including State Health Insurance Assistance Program counseling.
- Disclose that selecting the option may impact Partnership status and that the policyholder should understand the impact of any benefit changes to Partnership status.
- Explain what the loss of Partnership status means to the policyholder, including loss of Medicaid asset protection
- Provide a statement that each option should be evaluated by the policyholder in light of his or her individual situation

Reminder that premium rates can increase in the future
- Include a reminder that the policy is guaranteed renewable, explain what that means and indicate that premiums can increase in the future

Information on Contingent Benefit upon Lapse (CBL), if applicable
- Reference to CBL should only be included if applicable to the individual
- Describe CBL coverage and the period it is available
- Explain that triggering CBL will result in a paid-up policy
- Disclose that CBL results in significant reduction in policy benefits and should be considered carefully

Should regulators, in some cases, encourage a company to offer fewer options to reduce the complication in decisions policyholders will face?
In general, each company should be permitted to outline as many options as they feel are appropriate for their policyholders. Materials must clearly communicate the options being offered. Any concern regarding the number of options offered should be discussed by the regulator and the carrier during the filing process to understand the rationale underlying the carrier’s decision. Too many options can cause consumer confusion with respect to the decision-making process (e.g. multiple inflation options make it difficult to know which one will work best for the customer). To provide meaningful options and mitigate any associated policyholder confusion, notification letters should clearly communicate that other options may be explored by contacting the carrier directly.

4. Related to consideration of encouragement or requirement for a company to offer certain RBOs:
Evaluate legal constraints, impact on remaining policyholders and company finances, and impact on Medicaid budgets if regulators are driving reduced LTCI benefits.
- The type of options available to a consumer and how the options are presented will vary by company.
A policyholder facing a rate increase could elect to reduce the benefits under their LTC policy. State Medicaid budgets could be impacted to the extent that the policyholder becomes eligible for and starts receiving benefits under their policy and continues to need care after the benefits under their LTC policy are exhausted. In some situations, reduced LTC insurance benefit levels could be another factor that might influence any potential impact. The broader issue of potential impact, if any, of RBOs on state Medicaid budgets is a complex question that needs further analysis.

Depending on the facts and circumstances of an RBO, there may be legal and financial factors to be considered.

5. Related to exploration of innovation, particularly where an outcome of improved health and lower claim costs are possible:

Identify pros and cons of rate increases being tied into insurers offering, e.g., hand railings for fall prevention in high-risk homes.

ACLI/AHIP support innovative options and actions that encourage policyholders to live a long, independent, and healthy life. Many innovative concepts aimed at enhancing care options for policyholders and providing access to benefits will likely require legislation or regulatory guidance at the state and/or federal level to confirm and allow the payment of LTC incidental benefits from LTC policies. These options include those intended to support healthy, independent living and aging in place, prior to satisfying the current eligibility requirements of a severe cognitive impairment or substantial assistance with the requisite activities of daily living.

Innovative options should not cause the policy to forfeit its tax qualified status. It is important to remember that long-term success rates of these innovative options are unknown. Time will be needed to determine whether the results will have any material impact. For legacy blocks of LTC policies, these types of changes would require an amendment or endorsement of the policy. However, we anticipate that the most material impact will be on new business rather than legacy blocks.

WIDELY ESTABLISHED RBOs IN LIEU OF RATE INCREASES

a. Reduce inflation protection going forward, while preserving accumulated inflation protection
b. Reduce Daily Benefit
c. Decrease Benefit Period/Maximum Benefit Pool
d. Increase Elimination Period
e. Contingent Nonforfeiture
   i. Claim amount can be sum of past premiums paid
   ii. Only receive that benefit if the policyholder qualifies for a claim

ACLI/AHIP support providing these categories of RBOs to policyholders if required by statute or regulation at the time the policy was sold, or if a carrier chooses to offer such RBOs. However, as mentioned previously, the actual benefit options offered will vary by carrier and by block of business within a carrier.

LESS COMMON RBOs FOR POTENTIAL DISCUSSION

a. Cash buyout
b. Co-pay percentage on benefits
ACLI/AHIP support the exploration of innovative RBO options, including buy-out options or the addition of applying a co-pay percentage to policy benefits.

How issues associated with any innovative option are addressed and their impact on policyholders will vary by carrier and by block of business within a carrier. As a result, a decision to offer any particular option, along with the design of the option, should be made at the carrier level and include discussions with state regulators. Carriers should not be required to offer a particular innovative option or type of benefit design.

Specific to buy-out options, carriers should address the following issues when considering whether to offer this option to LTC policyholders:

- the potential impact on policyholders due to anti-selection and adverse morbidity;
- tax considerations, including appropriate tax disclosures and reporting obligations;
- legal considerations; and
- the design of the offer.

Industry supports and encourages an opportunity to discuss these issues with regulators and other interested parties.

CONCLUSION
Thank you for the opportunity to provide these comments. ACLI/AHIP welcomes the opportunity to discuss our comments with you in the future, and we would also welcome the opportunity to contribute to additional discussion regarding the comments raised in our letter.

Sincerely,

Jan M. Graeber
Senior Actuary, ACLI

Ray Nelson
AHIP Consulting Actuary
July 27, 2020

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.

Bonnie Burns, NAIC Consumer Representative
Consultant, California Health Advocates
831- 438-6677           bburns@cahealthadvocates.org
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

Bonnie Burns

Bonnie Burns, NAIC Consumer Representative  
Consultant, California Health Advocates  
831- 438-6677       bburns@cahealthadvocates.org
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.

Bonnie Burns, Consultant © 2019        California Health Advocates        bburns@cahealthadvocates.org
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.
Comments for the Center for Economic Justice

To the Reduced Benefit Option Subgroup of the NAIC LTC (EX) Task Force

August 11, 2020

The Center for Economic Justice (CEJ) offers the following comments to the Long Term Care Insurance (EX) Reduced Benefit Option Working Subgroup:

1. Fairness and equity for policyholders in terms of RBOs should be assessed in two major dimensions. The first dimension is actuarial equivalence in terms of the overall rate for the policy. There are no other relevant actuarial issues. The insurer should be financially indifferent to the policyholder’s decision to accept or reject any RBO. Such actuarial equivalence ensure equity between policyholders accepting or not accepting a RBO.

2. The second dimension of fairness and equity for policyholders should be consistency of options offered to holders of the same policy type. The choice of RBOs presented should not be at the discretion of the insurer. Fairness and equity require that the offer of RBOs is not unfairly discriminatory.

3. Clarity of communication should be reviewed in broad terms, not just the letter from the insurer offering RBOs. RBOs should be presented in a manner that demonstrates the operation of the RBO. The current method of presenting RBOs – a table summarizing premium charges and benefit changes – is inadequate.

4. To permit or promote innovation, “Reduced-Benefit Option” should be renamed to “Lower Premium Options” followed immediately in communications by “We offer options for you to pay a lower premium. Most (All) of these options require you to accept smaller benefits in exchange for the lower premium. {One/Some of the options is/are a lower premium in exchange for lifestyle changes or alternative treatments.)”

5. Consumer disclosures of RBO options should be consumer-tested and successful formats and methods of presentation should be required. Insurers should be prohibited from utilizing presentation methods that favor one option over another or make a particular option more difficult to understand or choose. Consumers should have access to reliable information from disinterested third parties.
6. Online tools should be available to help a policyholder understand the RBO options. These online tools could be provided on the NAIC website. The tools could help illustrate the operation of various RBOs.

7. Consumers who select a RBO option in the face of unaffordable rates should have the option of reinstating the original benefit levels in the event of a future rate decrease.

RBOs should reflect actuarial equivalence in terms of the overall rate for the policy.

In its comment letter ACLI goes on at length about the differences in LTCI products, in LTC insurer marketing strategies and in LTC policyholder motivations culminating in ACLI’s demand for LTC RBO flexibility and for policyholders to “contact the carrier to understand the range of options that are available to them.”

We completely disagree that LTCI policyholders should be counseled by their LTC insurers about RBOs. The insurers not only have potential conflicts of interest if the RBOs are not equivalent from the insurers’ perspective, but the LTC insurers have a pathetic track record of demonstrating they actually understand the products they are selling.

The RBOs should be based on actuarial equivalence of the overall rate for the policy and the RBO alternatives. The actuarial equivalence should not be limited to the expected claims. Stated differently, the expected after-tax return on invested capital should be identical for the new, higher rate and any of the RBOs. This actuarial equivalence accomplishes the following:

- Ensures that the expected benefits in relation to premium remains the same for the policyholder
- Ensures the same profitability for the insurer
- Promotes indifference for the insurer of the selection or rejection of any or all RBOs
- Provides a transparent standard for regulatory review through consistent ratemaking assumptions
- Ensures that consumers get the same benefit of the claims “margin” in the RBO as insurers have used in the rate development.
- Ensures fairness and equity between policyholders accepting or not accepting the RBO regardless of the RBO selected or not selected.

References to “anti-selection” or initial pricing strategies “across cells” are irrelevant and should not be a consideration. Regarding anti-selection, it is unclear how reduced benefit options will lead to anti-selection. As ACLI points out, the vast majority of policyholders keep current benefit levels even in the face of massive rate increases. Offering RBOs cannot lead to a situation of a policyholder leveraging some information unknown to the insurer in order to obtain additional coverage. Further, if the RBOs adhere to actuarial equivalence in the overall rate for the coverage offered, then insurers should be indifferent to the selection or non-selection of any RBO by a policyholder.
Similarly, the fact that insurers didn’t initially plan for the same profitability across “cells,” is irrelevant. The relevant issues are the current approved rate and the actuarial equivalence of the rates for the RBOs.

The ACLI comments, based on an alleged multitude of initial company decisions and consumers’ decision-making considerations coupled with a demand for “flexibility,” if adopted by the NAIC, will clearly render any regulatory guidance for RBOs toothless and subject to manipulation based on the various considerations set out in the ACLI comment letter. The subgroup should reject these false premises and unaccountable outcomes and establish simple and transparent guidelines for offer and presentation of RBOs.

The choice of RBOs presented should not be at the discretion of the insurer.

ACLI argues that insurers are somehow in the best position to offer advice to policyholders because of the many different policyholder goals and circumstances. As a result, ACLI argues, “each company should be permitted to outline as many options as they feel are appropriate for their policyholders.”

This line of reasoning and conclusion are unpersuasive and illogical. First, insurers are under no obligation to act in the policyholder’s best interest and, in fact, the ACLI framework would create a massive conflict of interest if the insurer were free to outline “as many options as they feel appropriate.” Second, this is a recipe for unfair discrimination based on arbitrary “differences” among consumers facing the same rate increase for the same product. Third, there is no basis for the claim that the LTC insurer will somehow divine the relevant information from the consumer necessary to make the “appropriate” option available.

As ACLI notes, there are a small number of commonly used RBOs offered by insurers. The development of RBO guidance should be designed for the benefit and protection of the vast majority of policyholders. The guidance should not, as recommended by ACLI, be designed for the exceptional case such that the consumer protections for the vast majority are undermined.

Presentation of RBOs

The common current method of presenting RBOs to consumers is a table with the current policy benefits in the first column and 2 or 3 RBOs present in columns to the right. The rows of the table are key policy and benefit features for each option and the premium for each option. An example is shown below.

At best, it is difficult for a policyholder to understand the operation of the various RBOs and illustration of how the options will work is needed, discussed further below. It is unrealistic for the average consumer to be able to analyze the trade-off between say, a $750 reduction in annual premium versus a $35 reduction in maximum daily benefit without some additional tools. In addition, a consistent set of options and access to online tools are needed for transparency and accountability.
Current and proposed RBO disclosures should be consumer-tested.

As a general approach, the subgroup should reference and utilize the NAIC *Best Practices in Consumer Information and Disclosure* for evaluating current RBO presentations and developing standards for RBOs and RBO presentations. Consumer testing is needed not just for the presentation of the RBOs, but for the RBOs themselves. If a particular type of RBO is incomprehensible to policyholders regardless of the amount of explanation or if the RBO is susceptible to miscomprehension or misunderstanding, such outcomes should be a relevant factor in determining whether a particular type of RBO is permitted.

Online tools should be available to help a policyholder understand the RBO options.

As noted above, at best, RBOs will be very difficult for policyholders to understand and assess. The assessment of value of the reduced premium versus the value of the reduced benefits is particularly difficult and should be aided by illustrations provided by a disinterested third party. Such tools to illustrate and explain RBOs could be offered on the NAIC web site. This would require some, but not complete, standardization of RBOs.

Another virtue of online tools is the ability to establish a decision-tree like structure that starts with high level questions to guide the consumer to the relevant information. For example, the online tool could ask if the LTC policy is tax-qualified or not or part of a state Partnership program and, depending on the answers, guide the policyholder to information relevant for their situation.

Consumers who select a RBO option in the face of unaffordable rates should have the option of reinstating the original benefit levels in the event of a future rate decrease.

Much of the NAIC action regarding LTCI has been one-sided – what to do in the event of inadequate rates and how to prevent inadequate rates. For example, the changes to the LTC model regulation regarding rates permit insurers to pad the rates with a “margin” above expected claims while permitting insurers to file for rate increases as needed. There is no provision to require filings for rate reduction if expected claims are less than expected or if the “margin” is not needed.

Similarly, the current discussion about RBOs is framed in terms of reduced-benefit options in the event of a rate increase. But, in the event of unexpected and significant declines in mortality – as a result of a pandemic, for example – or improvements in treatment that reduce the need for the most expensive types of LTCI benefit that result in indicated rate decreases, policyholders who have selected a RBO because of higher rates should also have the option of reinstating original benefit levels if rates decrease.
Allowing for Innovation

To permit or promote innovation, “Reduced-Benefit Option” should be renamed to “Lower Premium Options” followed immediately in communications by “We offer options for you to pay a lower premium. Most (All) of these options require you to accept smaller benefits in exchange for the lower premium. (One/Some of the options is/are a lower premium in exchange for lifestyle changes or alternative treatments.)”
INTRODUCTION

The Reduced Benefit Options (RBO) Workstream 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 regulators have developed a list of RBO principles in order to provide guidance for evaluating RBO offerings.

PRINCIPLES AND ISSUES, INCLUDING THOSE WITH PARTICULAR NEED FOR STAKEHOLDER INPUT, INCLUDE:

1. Related to fairness and equity for policyholders that elect an RBO:
   - Are all policyholders facing a rate increase being offered an RBO?
   - Do the RBOs provide reasonable value?

2. Related to fairness and equity for policyholders that choose to accept rate increases and continue LTCI coverage at their current benefit level:
   - To what extent could anti-selection take place, placing the financial stability of the remaining block of business at further risk?

3. Related to clarity of communication with policyholders eligible for an RBO:
   - What are recommendations for ensuring policyholders have maximized opportunity to make decisions in their best interest?
   - Should regulators, in some cases, encourage a company to offer fewer options in order to reduce the complication in decisions policyholders will face?

4. Related to consideration of encouragement or requirement for a company to offer certain RBOs:
   - Evaluate legal constraints, impact on remaining policyholders and company finances, and impact on Medicaid budgets if regulators are driving reduced LTCI benefits.
5. Related to exploration of innovation, particularly where an outcome of improved health and lower claim costs are possible:

- Identify pros and cons of rate increases being tied into insurers offering, e.g., hand railings for fall prevention in high-risk homes.

**WIDELY ESTABLISHED RBOs IN LIEU OF RATE INCREASES**

a. Reduce inflation protection going forward, while preserving accumulated inflation protection  
b. Reduce Daily Benefit  
c. Decrease Benefit Period/Maximum Benefit Pool  
d. Increase Elimination Period  
e. Contingent Nonforfeiture  
   i. Claim amount can be sum of past premiums paid  
   ii. Only receive that benefit if the policyholder qualifies for a claim

**LESS COMMON RBOs FOR POTENTIAL DISCUSSION**

a. Cash buyout  
b. Co-pay percentage on benefits
Commissioner Jessica Altman  
Chairman, NAIC LTC Reduced Benefit Options (EX) Subgroup  
Pennsylvania Insurance Department  

August 3, 2020  

Dear Commissioner Altman,  

The American Council of Life Insurers\(^1\) (ACLI) and the American Association of Health Insurance Plans\(^2\) (AHIP) support the work of the NAIC LTC (E) Task Force to achieve its charge of developing a consistent national approach for reviewing long-term care (LTC) rates and identifying options for consumers to modify benefits when faced with a premium increase on their LTC policy.

We appreciate the opportunity to comment on the draft document requesting stakeholder input on issues relating to Reduced Benefit Options (RBOs), exposed by the NAIC LTC (EX) Task Force on July 2, 2020. The information obtained in response to the exposure will help establish a framework to provide guidance in evaluating RBO offers. ACLI/AHIP support providing consumers with fair, equitable and meaningful choices to make modifications to the benefits provided under their LTC policy to help offset a rate increase.

**EXECUTIVE SUMMARY**

While data supports that an overwhelming majority of LTC policyholders maintain their coverage, even in the face of a substantial increase, industry is committed to working with state regulators to consider options and solutions that are fair and equitable for consumers. ACLI/AHIP support the establishment of consistent high-level principles to guide regulators in understanding the characteristics associated with a particular block of business and how these characteristics impact the choices provided to consumers.

To support this goal, any RBO offer should align with the following overarching principles:

- No policyholder or carrier should be required to modify a contract it has entered into.
- Any offer made should consider the potential impact on remaining policyholders.
- Any offer made should ensure there is no unfair discrimination among policyholders.

Providing fair and meaningful options to consumers starts with considering all aspects of LTC policies. Not all LTC policies are the same. Products vary by carrier and by block of business within a carrier. Key differences underlying the products offered to LTC consumers include:

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\(^1\) The American Council of Life Insurers advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. Ninety million American families depend on our members for life insurance, annuities, retirement plans, long-term care (LTC) insurance, disability income insurance, reinsurance, dental, vision, and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States.

\(^2\) AHIP is the national association whose members provide coverage for health care and related services to hundreds of millions of Americans every day. Through these offerings, we improve and protect the health and financial security of consumers, families, businesses, communities and the nation. We are committed to market-based solutions and public-private partnerships that improve affordability, value, access, and well-being for consumers.
Mix of business (e.g. average issue age and attained age of policyholders),
- Target markets (e.g. financial position of the policyholders, individual/group/association),
- Distribution of policies with respect to benefit levels and features (e.g. benefit period, daily benefit, inflation protection, elimination period),
- Age of the block,
- Benefit payment methodologies (e.g. reimbursement or indemnity),
- Types of service provided under the policy (nursing home, home health, assisted living facilities),
- Additional features offered (e.g. waiver of premium, restoration of benefits), and
- State laws such as those associated with Partnership programs.

These variations in LTC insurance products were designed to provide policyholders flexibility to choose the product that best fits their personal situation. At the time of purchase, policyholders make different decisions by balancing their financial situation, the type of care they desire and the risks they might face. At the time of a rate increase, policyholders must evaluate how their current goals align with, or have changed from, their goals at the time of purchase. A policyholder’s decision to accept an RBO might not be based on affordability but on changes in their personal situation.

As a result, there is not a one-size-fits-all RBO. While one RBO might work for some policyholders, it will not work for all. Carriers need flexibility to determine what options make the most sense for their blocks of business and their policyholders.

Comments on the specific principles and issues contained in the exposure are provided below. ACLI/AHIP encourages an opportunity to discuss these issues with regulators and other interested parties.

1. Relating to fairness and equity to policyholders electing a benefit reduction option.
   Are all policyholders facing a rate increase being offered an RBO?
   Most policyholders are provided options to reduce coverage to offset a rate increase. There are situations where an RBOs might not be offered to a policyholder. These situations include, but are not limited to, the following:
   - A policyholder currently at the lowest level(s) of benefit available under the policy would not be eligible for an RBO,
   - Some states have specific requirements with respect to benefit levels such as a minimum daily benefit or a maximum elimination period, and the policyholder might already be at this level, or
   - RBOs might not be offered to policyholders currently on claim.

   Not all options will apply to all policyholders and providing too many options could lead to policyholder confusion. The specific RBOs offered to policyholders will vary by carrier and potentially by block of business within a specific carrier. Carriers know their LTC products best and should strongly encourage policyholders to contact the carrier to discuss specific options that are available to them given the policyholder’s personal situation and their current benefit levels.

   Do the RBOs provide reasonable value?
   ACLI/AHIP support the ability for policyholders to partially or fully offset a rate increase through a reduction in benefits that reflects a reasonable relationship to a reduction in premium; however, the
reasonableness of premiums in relation to benefits can take many forms. As a result, a singular measure of reasonableness should not be mandated.

At the time of pricing, premiums must be reasonable in relation to benefits provided. However, equivalence of value for benefits relative to premium across all cells is not a requirement or a fundamental actuarial principle. Over time, and as experience emerges and assumptions are updated, there will be changes to the relative view of reasonableness of value for benefits relative to premium across cells. Maintenance of the original relative differential across cells might not be an objective for a carrier as it seeks rate increases and introduces new benefit reduction options.

Generally, RBOs available at the time of a rate increase are based on the benefit options previously priced for and approved. In this situation, the policyholder reducing their benefits pays the same premium that other policyholders pay for the same level of benefits, based on their issue age. Existing benefit options that have been approved are deemed to provide a reasonable value.

Companies can, however, decide to develop additional benefit options for consumers. For example, a company that initially priced for a lifetime and a five-year benefit period might subsequently decide to provide the policyholder the option of moving to a three-year benefit period to help offset a rate increase. In these situations, the pricing for the new benefit option must be reasonable in relation to the pricing for the existing benefits.

Fairness and equity can be best achieved by carriers encouraging policyholders to base decisions on the appropriateness of the option to their individual situation. Carriers should remind policyholders to consider consulting with family members or a trusted advisor during the decision-making process. In addition, policyholders are strongly encouraged to contact the carrier to understand the range of options that are available to them.

2. Ensuring fairness and equity for policyholders that choose to accept rate increases and continue LTCI coverage at their current benefit level:

To what extent could anti-selection take place, placing the financial stability of the remaining block of business at further risk?

The degree that anti-selection, if any, occurs depends on various factors including the mix of business, the attained age of the policyholders, the magnitude of the rate increase and the policyholder’s current benefit level. The anti-selection risk associated with RBOs, including any newly developed options offered by the company, should be addressed by the actuary in the rate filing and discussed with the regulator. Potential anti-selection may limit the number and type of RBOs offered to the policyholder by the company.

3. Related to clarity of communication with policyholders eligible for an RBO:

What are recommendations for ensuring policyholders have maximized opportunity to make decisions in their best interest?

Opportunities for policyholders to make decisions that are in their best interest are maximized through clear, meaningful, and transparent communications regarding available options. Principles supporting policyholder communications include the following elements:

Basic Information Regarding the Rate Increase

- Communications should encourage the policyholder to contact the company to discuss specific options that are available to them based on their personal situation.
- Communications to the consumer should clearly state:
- The current premium and the amount of the increase
- The effective date of increase
- Additional information regarding future scheduled increases, if any.

**Mitigation options**
- Include information on at least one mitigation option; however, if a reduction in inflation is presented as an option, include information about the impact on the policyholder’s current daily benefit
- Include information on how to elect the option and when any election period would expire
- Provide direction/contact information as to where the individual may seek information on additional options, if available
- Include reference to the availability of counseling, including State Health Insurance Assistance Program counseling.
- Disclose that selecting the option may impact Partnership status and that the policyholder should understand the impact of any benefit changes to Partnership status.
- Explain what the loss of Partnership status means to the policyholder, including loss of Medicaid asset protection
- Provide a statement that each option should be evaluated by the policyholder in light of his or her individual situation

**Reminder that premium rates can increase in the future**
- Include a reminder that the policy is guaranteed renewable, explain what that means and indicate that premiums can increase in the future

**Information on Contingent Benefit upon Lapse (CBL), if applicable**
- Reference to CBL should only be included if applicable to the individual
- Describe CBL coverage and the period it is available
- Explain that triggering CBL will result in a paid-up policy
- Disclose that CBL results in significant reduction in policy benefits and should be considered carefully

**Should regulators, in some cases, encourage a company to offer fewer options to reduce the complication in decisions policyholders will face?**
In general, each company should be permitted to outline as many options as they feel are appropriate for their policyholders. Materials must clearly communicate the options being offered. Any concern regarding the number of options offered should be discussed by the regulator and the carrier during the filing process to understand the rationale underlying the carrier’s decision. Too many options can cause consumer confusion with respect to the decision-making process (e.g. multiple inflation options make it difficult to know which one will work best for the customer). To provide meaningful options and mitigate any associated policyholder confusion, notification letters should clearly communicate that other options may be explored by contacting the carrier directly.

4. Related to consideration of encouragement or requirement for a company to offer certain RBOs:
**Evaluate legal constraints, impact on remaining policyholders and company finances, and impact on Medicaid budgets if regulators are driving reduced LTCI benefits.**
- The type of options available to a consumer and how the options are presented will vary by company.
A policyholder facing a rate increase could elect to reduce the benefits under their LTC policy. State Medicaid budgets could be impacted to the extent that the policyholder becomes eligible for and starts receiving benefits under their policy and continues to need care after the benefits under their LTC policy are exhausted. In some situations, reduced LTC insurance benefit levels could be another factor that might influence any potential impact. The broader issue of potential impact, if any, of RBOs on state Medicaid budgets is a complex question that needs further analysis.

Depending on the facts and circumstances of an RBO, there may be legal and financial factors to be considered.

5. Related to exploration of innovation, particularly where an outcome of improved health and lower claim costs are possible:

Identify pros and cons of rate increases being tied into insurers offering, e.g., hand railings for fall prevention in high-risk homes.

ACLI/AHIP support innovative options and actions that encourage policyholders to live a long, independent, and healthy life. Many innovative concepts aimed at enhancing care options for policyholders and providing access to benefits will likely require legislation or regulatory guidance at the state and/or federal level to confirm and allow the payment of LTC incidental benefits from LTC policies. These options include those intended to support healthy, independent living and aging in place, prior to satisfying the current eligibility requirements of a severe cognitive impairment or substantial assistance with the requisite activities of daily living.

Innovative options should not cause the policy to forfeit its tax qualified status. It is important to remember that long-term success rates of these innovative options are unknown. Time will be needed to determine whether the results will have any material impact. For legacy blocks of LTC policies, these types of changes would require an amendment or endorsement of the policy. However, we anticipate that the most material impact will be on new business rather than legacy blocks.

**WIDELY ESTABLISHED RBOs IN LIEU OF RATE INCREASES**

- Reduce inflation protection going forward, while preserving accumulated inflation protection
- Reduce Daily Benefit
- Decrease Benefit Period/Maximum Benefit Pool
- Increase Elimination Period
- Contingent Nonforfeiture
  - Claim amount can be sum of past premiums paid
  - Only receive that benefit if the policyholder qualifies for a claim

ACLI/AHIP support providing these categories of RBOs to policyholders if required by statute or regulation at the time the policy was sold, or if a carrier chooses to offer such RBOs. However, as mentioned previously, the actual benefit options offered will vary by carrier and by block of business within a carrier.

**LESS COMMON RBOs FOR POTENTIAL DISCUSSION**

- Cash buyout
- Co-pay percentage on benefits
ACLI/AHIP support the exploration of innovative RBO options, including buy-out options or the addition of applying a co-pay percentage to policy benefits.

How issues associated with any innovative option are addressed and their impact on policyholders will vary by carrier and by block of business within a carrier. As a result, a decision to offer any particular option, along with the design of the option, should be made at the carrier level and include discussions with state regulators. Carriers should not be required to offer a particular innovative option or type of benefit design.

Specific to buy-out options, carriers should address the following issues when considering whether to offer this option to LTC policyholders:

- the potential impact on policyholders due to anti-selection and adverse morbidity;
- tax considerations, including appropriate tax disclosures and reporting obligations;
- legal considerations; and
- the design of the offer.

Industry supports and encourages an opportunity to discuss these issues with regulators and other interested parties.

CONCLUSION

Thank you for the opportunity to provide these comments. ACLI/AHIP welcomes the opportunity to discuss our comments with you in the future, and we would also welcome the opportunity to contribute to additional discussion regarding the comments raised in our letter.

Sincerely,

Jan M. Graeber  Ray Nelson
Senior Actuary, ACLI  AHIP Consulting Actuary
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

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, and the communication Rate increase notification letters should be mailed at least 45-60 days prior to the policy anniversary date when rates will change, effective date.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

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.

Regulators should be able to understand what the insurers will communicate to the policyholders based on the filing content.

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

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- 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. But 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, such as:

- 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.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- The options should be limited to a reasonable number of options (market research suggests no more than 4-5 options). no more than four or five 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 referenced 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.
- Include the number of days the policy holder has to make a decision and take action.

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 to age 100

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.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- 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 intentions. 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
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- Inflation Option
- Maximum Lifetime Amount
- Value Indicator
- Premium Increase Percent
- Benefit Decrease Percent

- 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 to age 100.
  - 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.
# Checklist for Premium Increase Notices

| Company name: | 
| Product form: | 
| Tracking number | 
| SERFF rate filing: | 
| Tracking number(s) | 
| SERFF form filing: | 

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th><strong>SERFF FILING</strong></th>
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</thead>
<tbody>
<tr>
<td>☐</td>
<td>☐</td>
<td>1. Confirm filing contains all materials (Policy Holder Letter, supplemental FAQ, website screenshots, graphs, illustrations, etc.)</td>
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<td>2. Will the rate action be effective after filing is approved?</td>
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<td>3. Will the rate action be mailed at least 45 days prior to the policy holder anniversary date?</td>
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<td>4. Are there innovative options that have not been discussed prior to filing?</td>
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<td>5. Are there sample policy holder letters with a statement of variability?</td>
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<td>☐</td>
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<td>6. Are there company rules for customer service interactions regarding RBOs?</td>
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<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th><strong>READABILITY</strong></th>
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<tr>
<td>☐</td>
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<td>7. Is the notice clearly worded and easy to understand?</td>
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<td>8. Are all technical terms defined?</td>
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<td>9. Are all technical terms used consistently throughout the document?</td>
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<td>10. Is the notice in an easily readable font in at least 11-point type?</td>
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<td>11. Does the notice use headings to help the reader find information easily?</td>
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<td>12. Is white space (margins, lines spacing, and spacing between paragraphs) sufficient and consistent?</td>
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<td>13.</td>
<td>Are tables, charts, and other graphics, easy to read and understand?</td>
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<td>14.</td>
<td>Are the grade level and reading ease scores appropriate (10th grade or lower; Flesch reading ease score 40 or higher)?</td>
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<td>15.</td>
<td>Side-by-side illustrations of options compared with current benefits.</td>
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<td>16.</td>
<td>If FAQs are included, are they succinct and easy to understand.</td>
<td>☐</td>
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<td>17.</td>
<td>Does the company 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?</td>
<td>☐</td>
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<td>18.</td>
<td>Does the company provide access to translation services as needed for policyholders for whom English is not a first language?</td>
<td>Yes</td>
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<tr>
<td>19.</td>
<td>Does the letter answer what is happening?</td>
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<td>20.</td>
<td>Does the letter answer why the consumer is receiving a rate increase?</td>
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<td>21.</td>
<td>Does the letter reflect negatively on the Department of Insurance?</td>
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<td>22.</td>
<td>Does the letter indicate when the rate increase will be effective?</td>
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<td>23.</td>
<td>Does the letter clearly indicate they have options?</td>
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<td>24.</td>
<td>Does the letter indicate how to elect an option?</td>
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<td>25.</td>
<td>Does the letter clearly describe “class basis”? Are consumers being singled out for the increase? Suggested text: “Overall experience of all contracts in your class...”</td>
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<td>26.</td>
<td>Does the notice remind consumers to reflect on why they may have purchased the policy?</td>
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<td>27.</td>
<td>Does the letter express empathy?</td>
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<td>28.</td>
<td>A statement telling consumers how to contact the company for more information or help understanding their options.</td>
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<td>29.</td>
<td>Is the company’s consumer service number easy to find?</td>
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<td>30. Are the options represented fairly? Is one option emphasized, mentioned multiple times or bolded where the others are not?</td>
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<td>31. Are the words used that could influence a policy-holder’s decision, such as <em>must</em> or <em>avoid</em>?</td>
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<tr>
<td>Yes</td>
<td>No</td>
<td>CONSULTATION AND CONTACT INFORMATION</td>
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<td>32. Is the company’s consumer service number easy to find?</td>
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<td>33. Does the Company encourage consumers to consult with any of the following: Financial planner, producer, trusted family member, AA of Aging, Department of Insurance, or SHIP office?</td>
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<td>34. Is there a cash buy out option? If so, does the letter encourage consumers to consult with a tax advisor?</td>
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<td>Yes</td>
<td>No</td>
<td>UNDERSTANDING OPTIONS - PRESENTATION</td>
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<td>35. Does the document have a clearly worded, descriptive title or subject line? For example: <em>Your Long-Term Care Premiums Are Increasing.</em></td>
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<td>36. Are the options included with the rate increase notification letter?</td>
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<td>37. Are there four or fewer options presented?</td>
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<td>38. Is the Right to Reduce Coverage at Any Time clear?</td>
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<td>39. Is there enough information to make a decision? If other sources are referenced like videos, websites, etc. are they supplemental education materials or are they required sources to decide on an option?</td>
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<td>Yes</td>
<td>No</td>
<td>UNDERSTANDING OPTIONS – PAST RATE ACTIONS</td>
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<td>40. Does the notice include a statement that premiums may increase in the future?</td>
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<td>41. Does the letter include a 10-year nationwide rate increase history for this and similar forms?</td>
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<td>42. Does the letter disclose the policy is guaranteed renewal?</td>
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<td>Yes</td>
<td>No</td>
<td>UNDERSTANDING OPTIONS – WINDOW OF TIME TO ACT</td>
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<td>43. Does the letter indicate what the reader must do and the deadline to do it?</td>
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<td>44. For options that are only available during the decision window, is it clear to consumers?</td>
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<td>45. Does the letter answer what happens if no payment is sent?</td>
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<td>Yes</td>
<td>No</td>
<td><strong>UNDERSTANDING OPTIONS – CURRENT BENEFITS</strong></td>
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<td>Does the notice include <strong>all</strong> the following information?</td>
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<td>46. Current benefits (daily benefit, elimination period, current lifetime maximum benefit in dollars, inflation option, partnership status) in list form</td>
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<td>47. Current benefits (daily benefit, elimination period, current lifetime maximum benefit in dollars, inflation option, partnership status)</td>
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<td>48. If current benefits have an inflation option include lifetime maximum benefit in dollars illustrated both five and fifteen years into the future?</td>
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<td>Yes</td>
<td>No</td>
<td><strong>UNDERSTANDING OPTIONS – PERSONAL DECISION</strong></td>
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<td>49. Options should only be listed for what is available to the policy holder.</td>
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<td>50. Does the letter contain descriptions of the consumer’s options (including daily benefit, elimination period, current lifetime maximum benefit in dollars, inflation option, partnership status)?</td>
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<td>51. Does the letter prompt the policy holder to consider their personal situation, such as: current age, health conditions, financial position, availability of caregivers, spouse or partner impacts, and potential need for institutionalized care?</td>
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<td>52. Does the letter include the average age of claim?</td>
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<td>53. Does the letter include the factors that influence the age, duration, and cost of a claim?</td>
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<td>54. Does the letter include the average duration of claim for in-home, assisted living, and nursing home care?</td>
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<td>55. Does the letter include the average cost of care in their area?</td>
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<td>- In home</td>
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<td>- Assisted living</td>
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<td>- Nursing home</td>
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<td>56. Does the letter include the average inflation rate for the cost of care for in-home and nursing home in their area?</td>
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<td>Yes</td>
<td>No</td>
<td><strong>UNDERSTANDING OPTIONS – DISCLOSURES</strong></td>
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<td>57. Does the letter include a disclosure if a reduction option results in the minimum daily or monthly amount falling below the cost of care in their region?</td>
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<td>58. Does the letter include a disclosure for Paid Up options advising the duration of care the reduced amount could cover based on care in their area?</td>
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<td>59. Is there a cash buy out option? If so, does the letter include a disclosure for to the policy holder advising they should consult with their certified personal accountant or tax advisor before electing this option?</td>
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<tr>
<td>Yes</td>
<td>No</td>
<td>UNDERSTANDING OPTIONS – VALUE OF OPTIONS</td>
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<td>60. Do options clearly indicate value for consumers? Do CNF and other limited options clearly describe the reduction in value (benefit period)?</td>
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<td>61. Is there a unit price or value comparison?</td>
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<td>62. Most popular option.</td>
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<td>63. A statement telling consumers how to contact the company for more information, the full list of options, or help understand their options.</td>
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<td>64. Options should not include reducing daily benefit amount.</td>
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<tr>
<td>Yes</td>
<td>No</td>
<td>UNDERSTANDING OPTIONS – IMPACT OF DECISION</td>
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<td>65. Side-by-side illustrations of options compared with current benefits.</td>
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<td>66. Do the options reflect the impact of the inflation option in terms of growth or reduction if the option is to remove or reduce inflation?</td>
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<td>67. Are the pros and cons of each option indicated?</td>
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<td>68. For phased-in increases: Is there a table with all phase-in dates and premium amounts?</td>
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<td>69. For phased-in increases, are there letters sent 45-60 days before each phase of the increase?</td>
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<td>70. Are potential tax consequences of options clearly disclosed?</td>
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<td>71. Does the letter disclose risk of losing partnership status and what it means if lost?</td>
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</tbody>
</table>
Considerations:

- Standardized format and order of letter segments
- Should companies notify consumers of rate increases when filed (in addition to notification 45-60 days before effective date?)
- Inflation Reduction – does the removal of inflation growth in the future maintain current inflated benefits? (Model Regulation 641 requires that inflation reduction or removal should not impact or remove past inflation of benefits).
- Should copy go to lapse notifier?
- Check website links and phone numbers to ensure they are accurate and functional.
- Cost of Care data:
  - What source should they use?
  - What is an acceptable for “in your area”? State, zip code, etc.?
RE: Your Long-Term Care Premiums Are Increasing

[ABC Company] is committed to ensuring that your long-term care insurance benefits will be available when you need them. We have made the difficult but necessary decision to increase the premium on your long-term care insurance (LTC) policy. You have not been singled out for this increase. It applies to all policies like yours in the state where you purchased your coverage.

We value you as a policyowner and understand that a premium increase may be unsettling. Please know that we are committed to helping you understand your options so that you can make the best decision for you. Please read this letter carefully and in its entirety. It contains important information about your coverage, the benefit options available to you, and the deadline to inform us of your choice.

If you keep your current long-term care benefit, your annual premium will change as shown in the chart below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Annual Premium Amount</th>
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<tbody>
<tr>
<td>Current</td>
<td>$3,895</td>
</tr>
<tr>
<td>[Policy anniversary date]</td>
<td>$4,907</td>
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<tr>
<td>[2nd policy anniversary date]</td>
<td>$6,183</td>
</tr>
<tr>
<td>[3rd policy anniversary date]</td>
<td>$6,672</td>
</tr>
</tbody>
</table>

Why is this increase necessary?

We know this news may be disconcerting, [especially considering increases implemented in prior years]; however, accurate prices allow us to meet our commitments to our policyholders. We continue to see claims costs higher than expected [LS2]—people are living longer, filing more claims, and staying on claim longer than initially anticipated.

If these trends continue, additional premium increases may be necessary. Your policy is “Guaranteed Renewable.” “Guaranteed renewable” does not mean that premiums are guaranteed to remain the same.

*The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

Notes and/or Pre-Decisional Deliberative Materials
same indefinitely. “Guaranteed renewable” means that the policy will not be canceled (except if you
don’t pay or commit fraud.)

In accordance with the terms of your policy, we reserve the right to change premiums and it is
[possible<or>likely] that your premium will increase again in the future. [if future increases
planned] We plan to request [at least [150%] in] additional premium increases over the next [6-8]
years.

Understanding your LTC policy

You chose to purchase long term care coverage to give yourself more control over the type of care you may want
in the future. Your current benefits are as follows:

Your Current Long-Term Care Coverage

<table>
<thead>
<tr>
<th>Monthly Maximum Benefit</th>
<th>$5,400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Lifetime Maximum Benefit</td>
<td>$259,200</td>
</tr>
<tr>
<td>*Your Projected Lifetime Maximum Benefit in five years</td>
<td>$288,900</td>
</tr>
<tr>
<td>*Your Projected Lifetime Maximum Benefit in fifteen years</td>
<td>$329,400</td>
</tr>
<tr>
<td>Benefit Period</td>
<td>4 years</td>
</tr>
<tr>
<td>Inflation Protection</td>
<td>Simple 5%</td>
</tr>
<tr>
<td>Elimination Period</td>
<td>100 days facility</td>
</tr>
<tr>
<td></td>
<td>0 days home care</td>
</tr>
<tr>
<td>[Coinsurance]</td>
<td>[0%]</td>
</tr>
<tr>
<td>Annual Premium</td>
<td>$3,895</td>
</tr>
</tbody>
</table>

*Assumes the benefits to include the inflation protection is not reduced. The average age of a long-term care claims is 81 years
of age. The average cost of care in your region is XXX per [month/day] for skilled care or XXX per [month/day] for home care.
A claim last and average of 2-3 years and could cost XXX,XXX at the current cost of care in your region.

The elimination period is how long you must cover the cost of your own care before your insurance will
pay. The benefit period is how long your benefits will last after the elimination period passes. The
monthly maximum is the amount your most your policy will pay in any month, and the lifetime
maximum is the most your policy will pay in your lifetime. Inflation protection shows how your policy
value increases over time. The annual premium shows how much you pay each year currently before the
rate increase takes effect.

Understanding your Options

If you do not want to or cannot pay the increased premium, you have several options available to
help manage the impact of the rate increase. On the enclosed chart, you will find reduced benefit
options that can lower the amount of your premium increase. You may choose to pay the increased
premiums and keep the current terms of your contract. Or you may choose to modify the terms of

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will match options approved for sale in [your state]. Special offers of new options may only be available
during this sixty-day window.

Notes and/or Pre-Decisional Deliberative Materials
your policy and reduce the rate increase. You are not required to reduce coverage and change premiums at this time. The option to reduce benefits and modify the premium you pay is available to you at any time.*

Each policyholder is different. When reviewing options, consider these factors:

- your current age,
- your current health conditions,
- your near-term need for long-term care benefits,
- your financial condition,
- your current marital status,
- potential caregivers,
- and benefit settings (home care, adult day care, assisted living, nursing home)

The chart on the following page shows five options available to you. These are not the only options you can choose. Please consult with a trusted financial advisor, family member, or insurance professional to help you choose the option that is right for you. In our experience, [x%] of policyholders have paid the rate increase. It is the most popular option.

Following the chart are graphs and a value comparison of the options to help you understand the differences between the options.

**Elimination Periods**

[ABC Company] offers elimination period options of 30, 60, and 100 days on policies like yours. This is the period you are on claim, but you must cover 100% of your own claim costs before your insurance will pay. Consider the cost of covering your own long-term care expenses during that period before choosing the highest elimination period. Can you pay for 100 days of care before insurance pays claims?

**Cost of Care information**

The median monthly cost of care provided in your area:

In Home Care [xxx]
Assisted Living [xxx]
Nursing Home [xxx]
Genworth [year] cost of care study

A recent, publicly available industry study performed by PwC indicated that the average duration of a long-term care event is about three years and that approximately 75%-80% of long-term care events will cost less than $250,000. These figures are averages and approximations and your actual experience may be different. The U.S. Dept. of Health and Human Services also has information on cost of

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**Notes and/or Pre-Decisional Deliberative Materials**
care at: LongTermCare.gov.

The formal cost of long-term care services: How can society meet a growing need? The referenced study, initially made available in October 2016, is based on data for the period 2000-2015 and reports figures in 2016 dollars.

[Note: This information should be updated to as current as possible given that it is now 2020.]

**Limited Benefits with No Further Premium Required**

All limited benefit options below are a large reduction of your long-term care coverage.

<if OLB>**You may elect an Optional Limited Benefit.** As a result of this premium increase, we are offering an Optional Limited Benefit. This endorsement allows you to elect a limited paid-up long-term care insurance benefit, which is available up to 120 days after the next Billing Anniversary Date on which your rate increase is effective. This benefit provides a paid-up benefit with total coverage equal to the total premium paid, excluding waived premium, less any claims paid. A policy lapse at any time during the 120-day period following the due date of the increased premium will be deemed an election of this benefit.

**Please note:** This Endorsement will significantly reduce the policy benefits. Please review the Optional Limited Benefit Endorsement for more detailed information prior to making this election.

<OR>

<if NFO Rider on Policy >

**You may exercise the Non-Forfeiture Rider.** Your policy includes the Non-Forfeiture Rider which you may elect to exercise at any time. This Rider allows you to have a paid-up long-term care insurance benefit as described in the Rider.

**Please note:** This rider will significantly reduce the policy benefit. Please review the Non-Forfeiture Rider in your policy for more detailed information prior to making this election.

<OR>

<if CNF >

**You may elect a Contingent Non-Forfeiture Benefit.** This rate increase qualifies you to receive a Contingent Non-Forfeiture Benefit which is available up to 120 days after the next Billing Anniversary Date on which your rate increase is effective. This endorsement allows you to reduce your policy benefits, so the required premium payments are not increased and convert your coverage to a paid-up status with a shortened benefit period and reduced benefits plan. A policy lapse at any time during the 120-day period following the due date of the increased premium will be deemed an election of this benefit.

**Please note:** This Endorsement will significantly reduce the policy benefit. Please review the Contingent Non-Forfeiture Benefit Endorsement for more detailed information prior to making this election.

**Your Next Steps**

**The Benefit Election form must be returned to us by [policy anniversary date] if you wish to change your benefits to lower your premiums.**

*The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

*Notes and/or Pre-Decisional Deliberative Materials*
- Think about why you bought your policy
- Review the option comparison chart to see ways to change your current coverage
- Review the Value Indicator chart to understand the economic value of your options
- Consult with a trusted advisor
- Consider tax consequences of changing benefits [if cash buy out options apply]
- Consider Partnership consequences of changing benefits [if Partnership qualified policy]
- Return the election form to revise your benefits by mm/dd/yyyy
- Pay premium by [policy anniversary date]

If you pay nothing further, your policy will be automatically converted to a paid-up policy resulting in a large reduction of your long-term care coverage.

Contact Information

Your local Area Agency on Aging (AAA) or Senior Health Insurance Program (SHIP) office may be able to assist you. Consider talking with a financial advisor about your choices, and the tax [and partnership] implications of your choices. We can assist you in answering questions about the choices presented. We may be able to show you additional options. Our customer help center is [phone, web, hours of operation with time zone]. The [State Department of Insurance] [reviewed/approved] this rate increase. If you have questions about this letter, begin by contacting us. You may also contact [consumer services phone] and reference [SERFF tracking number] to confirm the [review/approval].

Other enclosures: Benefit Election Form, FAQ, Illustrations, 10-year rate increase history for similar forms across the USA.

*The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

Notes and/or Pre-Decisional Deliberative Materials
The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

*Most Popular Option: [x%] of policyholders have chosen to maintain benefits and pay the rate increase.

*The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

Notes and/or Pre-Decisional Deliberative Materials
Options to Reduce Inflation Protection

These illustrations show the impact of changing your inflation protection option.
Your long-term care benefits will grow more slowly in the future.

**Option 1A**

Reduce Inflation 5% to 3% simple

<table>
<thead>
<tr>
<th>Year</th>
<th>5% simple</th>
<th>3% simple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$200</td>
<td>$200</td>
</tr>
<tr>
<td>6</td>
<td>$250</td>
<td>$250</td>
</tr>
<tr>
<td>11</td>
<td>$300</td>
<td>$300</td>
</tr>
</tbody>
</table>

**Option 1B**

Reduce Inflation 5% to 1% simple

<table>
<thead>
<tr>
<th>Year</th>
<th>5% simple</th>
<th>1% simple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$200</td>
<td>$200</td>
</tr>
<tr>
<td>6</td>
<td>$250</td>
<td>$250</td>
</tr>
<tr>
<td>11</td>
<td>$300</td>
<td>$300</td>
</tr>
</tbody>
</table>

**Lifetime Maximum Benefits**

<table>
<thead>
<tr>
<th>Year</th>
<th>5% simple (current level)</th>
<th>lower inflation to 3% simple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$350,000</td>
<td>$350,000</td>
</tr>
<tr>
<td>2</td>
<td>$300,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>3</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>4</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>5</td>
<td>$150,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>6</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>7</td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>8</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>9</td>
<td>$0</td>
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<tr>
<td>10</td>
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<td>11</td>
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<td>12</td>
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<td>13</td>
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<tr>
<td>14</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>15</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>5% simple (current level)</th>
<th>lower inflation to 1% Simple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>$250,000</td>
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<td>$150,000</td>
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<td>15</td>
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</table>

*Based on $150 original daily benefit, 4 year benefit period, and 5% simple Benefit Increase Option

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Notes and/or Pre-Decisional Deliberative Materials
Look at the Value Indicator on this chart.

The Value Indicator in this chart is a number that shows each option’s economic value. It shows how many dollars, on average, you are expected to receive in benefits for each dollar of annual premium. The actual amount of benefits received will vary by individual. The Value Indicator in this chart does not reflect any possible future rate increases or your financial or personal circumstances.

The value indicator is calculated using the “present value of future benefits” by your annual premium. The “present value of future benefits” is the present-day amount of dollars the insurer is expected to pay in benefits on a policy in the future.

A higher Value Indicator generally means a greater economic value for you. Example: A Value Indicator of 16.45 shows a greater economic value than a Value Indicator of 9.1.

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Notes and/or Pre-Decisional Deliberative Materials
RE: Your Long-Term Care Premiums Are Increasing

[ABC Company] is committed to ensuring that your long-term care insurance benefits will be available when you need them. After careful consideration, we have made the difficult but necessary decision to increase the premium on your long-term care insurance (LTC) policy. You have not been singled out for this increase. It applies to all policies like yours in the state where you purchased your coverage.

We value you as a policyowner and understand that a premium increase may be unsettling. Please know that we are committed to helping you understand your options so that you can make the best decision for you. Please read this letter carefully and in its entirety. It contains important information about your coverage, the benefit options available to you, and the deadline to inform us of your choice.

If you keep your current long-term care benefit, your annual premium will change as shown in the chart below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Annual Premium Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$3,895</td>
</tr>
<tr>
<td>[Policy anniversary date]</td>
<td>$4,907</td>
</tr>
<tr>
<td>[2nd policy anniversary date]</td>
<td>$6,183</td>
</tr>
<tr>
<td>[3rd policy anniversary date]</td>
<td>$6,672</td>
</tr>
</tbody>
</table>

Why is this increase necessary?

We know this news may be disconcerting, especially considering increases implemented in prior years; however, it is necessary to ensure policies are appropriately priced to meet our commitments to our policyholders. We continue to see pricing trends emerging differently than expected—people are living longer, filing more claims, and staying on claim longer than initially anticipated.

If these trends continue in the same direction, additional premium increases may be necessary. Your policy is “Guaranteed Renewable.” “Guaranteed renewable” does not mean that premiums are guaranteed to remain.

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Notes and/or Pre-Decisional Deliberative Materials
the same indefinitely. “Guaranteed renewable” means that the policy will not be canceled (except if you do not pay or commit fraud.)

In accordance with the terms of your policy, we reserve the right to change premiums and it is possible that your premium will increase again in the future. We plan to request at least 150% in additional premium increases over the next 6-8 years.

Understanding your LTC policy

You chose to purchase long term care coverage to give yourself more control over the type of care you may want in the future. Your current benefits are as follows:

Your Current Long-Term Care Coverage

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<th>Amount</th>
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<tbody>
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<td>*Your Projected Lifetime Maximum Benefit to Age 85 Monthly Maximum Benefit in five years</td>
<td>XXX,XXX,XX</td>
</tr>
<tr>
<td>*Monthly Maximum Benefit in fifteen years Your Projected Lifetime Maximum Benefit to Age 100</td>
<td>$6,240XXX,XX</td>
</tr>
<tr>
<td>Lifetime Maximum Benefit</td>
<td>UNLIMITED</td>
</tr>
<tr>
<td>Benefit Period</td>
<td>4 years UNLIMITED</td>
</tr>
<tr>
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*Assumes the benefits to include the inflation protection is not reduced. The average age of a long-term care claims is 81 years of age. The average cost of care in your region is $XXX per [month/day] for skilled care or $XXX per [month/day] for home care. A claim lasts and average of 2-3 years and could cost $XXX,XXX at the current cost of care in your region.

The elimination period is how long you must cover the cost of your own care before your insurance will pay. The benefit period is how long your benefits will last after the elimination period passes. Your policy has an unlimited benefit period, which means you will have LTC coverage for life after the elimination period passes. The monthly maximum is the amount your most your policy will pay in any month, and the lifetime maximum is the most your policy will pay in your lifetime. Inflation protection shows how your policy value increases over time, if applicable. The annual premium shows how much you pay each year. before the rate increase takes effect.

Understanding your Options

If you do not want to or cannot pay the increased premium, you have several options available to help manage the impact of the rate increase. On the enclosed chart on the next page, you will find reduced

*The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

Notes and/or Pre-Decisional Deliberative Materials
benefit options that can lower the amount of your premium increase. You may choose to pay the increased premiums and keep the current terms of your contract. Or you may choose to modify the terms of your policy and reduce the rate increase. You are not required to reduce coverage and change premiums at this time. The option to reduce benefits and modify the premium you pay is available to you at any time.*

Each policyholder is different. When reviewing options, consider these factors:

- your current age,
- your current health conditions,
- your near-term need for long-term care benefits,
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- your current marital status,
- potential caregivers,
- and benefit settings (home care, adult day care, assisted living, nursing home)

The chart on the following page shows five options available to you. These are not the only options you can choose. Please consult with a trusted financial advisor, family member, or insurance professional to help you choose the option that is right for you. In our experience, [x%] of policyholders have paid the rate increase. It is the most popular option.

Following the chart are graphs and a value comparison of the options to help you understand the differences between the options.

Elimination Periods

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Your Unlimited Benefit Period

You purchased a policy with an unlimited benefit period. This means you may continue to receive your daily maximum benefit for claims throughout your lifetime once your elimination period has been satisfied. This benefit has tremendous value. If paying increased premiums will cause hardship, you may reduce this coverage to 10-year option, 5-year option or 3-year option for greatly reduced premiums. If policyholder has lifetime benefit period AND inflation protection add: You may also shorten your benefit period and reduce future inflation growth to lower premiums.

We want you to get the most value out of your policy. Contact customer service for more information.

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Notes and/or Pre-Decisional Deliberative Materials
Note – if there is a lifetime benefit period and inflation protection, both reduced benefit period and reduced inflation protection options should be illustrated, with no other options shown.\(^1\)

Cost of Care information

The median monthly cost of care provided in your area:
In Home Care [xxx]
Assisted Living [xxx]
Nursing Home [xxx]
Genworth [year] cost of care study

A recent, publicly available industry study performed by PwC indicated that the average duration of a long-term care event is about three years and that approximately 75%-80% of long-term care events will cost less than $250,000. These figures are averages and approximations and your actual experience may be different. The U.S. Dept. of Health and Human Services also has information on cost of care at: LongTermCare.gov.

\(^1\) The formal cost of long-term care services: How can society meet a growing need? The referenced study, initially made available in October 2016, is based on data for the last decade: 2000-2015 and reports figures in 2016 dollars.

[Note: This information should be updated to as current as possible given that it is now 2020.]

Limited Benefits with No Further Premium Required

All limited benefit options below are a large reduction of your long-term care coverage.

<if OLB> You may elect an Optional Limited Benefit. As a result of this premium increase, we are offering an Optional Limited Benefit. This endorsement allows you to elect a limited paid-up long-term care insurance benefit, which is available up to 120 days after the next Billing Anniversary Date on which your rate increase is effective. This benefit provides a paid-up benefit with total coverage equal to the total premium paid, excluding waived premium, less any claims paid. A policy lapse at any time during the 120-day period following the due date of the increased premium will be deemed an election of this benefit.
Please note: This Endorsement will significantly reduce the policy benefits. Please review the Optional Limited Benefit Endorsement for more detailed information prior to making this election.
<OR>
<if NFO Rider on Policy > You may exercise the Non-Forfeiture Rider. Your policy includes the Non-Forfeiture Rider which you may elect to exercise at any time. This Rider allows you to have a paid-up long-term care insurance benefit as described in the Rider.
Please note: This rider will significantly reduce the policy benefit. Please review the Non-Forfeiture Rider in your policy for more detailed information prior to making this election.
<OR>
<if CNF > *The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

Notes and/or Pre-Decisional Deliberative Materials
You may elect a Contingent Non-Forfeiture Benefit. This rate increase qualifies you to receive a Contingent Non-Forfeiture Benefit which is available up to 120 days after the next Billing Anniversary Date on which your rate increase is effective. This endorsement allows you to reduce your policy benefits, so the required premium payments are not increased and convert your coverage to a paid-up status with a shortened benefit period and reduced benefits plan. A policy lapse at any time during the 120-day period following the due date of the increased premium will be deemed an election of this benefit.

Please note: This Endorsement will significantly reduce the policy benefit. Please review the Contingent Non-Forfeiture Benefit Endorsement for more detailed information prior to making this election.

Your Next Steps

The Benefit Election form must be returned to us by [policy anniversary date] if you wish to change your benefits to lower your premiums.

- Think about why you bought your policy
- Review the option comparison chart to see ways to change your policy [current coverage]
- Review the Value Indicator chart to understand the economic value of your options
- Consult with a trusted advisor
- Consider tax consequences of changing benefits [if cash buy out options apply]
- Consider Partnership consequences of changing benefits [if Partnership qualified policy]
- Return the election form to revise your benefits by mm/dd/yyyy
- Pay premium by [policy anniversary date] your due date

If you pay nothing further, your policy will be automatically converted to a paid-up policy resulting in a large reduction of your. This is a great loss the value of your long-term care coverage.

Contact Information

Your local Area Agency on Aging (AAA) or Senior Health Insurance Program (SHIP) office may be able to assist you. Consider talking with a financial advisor about your choices, and the tax [and partnership] implications of your choices. We can assist you in answering questions about the choices presented. We may be able to show you additional options. Our customer help center is [phone, web, hours of operation with time zone]. The State Department of Insurance [reviewed/approved] this rate increase. If you have questions about this letter, begin by contacting us. You may also contact [consumer services phone] and reference [SERFF tracking number] to confirm the [review/approval].

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Notes and/or Pre-Decisional Deliberative Materials
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Notes and/or Pre-Decisional Deliberative Materials
| Option 1A | Unlimited changes to a 10-year benefit period | Reduce inflation from 5% to 3% simple | Current Lifetime Maximum Benefit: $259,200
Monthly Maximum Benefit: $5,400
Projected Lifetime Maximum Benefit to Age 85: $5,910
Projected Monthly Maximum Benefit in five years: $5,000
Projected Monthly Maximum Benefit in ten years: $4,500
Projected Monthly Maximum Benefit in fifteen years: $4,000
Benefit Period: Unlimited | $5,400 | $104 years | $5,000 | Unlimited |
|---|---|---|---|---|---|---|---|
| Option 21B | Unlimited benefit period changes to a 5-year benefit period | Reduce inflation from 5% to 1% simple | Current Lifetime Maximum Benefit: $240,000
Monthly Maximum Benefit: $5,400
Projected Lifetime Maximum Benefit to Age 85: $5,000
Projected Monthly Maximum Benefit in five years: $4,500
Projected Monthly Maximum Benefit in ten years: $4,000
Projected Monthly Maximum Benefit in fifteen years: $3,000
Benefit Period: 54 years | $5,400 | 54 years | $5,000 | Unlimited |
| Option 3 | Reduce benefit period by one year | Current Lifetime Maximum Benefit: $216,000
Monthly Maximum Benefit: $5,000
Projected Lifetime Maximum Benefit to Age 85: $4,500
Projected Monthly Maximum Benefit in five years: $4,000
Projected Monthly Maximum Benefit in ten years: $3,000
Projected Monthly Maximum Benefit in fifteen years: $2,000
Benefit Period: 103 years | $5,000 | 103 years | $4,000 | Unlimited |
| Option 4 | $5,400 | $5,000 | $4,000 | Unlimited |
| **Keep Current Coverage** | Rate increase of 130% over 3 years | **$5,672** |
| **Annual Premium** | **$6,672** |

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The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

*Most Popular Option: [x]% of policyholders have chosen to maintain benefits and pay the rate increase.*

Notes and/or Pre-Decisional Deliberative Materials
Options to Reduce Inflation Protection

These illustrations show the impact of changing your inflation protection option. Your benefits will grow more slowly in the future. Option 3 and Option 4 both Reduce Inflation Protection from 5% Simple to 3% Simple1A Option 1B

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Notes and/or Pre-Decisional Deliberative Materials
The right to reduce your LTC coverage is available at any time. However, the reduced options available will match options approved for sale in [your state]. Special offers of new options may only be available during this sixty-day window.

*Based on $150 original daily benefit, 4 year benefit period, and 5% simple Benefit Increase Option.

Look at the Value Indicator on this chart.

Notes and/or Pre-Decisional Deliberative Materials
The Value Indicator in this chart is a number that shows each option’s economic value. It shows how many dollars, on average, you are expected to receive in benefits for each dollar of annual premium. The actual amount of benefits received will vary by individual. The Value Indicator in this chart does not reflect any possible future rate increases or your financial or personal circumstances.

The value indicator is calculated using the “present value of future benefits” by your annual premium. The “present value of future benefits” is the present day present-day amount of dollars the insurer is expected to pay in benefits on a policy in the future.

**A higher Value Indicator generally means a greater economic value for you.** Example: A Value Indicator of 16.45 shows a greater economic value than a Value Indicator of 9.1.

---

**Current policy Information**

Maximun Daily Benefit: $179.60
Inflation Protection: Yes

<table>
<thead>
<tr>
<th>Name: Sample Policyholder 1A</th>
<th>Policy #: 123456</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For all options, the maximum daily benefit, inflation protection, and other policy features are the same as your current policy. These options only affect the policy’s annual premium and lifetime maximum. See the Selection Booklet and the Plan for explanations.

<table>
<thead>
<tr>
<th>Company</th>
<th>Current Coverage</th>
<th>Option 1 (Default)</th>
<th>Option 2A</th>
<th>Option 2B</th>
<th>Option 2C</th>
<th>Option 2D</th>
<th>Option 2E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Penn Treaty Network</td>
<td>+ 0.0%</td>
<td>-15.5%</td>
<td>$3,782</td>
<td>$320,000</td>
<td>18.93</td>
<td></td>
</tr>
<tr>
<td></td>
<td>American Network</td>
<td>+ 0.0%</td>
<td>-32.8%</td>
<td>$3,782</td>
<td>$252,000</td>
<td>15.04</td>
<td></td>
</tr>
<tr>
<td></td>
<td>American Network</td>
<td>+ 25.0%</td>
<td>-23.7%</td>
<td>$4,728</td>
<td>$287,000</td>
<td>13.68</td>
<td></td>
</tr>
<tr>
<td></td>
<td>American Network</td>
<td>+ 50.0%</td>
<td>-12.3%</td>
<td>$5,673</td>
<td>$321,000</td>
<td>12.77</td>
<td></td>
</tr>
<tr>
<td></td>
<td>American Network</td>
<td>+ 75.0%</td>
<td>-5.3%</td>
<td>$6,619</td>
<td>$356,000</td>
<td>12.12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>American Network</td>
<td>+ 89.5%</td>
<td>-0.0%</td>
<td>$7,166</td>
<td>$376,000</td>
<td>11.82</td>
<td></td>
</tr>
</tbody>
</table>

---

*There may be future premium increases in all options. We do not know how likely or large they could be.

The Value Indicator shows the value of expected benefits in relation to premium. It does not reflect any possible future premium increases or individual policyholder financial or personal circumstances.

In Option 1, your Maximum Lifetime Benefit includes $300,000 in Guaranty Association Coverage plus an estimated $20,000 in Additional Benefit Coverage.

---

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**Notes and/or Pre-Decisional Deliberative Materials**
RE: Your Long-Term Care Premiums Are Increasing

[ABC Company] is committed to ensuring that your long-term care insurance benefits will be available when you need them. After careful consideration, we have made the difficult but necessary decision to increase the premium on your long-term care insurance (LTC) policy. You have not been singled out for this increase. It applies to all policies like yours in the state where you purchased your coverage.

We value you as a policyowner and understand that a premium increase may be unsettling. Please know that we are committed to helping you understand your options so that you can make the best decision for you. Please read this letter carefully and in its entirety. It contains important information about your coverage, the benefit options available to you, and the deadline to inform us of your choice.

If you keep your current long-term care benefit, your annual premium will change as shown in the chart below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Annual Premium Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$3,8952,200</td>
</tr>
<tr>
<td>[Policy anniversary date]</td>
<td>$2,6404,907</td>
</tr>
<tr>
<td>[2nd policy anniversary date]</td>
<td>$3,2506,183</td>
</tr>
<tr>
<td>[3rd policy anniversary date]</td>
<td>$6,672</td>
</tr>
</tbody>
</table>

Why is this increase necessary?

We know this news may be disconcerting, especially considering increases implemented in prior years; however, it is necessary to ensure policies are appropriately priced to accurately reflect our commitments to our policyholders. We continue to see pricing trends emerging differently than expected. People are living longer, filing more claims, and staying on claim longer than initially anticipated.

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Notes and/or Pre-Decisional Deliberative Materials
If these trends continue in the same direction, additional premium increases may be necessary. Your policy is “Guaranteed Renewable.” “Guaranteed renewable” does not mean that premiums are guaranteed to remain the same indefinitely. “Guaranteed renewable” means that the policy will not be canceled (except if you don’t pay or commit fraud.)

In accordance with the terms of your policy, we reserve the right to change premiums and it is possible that your premium will increase again in the future. We plan to request at least 150% in additional premium increases over the next 6-8 years.

Understanding your LTC policy

You chose to purchase long term care coverage to give yourself more control over the type of care you may want in the future. Your current benefits are as follows:

<table>
<thead>
<tr>
<th>Your Current Long-Term Care Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Maximum Benefit</td>
</tr>
<tr>
<td><strong>Current Lifetime Maximum Benefit</strong></td>
</tr>
<tr>
<td>*Your Projected Lifetime Maximum Benefit to Age 85</td>
</tr>
<tr>
<td>*Your Projected Lifetime Maximum Benefit to Age 100</td>
</tr>
<tr>
<td>Benefit Period</td>
</tr>
<tr>
<td>Inflation Protection</td>
</tr>
<tr>
<td>Elimination Period</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>[Coinsurance]</td>
</tr>
<tr>
<td>Annual Premium</td>
</tr>
</tbody>
</table>

* Assumes the benefits to include the inflation protection is not reduced. The average age of a long-term care claims is 81 years of age. The average cost of care in your region is $XXX per [month/day] for skilled care or $XXX per [month/day] for home care. A claim lasts and average of 2-3 years and could cost $XXX,XXX at the current cost of care in your region.

The elimination period is how long you must cover the cost of your own care before your insurance will pay. The benefit period is how long your benefits will last after the elimination period passes. The monthly maximum is the amount your most your policy will pay in any month, and the lifetime maximum is the most your policy will pay in your lifetime. Inflation protection shows how your policy value increases over time, if applicable. The annual premium shows how much you pay each year before currently before the rate increase takes effect.

Understanding your options

If you do not want to or cannot pay the increased premium, you have several options available to help manage the impact of the rate increase. On the enclosed chart on the next page, you will find

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Notes and/or Pre-Decisional Deliberative Materials
reduced benefit options that can lower the amount of your premium increase. You may choose to pay the increased premiums and keep the current terms of your contract. Or you may choose to modify the terms of your policy and reduce the rate increase. You are not required to reduce coverage and change premiums at this time. The option to reduce benefits and modify the premium you pay is available to you at any time.*

Each policyholder is different. When reviewing options, consider these factors:

- your current age,
- your current health conditions,
- your near-term need for long-term care benefits,
- your financial condition,
- your current marital status,
- potential caregivers,
- and benefit settings (home care, adult day care, assisted living, nursing home)

The chart on the following page shows three options available to you. These are not the only options you can choose. Please consult with a trusted financial advisor, family member, or insurance professional to help you choose the option that is right for you. In our experience, [x%] of policyholders have paid the rate increase. It is the most popular option.

Following the chart is a graph and a value comparison of the options to help you understand the differences between the options.

Elimination Periods

[ABC Company] offers elimination period options of 30, 60, and 100 days on policies like yours. This is the period you are on claim, but you must cover 100% of your own claim costs before your insurance will pay. Consider the cost of covering your own long-term care expenses during that period before choosing the highest elimination period. Can you pay for 100 days of care before insurance pays claims?

Following the chart are graphs and a value comparison of the options to help you understand the differences between the options.

[INSERT ILLUSTRATIONS DOCUMENT HERE]

[INSERT IF CONSUMER HAS UNLIMITED BENEFIT PERIOD FEATURE]

You purchased a policy with an unlimited benefit period. This means you may continue to receive your daily maximum benefit for claims throughout your lifetime once your elimination period has been satisfied. This benefit has tremendous value. If paying increased premiums will cause hardship, you may reduce this coverage to x option x option or x option for greatly reduced premiums. Contact customer service for more information.

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Note—If there is a lifetime benefit period and inflation protection, both reduced benefit period and reduced inflation protection options should be illustrated, with no other options shown.

Cost of Care information

The median monthly cost of care provided in your area:
In Home Care [xxx]
Assisted Living [xxx]
Nursing Home [xxx]
Genworth [year] cost of care study

A recent, publicly available industry study performed by PwC indicated that the average duration of a long-term care event is about three years and that approximately 75%-80% of long-term care events will cost less than $250,000.1 These figures are averages and approximations and your actual experience may be different. The U.S. Dept. of Health and Human Services also has information on cost of care at: LongTermCare.gov.

1 The formal cost of long-term care services: How can society meet a growing need? The referenced study, initially made available in October 2016, is based on data for the time period 2000-2015 and reports figures in 2016 dollars.

[Note: This information should be updated to as current as possible given that it is now 2020.]

Limited Benefits with No Further Premium Required

All limited benefit options below are a large reduction of your long-term care coverage.

<if OLB> You may elect an Optional Limited Benefit. As a result of this premium increase, we are offering an Optional Limited Benefit. This endorsement allows you to elect a limited paid-up long-term care insurance benefit, which is available up to 120 days after the next Billing Anniversary Date on which your rate increase is effective. This benefit provides a paid-up benefit with total coverage equal to the total premium paid, excluding waived premium, less any claims paid. A policy lapse at any time during the 120-day period following the due date of the increased premium will be deemed an election of this benefit.
Please note: This Endorsement will significantly reduce the policy benefits. Please review the Optional Limited Benefit Endorsement for more detailed information prior to making this election.
<OR>
<if NFO Rider on Policy >
You may exercise the Non-Forfeiture Rider. Your policy includes the Non-Forfeiture Rider which you may elect to exercise at any time. This Rider allows you to have a paid-up long-term care insurance benefit as described in the Rider.

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Please note: This rider will significantly reduce the policy benefit. Please review the Non-Forfeiture Rider in your policy for more detailed information prior to making this election.

<OR>

<if CNF>

You may elect a Contingent Non-Forfeiture Benefit. This rate increase qualifies you to receive a Contingent Non-Forfeiture Benefit which is available up to 120 days after the next Billing Anniversary Date on which your rate increase is effective. This endorsement allows you to reduce your policy benefits, so the required premium payments are not increased and convert your coverage to a paid-up status with a shortened benefit period and reduced benefits plan. A policy lapse at any time during the 120-day period following the due date of the increased premium will be deemed an election of this benefit.

Please note: This Endorsement will significantly reduce the policy benefit. Please review the Contingent Non-Forfeiture Benefit Endorsement for more detailed information prior to making this election.

Your Next Steps

The Benefit Election form must be returned to us by [policy anniversary date] if you wish to change your benefits to lower your premiums.

- Think about why you bought your policy
- Review the option comparison chart to see ways to change your policy current coverage
- Review the Value Indicator chart to understand the economic value of your options
- Consult with a trusted advisor
- Consider tax consequences of changing benefits [if cash buy out options apply]
- Consider Partnership consequences of changing benefits [if Partnership qualified policy]
- Return the election form to revise your benefits by mm/dd/yyyy
- Pay premium by [policy anniversary date] your due date

If you pay nothing further, your policy will be automatically converted to a paid-up policy resulting in a large reduction of your This is a great loss the value of your long-term care coverage.

Contact Information

Your local Area Agency on Aging (AAA) or Senior Health Insurance Program (SHIP) office may be able to assist you. Consider talking with a financial advisor about your choices, and the tax [and partnership] implications of your choices. We can assist you in answering questions about the choices presented. We may be able to show you additional options. Our customer help

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Notes and/or Pre-Decisional Deliberative Materials
<table>
<thead>
<tr>
<th>Your Options</th>
<th>Description of change</th>
<th>Option 2</th>
<th>Option 3</th>
<th>Option 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Keep Current Coverage* (Option 1)</td>
<td>Reduce benefit period by one year</td>
<td>You pay 10% of claim after the elimination period</td>
<td>Reduce Monthly Benefit Maximum</td>
</tr>
<tr>
<td></td>
<td>Rate increase of 60130% over 23 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Premium</td>
<td>$3,5206.672*</td>
<td>$2,8004.300</td>
<td>$4,0000.000</td>
<td>$2300</td>
</tr>
<tr>
<td>Current Lifetime Maximum Benefit</td>
<td>$259,200</td>
<td>$158,400xxx</td>
<td>$xxx111,200</td>
<td>$192,000</td>
</tr>
<tr>
<td>Projected Impact to Lifetime Maximum Benefit to Age 85</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
<td></td>
</tr>
<tr>
<td>Projected Impact to Lifetime Maximum Benefit to Age 100</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
<td></td>
</tr>
<tr>
<td>Monthly Maximum Benefit</td>
<td>$5,400</td>
<td>$5,4004400</td>
<td>$44004400</td>
<td>$4,000</td>
</tr>
<tr>
<td>Benefit Period</td>
<td>4 years</td>
<td>3 years</td>
<td>4 years</td>
<td>4 years</td>
</tr>
<tr>
<td>Inflation Protection</td>
<td>Simple-5%None</td>
<td>Simple-5%None</td>
<td>Simple-5%None</td>
<td>None</td>
</tr>
<tr>
<td>Elimination Period</td>
<td>100 days facility 0 days home care</td>
<td>100 days facility 0 days home care</td>
<td>100 days facility 0 days home care</td>
<td>100 days facility 0 days home care</td>
</tr>
<tr>
<td>[Coinsurance]</td>
<td>[0%]</td>
<td>0%</td>
<td>[10%]</td>
<td>0%</td>
</tr>
</tbody>
</table>

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Notes and/or Pre-Decisional Deliberative Materials
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*Most Popular Option: [x%] of policyholders have chosen to maintain benefits and pay the rate increase.

| Non-Forfeiture | | | Nonforfeiture option |
|----------------|-----------------|-----------------|
| Option 4       | $71,000 paid up benefit | Nonforfeiture option |

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Notes and/or Pre-Decisional Deliberative Materials
**Options to Reduce Inflation Protection**

These illustrations show the impact of changing your inflation protection option. Your daily benefits will grow more slowly in the future.

**Option 1A**

Reduce Inflation 5% to 3% simple

<table>
<thead>
<tr>
<th>Year</th>
<th>5% simple</th>
<th>3% simple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$150</td>
<td>$100</td>
</tr>
<tr>
<td>6</td>
<td>$200</td>
<td>$150</td>
</tr>
<tr>
<td>11</td>
<td>$250</td>
<td>$200</td>
</tr>
</tbody>
</table>

**Option 1B**

Reduce Inflation 5% to 1% simple

<table>
<thead>
<tr>
<th>Year</th>
<th>5% simple</th>
<th>1% simple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$150</td>
<td>$100</td>
</tr>
<tr>
<td>6</td>
<td>$200</td>
<td>$150</td>
</tr>
<tr>
<td>11</td>
<td>$250</td>
<td>$200</td>
</tr>
</tbody>
</table>

*Based on $150 original daily benefit, 4 year benefit period, and 5% simple Benefit Increase Option.

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**Notes and/or Pre-Decisional Deliberative Materials**
Look at the Value Indicator on this chart.

The Value Indicator in this chart is a number that shows each option’s economic value. It shows how many dollars, on average, you are expected to receive in benefits for each dollar of annual premium. The actual amount of benefits received will vary by individual. The Value Indicator in this chart does not reflect any possible future rate increases or your financial or personal circumstances.

The value indicator is calculated using the “present value of future benefits” by your annual premium. The “present value of future benefits” is the present-day amount of dollars the insurer is expected to pay in benefits on a policy in the future.

A higher Value Indicator generally means a greater economic value for you. Example: A Value Indicator of 16.45 shows a greater economic value than a Value Indicator of 9.1.

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Notes and/or Pre-Decisional Deliberative Materials
I. Background

Throughout the rehabilitation and liquidation period (2009 – 2017), Penn Treaty conducted focus groups and telephonic interviews with policyholders to evaluate potential rehabilitation plan options including necessary benefit and rate changes. Communication materials associated with implementation of potential plans of rehabilitation were also reviewed with policyholders. The results of this research provided insight into policyholder preferences, communication methods and the level of benefit reductions/rate increases policyholders found acceptable.

Policyholders generally were unable to recall specific policy or rehabilitation plan details but rather indicated that they originally purchased their policy for security reasons. They intended their policies to serve as a safety-net to relieve financial burdens on family, protect personal assets and provide more/better options for care in the event of a prolonged illness. The policyholders understood that Penn Treaty had financial issues, but few understood how rehabilitation would impact their policy coverage. The primary company communications were read and absorbed by policyholders, including letters and newsletters. Secondary sources of information were the Company’s website, customer service representatives and insurance agents.

In the early years of rehabilitation, policyholders were unable to explain rehabilitation or its impact on their policy coverage. As communications increased and additional information was provided to the policyholder specific to their policy, their understanding of the rehabilitation and its impact on their coverage increased significantly. Policyholders were engaged, asked thoughtful questions and generally understood the decisions required of them. Policyholder calls fell into three general categories: comfort reassurance calls, specific questions related to materials and hypothetical questions regarding the court or rehabilitation process. Over time, the primary reason for calls evolved to asking specific questions demonstrating an understanding of the rehabilitation and liquidation impact on their policies.

The research projects engaged policyholders and their feedback regarding policy provisions, reduced benefit options, rate increases and communications enabled Penn Treaty to experience low customer complaint levels and to use the research findings in multiple court filings. Policyholders were appreciative and grateful that their opinions were heard by the company, the court, and the Insurance Commissioner through research initiatives.
II. Policyholder Research

Multiple policyholder focus groups were conducted among policyholders between the ages of 65 and 85 in groups based on policy benefits. Policyholders with unlimited benefits were grouped separately from policyholders with limited benefits to determine the reduced benefit options found acceptable by varying participants.

Telephonic survey interviews were conducted at several key decision points in the rehabilitation. Policyholders were asked about their awareness of Rehabilitation Plans, interest in continuing their policy and feedback on proposed benefit reductions and rate increases.

A market research simulation test was conducted to evaluate policyholder elections associated with the “Good Bank/ Bad Bank” rehabilitation concept. Each research project included standardized research into policyholder comprehension of rehabilitation, rehabilitation plan details and their overall interest in retaining the policy.

Each research project included randomly selecting policyholders. Penn Treaty partnered with an outside research firm to ensure statistically relevant outcomes and objectivity.

III. Policyholder Elections Experience

- When presented with multiple options for benefit reductions, the most acceptable benefit reductions were a change from non-tax qualified to tax-qualified benefit triggers, and extending the length of elimination periods.
- Respondents were unwilling to accept the removal of assisted living benefits. Those with only home health care coverage were indifferent to the removal of this benefit, highlighting again that policyholders react to their specific coverage situation.
- A reduction in the maximum daily benefit was ranked very low by policyholders, and only as a last option to keep their policy affordable.
- A freeze or reduction of the inflation rider was perceived as acceptable by those policyholders with this benefit in their policy.
- Telephonic survey participants ranked the benefit reductions in similar order as focus group participants. Although the acceptability was approximately 25%, the most acceptable benefit reduction was a maximum benefit reduction, followed by...
Pennsylvania Insurance Department
LTC Reduced Benefit Options (RBO) Letter Best Practices

- Non-tax qualified policy change to tax-qualified benefit triggers, increase of elimination period and inflation protection reduction.
- Rate increase tolerance varied but approximately half of participants would be willing to pay 25% and those identifying with a household income exceeding $75,000 were more willing to pay a higher rate increase.
- When presented with three options including a policy cap similar to the GA Coverage Limit, benefit reductions or rate increases, 51% preferred the GA Coverage Limit and 34% elected benefit reductions.
- The cash buy-out option was presented and approximately 20% would consider a one-time cash payment or a combination of cash and coverage.

IV. Factors Affecting Policyholder Elections

- Policyholders willingness to accept benefit reductions or rate increases varied greatly based on individual plan details. For example, there was a clear difference between the lifetime group’s perceptions and the other limited benefit groups. Those with high maximum benefit periods are satisfied with more flexible options while those with lower maximum benefit periods were hesitant to reduce benefits significantly.
- While evaluating benefit reduction options, the majority of respondents were opposed to the removal of coverage for assisted living and reduction of daily benefit amounts. This was especially true for those with limited policies as they had low benefit amounts already.
- Income was a factor in decision making as those on a fixed income would be unable to support a rate increase and would prefer a benefit reduction. Higher income policyholders often chose a rate increase over benefit reduction as they valued coverage and could self-insure for higher elimination periods.
- Many policyholders recommended that choices with less economic value and lower maximum lifetime benefits should be removed from the policyholder options. They were concerned this may create an environment for policyholders to make a bad decision, create confusion associated with the selection process and raise suspicions about the company’s intentions.
Pennsylvania Insurance Department  
LTC Reduced Benefit Options (RBO) Letter Best Practices

V. Best Practices Guidelines

- Policyholders valued their LTC policy as protection and security. It represented a promise to their spouse and children that they had coverage if they needed LTC. When designing communications, convey as much empathy for their situation as possible and design communications to ensure policyholders that they will not be dropped under the new plan and coverage will continue for them.

- The clarity of language in communications material was universally appreciated by policyholders. Respondents felt that sample communications were well written clearly stated, informative and not overly laden with potentially confusing “legalese.” Recommendations for communications include the engagement of a Plain English expert and/or a communications expert specializing in communicating to seniors to provide feedback on documents. In the event that more legal detail is required, include a plain-English translation or Q&A.

- Create different buckets of policies when devising a strategy for implementing benefit reductions/rate increases. Customize the reductions to each plan type to make the Rehabilitation Plan as palatable as possible for policyholders.

- Policyholders responded best to information on how the Rehabilitation Plan would affect their individual policy, vs. generic hypothetical information. Many policyholders found it difficult to make decisions without policy-specific information. Communications and research should include policy-specific information to individual policyholders.

- Policyholders related well to communications that were easy to understand and well-written. Definitions of important terms were viewed as a valuable addition and something that should be included in complex mailings. They expressed enhanced understanding when the explanations were merged into the body of the notice booklet. Policyholders preferred a cover letter that summarized the purpose of the mailing, enclosures and any required action. Details on additional information could be included in a Q&A.

- Focus on communicating essential information to make the requested decision. Drafting a lengthy complex legal document may confuse policyholders and they will be unable to analyze the key information and data to make the decision required for their policy.

- Use a value or numeric indicator to assist the policyholder with comparisons of premium and benefits that may not be easily compared by the policyholder.
Pennsylvania Insurance Department
LTC Reduced Benefit Options (RBO) Letter Best Practices

**Value Indicator**—a number that indicates the value of expected benefits in relation to the amount of premiums. It shows how many dollars you are expected to receive in benefits for each dollar you pay in annual premiums. A higher Value Indicator generally indicates a better economic value for you. The present-day amount of dollars that the insurer is expected to pay on a policy in the future is the projected value. The Value Indicators is calculated by diving this projected value by the annual premium.

**Example**—An option has a Value Indicator of 16.45. This means that, on average, a policyholder is expected to receive $16.45 in benefits for every dollar he or she pays in annual premium. This option has a greater economic value than one with a Value Indicator of 6.80.

- Election Response Format- policyholders preferred a chart with necessary information, such as premium, options, coverage, etc. to make their selection.
- Be succinct. Ask questions and provide answers for commonly asked questions.
- Indicate clearly when the response is required and what will happen if no response is received by the due date.
- Call Center training and scripting is essential and should be a significant part of the project plan. Representatives need to be able to answer questions in plain English and direct policyholders to the answer in the booklet or letters easily. Policyholders state they consider calling the company approximately 15% of the time and about 30% of policyholders actually make a call to the Call Center.
- Policyholders say they need some time to read the packet and properly understand all of the material. Many seek advice from a trusted source such as friend/family member, financial advisor, lawyer, etc. Most policyholders feel thirty days would be a reasonable timeframe. It is recommended that enough time for individual investigation and advice be built into the timeline and thirty days was deemed acceptable to make a decision and reply to the company.
- Limit the number of choices on the selection form to avoid choices that are not advantageous for policyholders and limit the number of items for the policyholder to review.
- Envelopes with a message about insurance or other company indicator was important, especially if the mailing comes in a large envelope. They placed high value on company identification and response required. Participants preferred
Pennsylvania Insurance Department
LTC Reduced Benefit Options (RBO) Letter Best Practices

the use of “Now” rather than “Must” to convey urgency.

VI. Resources and Sample Letters

- Policyholder Communications Review Process- A robust process was established at Penn Treaty for developing policyholder communications, including comprehensive internal procedures as well as the use of external resources. All communications to senior-aged policyholders are produced using a standard development and review process, with a goal of producing communications that are clear, consistent, and effective.

- Two sample packets with election forms for a reduced benefit option developed by Penn Treaty for research purposes.
Pennsylvania Insurance Department
LTC Reduced Benefit Options (RBO) Letter Best Practices

Penn Treaty Policyholder
Communications Review Process
Penn Treaty has developed a robust process for developing policyholder communications, including comprehensive internal procedures as well as the use of external resources. All communications to our senior-aged policyholders are produced using a standard development and review process, with a goal of producing communications that are clear, consistent, and effective.

1. **Internal Communication Review Process:**
   a. **Project Management Approach** - Penn Treaty employs a project management approach to ensure that communications are produced in a timely and efficient manner.
   b. **Internal Review** - Communications are reviewed, approved and logged by an internal Communications Committee with representatives from the company's operations, legal and management areas to ensure ease of comprehension, consistency, clarity and accuracy. Established written communication guidelines (including standardized definitions and formatting) are used to develop and review communications.
   c. **Call Center Training** – Call Center phone representatives receive weekly training to stay up-to-date on all policyholder communications. Communications materials are extensively reviewed with Call Center phone representatives so they are well prepared to respond to policyholder calls.
   d. **Call Monitoring** - Calls and feedback from policyholders are closely monitored by Penn Treaty management to assess the effectiveness of communications. The monitoring process requires that all calls are recorded and categorized.
   e. **Quarterly Customer Satisfaction Surveys (2009 - present)** - Each quarter, 1,200 policyholders are randomly selected to receive customer satisfaction surveys. More than 92% of survey respondents have said they are satisfied that written communications from Penn Treaty are clear and understandable.

Additional levels of review have been developed and implemented to specifically address rehabilitation and liquidation communications due to (i) the complex nature of the information; (ii) the importance of policyholders having a good understanding how their coverage will be affected; and (iii) the goal to minimize policyholder anxiety.

2. **Enhanced Process for Communications Related to Rehabilitation/Liquidation:**
   a. **Engage Consultants to Help Develop Materials** – Penn Treaty has engaged communications professionals to help develop and review materials related to rehabilitation. These experts include a Plain English Writing Expert (a court-certified writing expert specializing in preparing legal documents in accordance with Plain English standards), and an LTCI/Senior Audience Expert. Partnering with these consultants helps to ensure that:
      - Communications are direct and specific about what action may be required by policyholders and enable policyholders to make informed decisions.
Penn Treaty
Policyholder Communications Review Process

b. **Policyholder Focus Groups** – Throughout the rehabilitation process, Penn Treaty has engaged a market research firm to conduct in-person, policyholder focus groups to test draft communications with actual Penn Treaty policyholders. Focus group participants read drafts of communications and are then asked multiple questions, including whether they understood the material, what questions they had after reading it, and what decisions they would make as a result of reading the information. Comments and suggestions from focus group participants are taken into account when revising materials to improve comprehension and are incorporated into Penn Treaty’s communications guidelines.

c. **Review Process for Rehabilitation/Liquidation Communications** – Many committees have been established to implement the various rehabilitation and liquidation projects. The following committees review all rehabilitation and liquidation communications.

   - Rehabilitation Implementation Committee (RIC) - Rehabilitation and liquidation communications are subject to review by RIC. Committee members include representatives from the Pennsylvania Insurance Department, Penn Treaty management and outside counsel.
   - Penn Treaty/NOLHGA Communications Coordination Committee – This committee was formed in 2016 with the purpose of reviewing and coordinating all liquidation-related communications and to ensure coordinated and consistent messaging. This group of 11 members includes three NOLHGA representatives (including outside counsel), four state GA representatives and four Penn Treaty representatives.

d. **Policyholder Simulation Research** – In January 2016, Penn Treaty engaged a market research firm to conduct a research study to simulate the selection process that policyholders would have faced if the Second Amended Rehabilitation Plan had been implemented. This research was requested by the Court to estimate the statistically valid size of Company A. Six thousand policyholders were randomly selected to participate in the simulation exercise which included the use of a selection booklet and selection form that explained the options available to policyholders and guided them through the decision-making process. Research was conducted after policyholders participated in the simulated selection process. This post-simulation research indicated policyholders clearly understood the communications material and made fully informed decisions.
Two Sample Rehabilitation Plan
Selection Booklets with Reduced Benefit Options
January 4, 2016

«NAME»
«ADDRESS1»
«ADDRESS2»
«CITY» «ST» «ZIP»

RE: Rehabilitation Study

Dear «Name»,

As described in a letter mailed to you on December 17, we are asking for your help with a research study. The enclosed documents are samples of what could be mailed to policyholders if the proposed Rehabilitation Plan for Penn Treaty is approved.

The goal of this research study is to learn more about the choices policyholders would make when presented with the options in the proposed Rehabilitation Plan for Penn Treaty. The Pennsylvania Insurance Commissioner and Commonwealth Court will use the results of this study to evaluate the proposed Rehabilitation Plan.

Please Take the Following Actions

1. Read the enclosed sample Selection Booklet and Selection Form very carefully.
2. Decide what choice you would make if you were offered these options.
3. Complete the Selection Form by marking one box next to the option you choose.
   Because this is a research study, you do not need to sign the form. Please enter the date and write your telephone number in the space indicated on the form.

[continued on back]
4. Return the completed Selection Form in the enclosed postage-paid return envelope, postmarked no later than January 29, 2016.

*We would like to stress that the documents in this packet are only samples, which we may or may not eventually use. By responding, you will not be making any actual changes to your current policy.*

We value your opinion and appreciate your participation in this study. Thank you in advance for your help.

If you have any questions, please call us at 1-800-362-0700.

Sincerely,

Robert Loren Robinson  
Chief Rehabilitation Officer
RESEARCH STUDY SAMPLE
These documents are part of a research study. By participating in this study, you are not making any changes to your policy.

Penn Treaty Rehabilitation Plan
Selection Booklet

Table of Contents
Understanding Your Options........................................Page 2
Which Company Should You Choose?.......................Page 3
Which Option Is Best for You?.................................Page 4
How Do You Indicate Your Choice?......................Page 5

QUESTIONS? CALL 1-800-362-0700 OR VISIT WWW.PENNTREATY.COM
Understanding Your Options

Under the Penn Treaty Rehabilitation Plan (the “Plan”), you have a choice about your long-term care insurance. Your options are on the enclosed Selection Form and explained in this booklet.

To help you decide, the Selection Form includes a simple chart showing your options. Please look at this chart while you read this booklet.

How are your options different?

- **The lifetime maximum.** There is a dollar limit on the total amount of benefits you can receive during your lifetime—the “Maximum Lifetime Benefit.” Each of your options could have a different lifetime maximum.

  **Example:** If you have a Maximum Lifetime Benefit of $375,000, once you have received that amount from your policy, your policy will be exhausted and you will receive no more benefits.

- **The annual premium.** This is the yearly amount you are charged for your insurance. Some options charge the same premium you pay now; others have a higher premium. According to the terms of your policy, there may also be future premium increases for all options. We do not know how likely or large those increases could be.

How are your options the same?

- **No change to daily benefit.** For all options, your daily benefit will remain the same as your current policy. This is the maximum amount of benefit you can receive per day (“Maximum Daily Benefit”).

  **Example:** If you have a Maximum Daily Benefit of $170 and receive care costing $200 per day, you will receive $170 in benefits and pay the remaining $30 yourself.
No change to inflation protection. “Inflation protection” is a policy feature that increases benefit amounts at regular intervals to keep up with rising care costs. If you have inflation protection, your benefits will continue to increase according to your policy.

No change to other policy features. For all options, your other policy features will remain the same as your current coverage, aside from the lifetime maximum and annual premium changes explained above.

Which Company Should You Choose?

Under the Plan, your policy is assigned to Penn Treaty Network America Insurance Company (Penn Treaty Network).

- You can stay with Penn Treaty Network.

  OR

- You can transfer to American Network Insurance Company (American Network).

How do the two companies differ?

- If you remain in Penn Treaty Network: Your policy will transfer to the guaranty association in your state, which will provide insurance protection (see guaranty association coverage below).

- If you transfer to American Network: Your annual premium and/or lifetime maximum benefits will change. The Plan calls for the company or its policies to be sold to another company in the future. The potential buyer is unknown at this time.

What is guaranty association coverage?

A guaranty association (GA) is an organization in each of the 50 states (and the District of Columbia) that provides protection to policyholders when an insurance company fails or does not have enough money to pay claims. This is similar to protection for consumers’ deposits when a bank fails. State laws require mandatory funding for GA coverage from the insurance industry.
If you choose to remain with Penn Treaty Network, your policy will transfer to the GA of the state where you live. You will pay your premium to and receive benefits from the GA. You can continue your GA coverage as long as you pay your premium.

In most states, GA coverage has a limit on the total lifetime amount of benefits you can receive. When you reach that limit, your GA coverage will end. GA coverage limits are established by state law and can vary from state to state. The amount of GA coverage is on your Selection Form.

**What happens if you reach the GA coverage limit?**

If you choose to remain with Penn Treaty Network, you will also be eligible for a limited amount of additional benefits beyond the GA coverage limit. This is called “Additional Benefit Coverage.” Once you reach the GA coverage limit, the Additional Benefit Coverage pays for benefits above the GA limit until this coverage is also fully used. The estimated amount of Additional Benefit Coverage is on your Selection Form.

**Which Option Is Best for You?**

**Look at the Value Indicator on the Selection Form chart.**

The Value Indicator on your Selection Form is a number that shows each option’s economic value. It shows how many dollars, on average, you are expected to receive in benefits for each dollar of annual premium. The actual amount of benefits received will vary by individual. The Value Indicator on the Selection Form does not reflect any possible future premium increases or your financial or personal circumstances.

The Value Indicator is calculated by dividing the “present value of future benefits” by your annual premium. The “present value of future benefits” is the present-day amount of dollars that the insurer is expected to pay in benefits on a policy in the future.

A higher Value Indicator generally means a greater economic value for you.

**Example:** A Value Indicator of 16.45 shows a greater economic value than a Value Indicator of 6.80.
Why are you being offered some options with a lower Value Indicator?

The Plan requires that every policyholder have a choice.

- **Choice of company.** The coverage provided for Penn Treaty Network policies has the highest economic value (as measured by the Value Indicator). But if you wish, you can choose American Network.

- **A larger lifetime maximum.** Some of your options offer a larger lifetime maximum for a higher premium. Even though this results in a lower economic value, some people may be willing to pay a higher premium in order to receive benefits for a longer time.

How Do You Indicate Your Choice?

After you have read this Selection Booklet, please:

- Choose ONE option on the enclosed Selection Form by checking the box next to it.
- Enter the date and your telephone number on the Selection Form
- Return the completed Selection Form in the enclosed postage-paid return envelope, postmarked no later than **January 29, 2016.**

**PLEASE NOTE:** To be included as part of this research study, your response must be postmarked by January 29, 2016. As a reminder, by participating in this study you are not making any changes to your policy.

THANK YOU FOR COMPLETING YOUR SELECTION FORM!
**Current policy information**
- Maximum Daily Benefit: $179.60
- Inflation Protection: Yes

**Name:** Sample Policyholder 1A  
**Policy #:** 123456

For all options, the maximum daily benefit, inflation protection, and other policy features are the same as your current policy. These options only affect the policy's annual premium and lifetime maximum. **See the Selection Booklet and the Plan for explanations.**

<table>
<thead>
<tr>
<th>Company</th>
<th>Premium Increase(^1)</th>
<th>Benefit Decrease</th>
<th>Annual Premium</th>
<th>Maximum Lifetime Benefit</th>
<th>Value Indicator(^2)</th>
<th>Check ONE Box</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT COVERAGE</strong></td>
<td>Penn Treaty Network</td>
<td>----</td>
<td>$3,782</td>
<td>$376,000</td>
<td>22.40</td>
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</tr>
<tr>
<td><strong>OPTION 1 (DEFAULT)</strong></td>
<td>Penn Treaty Network</td>
<td>+ 0.0%</td>
<td>- 15.5%</td>
<td>$3,782</td>
<td>$320,000(^3)</td>
<td>18.93</td>
</tr>
<tr>
<td><strong>OPTION 2A</strong></td>
<td>American Network</td>
<td>+ 0.0%</td>
<td>- 32.8%</td>
<td>$3,782</td>
<td>$252,000</td>
<td>15.04</td>
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<tr>
<td><strong>OPTION 2B</strong></td>
<td>American Network</td>
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<td>- 23.7%</td>
<td>$4,728</td>
<td>$287,000</td>
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<td><strong>OPTION 2C</strong></td>
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<td>$321,000</td>
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<tr>
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<td>$356,000</td>
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<tr>
<td><strong>OPTION 2E</strong></td>
<td>American Network</td>
<td>+ 89.5%</td>
<td>- 0.0%</td>
<td>$7,166</td>
<td>$376,000</td>
<td>11.82</td>
</tr>
</tbody>
</table>

\(^1\)There may be future premium increases in all options. We do not know how likely or large they could be.  
\(^2\)The Value Indicator shows the value of expected benefits in relation to premium. It does not reflect any possible future premium increases or individual policyholder financial or personal circumstances.  
\(^3\)In Option 1, your Maximum Lifetime Benefit includes $300,000 in Guaranty Association Coverage plus an estimated $20,000 in Additional Benefit Coverage.

I choose the option checked above for purposes of this research study. By participating in this study, I understand I am not making any changes to my policy.

**No signature required. Research study sample.**

<table>
<thead>
<tr>
<th>Signature</th>
<th>Date</th>
<th>Telephone Number</th>
</tr>
</thead>
</table>

Return this form in the enclosed envelope, postmarked by **January 29, 2016.**
RESERCH STUDY SAMPLE
These documents are part of a research study. By participating in this study, you are not making any changes to your policy.

Penn Treaty Rehabilitation Plan
Selection Booklet

Table of Contents

Understanding Your Options.........................Page 2
Which Company Should You Choose?...............Page 3
Which Option Is Best for You?........................Page 4
How Do You Indicate Your Choice?.................Page 5

QUESTIONS? CALL 1-800-362-0700 OR VISIT WWW.PENNTREATY.COM
Understanding Your Options

Under the Penn Treaty Rehabilitation Plan (the “Plan”), you have a choice about your long-term care insurance. Your options are on the enclosed Selection Form and explained in this booklet.

To help you decide, the Selection Form includes a simple chart showing your options. Please look at this chart while you read this booklet.

How are your options different?

- **The lifetime maximum.** There is a dollar limit on the total amount of benefits you can receive during your lifetime—the “Maximum Lifetime Benefit.” Each of your options could have a different lifetime maximum.

  **Example:** If you have a Maximum Lifetime Benefit of $75,000, once you have received that amount from your policy, your policy will be exhausted and you will receive no more benefits.

How are your options the same?

- **No change to daily benefit.** For all options, your daily benefit will remain the same as your current policy. This is the maximum amount of benefit you can receive per day (“Maximum Daily Benefit”).

  **Example:** If you have a Maximum Daily Benefit of $100 and receive care costing $130 per day, you will receive $100 in benefits and pay the remaining $30 yourself.

- **No change to annual premium.** You currently pay no premium because you have already paid for your benefits. For all options, you will continue to pay no premium.

- **No change to inflation protection.** “Inflation protection” is a policy feature that increases benefit amounts at regular intervals to keep up with rising care costs. If you have inflation protection, your benefits will continue to increase according to your policy.
• **No change to other policy features.** For all options, your other policy features will remain the same as your current coverage, aside from the lifetime maximum changes explained above.

**Which Company Should You Choose?**

Under the Plan, your policy is assigned to Penn Treaty Network America Insurance Company (Penn Treaty Network).

- You can stay with Penn Treaty Network.

  OR

- You can transfer to American Network Insurance Company (American Network).

**How do the two companies differ?**

- **If you remain in Penn Treaty Network:** Your benefits will remain the same as your current coverage. Your policy will transfer to the guaranty association in your state, which will provide insurance protection *(see guaranty association coverage below)*.

- **If you transfer to American Network:** Your lifetime maximum benefits will change. The Plan calls for the company or its policies to be sold to another company in the future. The potential buyer is unknown at this time.

**What is guaranty association coverage?**

A guaranty association (GA) is an organization in each of the 50 states (and the District of Columbia) that provides protection to policyholders when an insurance company fails or does not have enough money to pay claims. This is similar to protection for consumers’ deposits when a bank fails. State laws require mandatory funding for GA coverage from the insurance industry.

If you choose to remain with Penn Treaty Network, your policy will transfer to the GA of the state where you live. You will receive benefits from the GA.

In most states, GA coverage has a limit on the total lifetime amount of benefits you can receive. When you reach that limit, your GA coverage will end. GA coverage limits are...
established by state law and can vary from state to state. The amount of GA coverage is on your Selection Form.

Your policy is fully covered by the GA because your Maximum Lifetime Benefit is below the GA coverage limit. Your coverage will remain the same as your current coverage.

**Which Option Is Best for You?**

**Look at the Value Indicator on the Selection Form chart.**

The Value Indicator on your Selection Form is a number that shows each option’s economic value. It shows how many dollars, on average, you are expected to receive in benefits for each dollar of premium you previously paid annually. The actual amount of benefits received will vary by individual. The Value Indicator on the Selection Form reflects only your previous annual premium and does not reflect your financial or personal circumstances.

The Value Indicator is calculated by dividing the “present value of future benefits” by your previously paid annual premium. The “present value of future benefits” is the present-day amount of dollars that the insurer is expected to pay in benefits on a policy in the future.

A higher Value Indicator generally means a greater economic value for you.

**Example:** A Value Indicator of 16.45 shows a greater economic value than a Value Indicator of 6.80.

**Why are you being offered some options with a lower Value Indicator?**

The Plan requires that every policyholder have a choice. The coverage provided for Penn Treaty Network policies has the higher economic value (as measured by the Value Indicator). But if you wish, you can choose American Network.
How Do You Indicate Your Choice?

After you have read this Selection Booklet, please:

- Choose ONE option on the enclosed Selection Form by checking the box next to it.
- Enter the date and your telephone number on the Selection Form.
- Return the completed Selection Form in the enclosed postage-paid return envelope, postmarked no later than January 29, 2016.

**PLEASE NOTE:** To be included as part of this research study, your response must be postmarked by January 29, 2016. As a reminder, by participating in this study you are not making any changes to your policy.

THANK YOU FOR COMPLETING YOUR SELECTION FORM!
### SELECTION FORM

**RESEARCH STUDY SAMPLE**

<table>
<thead>
<tr>
<th>Current policy information</th>
<th>Name: Sample Policyholder 2N</th>
<th>Policy #: 123456</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Daily Benefit: $100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Protection: No</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For all options, the maximum daily benefit, inflation protection, and other policy features are the same as your current policy. The difference in the lifetime maximum is noted in the chart below. See the Selection Booklet and the Plan for explanations.

<table>
<thead>
<tr>
<th>Company</th>
<th>Premium Increase</th>
<th>Benefit Decrease</th>
<th>Annual Premium</th>
<th>Maximum Lifetime Benefit</th>
<th>Value Indicator¹</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT COVERAGE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Penn Treaty Network</td>
<td>----</td>
<td>----</td>
<td>$0</td>
<td>$11,244</td>
<td>4.80</td>
<td></td>
</tr>
<tr>
<td><strong>OPTION 1 (DEFAULT)</strong></td>
<td>+ 0.0%</td>
<td>- 0.0%</td>
<td>$0</td>
<td>$11,244²</td>
<td>4.80</td>
<td>☐ 1</td>
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<tr>
<td><strong>OPTION 2</strong></td>
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<td>- 69.3%</td>
<td>$0</td>
<td>$3,443</td>
<td>1.47</td>
<td>☐ 2</td>
</tr>
</tbody>
</table>

¹The Value Indicator shows the value of expected benefits in relation to premium previously paid. It does not reflect individual policyholder financial or personal circumstances.

²In Option 1, your Maximum Lifetime Benefit includes $11,244 in Guaranty Association Coverage.

I choose the option checked above for purposes of this research study. By participating in this study, I understand I am not making any changes to my policy.

---

Return this form in the enclosed envelope, postmarked by **January 29, 2016**.

---

**Signature**

**Date**

**Telephone Number**
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

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.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options
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?
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

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

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- 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 referenced 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?
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- 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 intentions. 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
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- 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.
Checklist for Premium Increase Notices

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<thead>
<tr>
<th>Company name:</th>
<th>Product form:</th>
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<thead>
<tr>
<th>Tracking number</th>
<th>SERFF rate filing:</th>
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<th>Tracking number(s)</th>
<th>SERFF form filing:</th>
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### SERFF FILING

1. Confirm filing contains all materials (Policy Holder Letter, supplemental FAQ, website screenshots, graphs, illustrations, etc.)

2. Will the rate action be effective after filing is approved?

3. Will the rate action be mailed at least 45 days prior to the policy holder anniversary date?

4. Are there innovative options that have not been discussed prior to filing?

5. Are there sample policy holder letters with a statement of variability?

6. Are there company rules for customer service interactions regarding RBOs?

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### READABILITY

7. Is the notice clearly worded and easy to understand?

8. Are all technical terms defined?

9. Are all technical terms used consistently throughout the document?

10. Is the notice in an easily readable font in at least 11-point type?

11. Does the notice use headings to help the reader find information easily?

12. Is white space (margins, lines spacing, and spacing between paragraphs) sufficient and consistent?
<p>| | | |</p>
<table>
<thead>
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<tr>
<td>13.</td>
<td>Are tables, charts, and other graphics, easy to read and understand?</td>
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<td>14.</td>
<td>Are the grade level and reading ease scores appropriate (10th grade or lower; Flesch reading ease score 40 or higher)?</td>
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<td>15.</td>
<td>Side-by-side illustrations of options compared with current benefits.</td>
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<td>16.</td>
<td>If FAQs are included, are they succinct and easy to understand.</td>
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<td>17.</td>
<td>Does the company 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?</td>
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<td>18.</td>
<td>Does the company provide access to translation services as needed for policyholders for whom English is not a first language?</td>
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<tr>
<td><strong>Yes</strong></td>
<td><strong>No</strong></td>
<td>IDENTIFICATION</td>
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<tr>
<td>19.</td>
<td>Does the letter answer what is happening?</td>
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<td>20.</td>
<td>Does the letter answer why the consumer is receiving a rate increase?</td>
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<td>21.</td>
<td>Does the letter reflect negatively on the Department of Insurance?</td>
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<td>22.</td>
<td>Does the letter indicate when the rate increase will be effective?</td>
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<td>23.</td>
<td>Does the letter clearly indicate they have options?</td>
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<td>24.</td>
<td>Does the letter indicate how to elect an option?</td>
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<td>25.</td>
<td>Does the letter clearly describe “class basis”? Are consumers being singled out for the increase? Suggested text: “Overall experience of all contracts in your class...”</td>
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<tr>
<td><strong>Yes</strong></td>
<td><strong>No</strong></td>
<td>COMMUNICATION TOUCH AND TONE</td>
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<td>26.</td>
<td>Does the notice remind consumers to reflect on why they may have purchased the policy?</td>
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<td>27.</td>
<td>Does the letter express empathy?</td>
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<td>28.</td>
<td>A statement telling consumers how to contact the company for more information or help understanding their options.</td>
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<td>29.</td>
<td>Is the company’s consumer service number easy to find?</td>
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<td>30. Are the options represented fairly? Is one option emphasized, mentioned multiple times or bolded where the others are not?</td>
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<td>Yes No</td>
<td>31. Are the words used that could influence a policy-holder’s decision, such as must or avoid?</td>
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<td></td>
<td>Yes No</td>
<td>CONSULTATION AND CONTACT INFORMATION</td>
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<td>32. Is the company’s consumer service number easy to find?</td>
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<td>33. Does the Company encourage consumers to consult with any of the following: Financial planner, producer, trusted family member, AA of Aging, Department of Insurance, or SHIP office?</td>
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<td>Yes No</td>
<td>34. Is there a cash buy out option? If so, does the letter encourage consumers to consult with a tax advisor?</td>
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<td></td>
<td>UNDERSTANDING OPTIONS - PRESENTATION</td>
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<td>35. Does the document have a clearly worded, descriptive title or subject line? For example: Your Long-Term Care Premiums Are Increasing.</td>
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<td>36. Are the options included with the rate increase notification letter?</td>
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<td>37. Are there four or fewer options presented?</td>
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<td>38. Is the Right to Reduce Coverage at Any Time clear?</td>
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<td>39. Is there enough information to make a decision? If other sources are referenced like videos, websites, etc. are they supplemental education materials or are they required sources to decide on an option?</td>
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<td></td>
<td>Yes No</td>
<td>UNDERSTANDING OPTIONS – PAST RATE ACTIONS</td>
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<td>40. Does the notice include a statement that premiums may increase in the future?</td>
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<td>41. Does the letter include a 10-year nationwide rate increase history for this and similar forms?</td>
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<td>Yes No</td>
<td>42. Does the letter disclose the policy is guaranteed renewal?</td>
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<td>Yes No</td>
<td>UNDERSTANDING OPTIONS – WINDOW OF TIME TO ACT</td>
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<td>43. Does the letter indicate what the reader must do and the deadline to do it?</td>
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<td>44. For options that are only available during the decision window, is it clear to consumers?</td>
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<td>45. Does the letter answer what happens if no payment is sent?</td>
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**UNDERSTANDING OPTIONS – CURRENT BENEFITS**

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<tr>
<th></th>
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<th>Does the notice include all the following information?</th>
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<td>46. Current benefits (daily benefit, elimination period, current lifetime maximum benefit in dollars, inflation option, partnership status) in list form</td>
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<td>47. Current benefits (daily benefit, elimination period, current lifetime maximum benefit in dollars, inflation option, partnership status)</td>
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<td>48. If current benefits have an inflation option include lifetime maximum benefit in dollars illustrated both five and fifteen years into the future?</td>
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</table>

**UNDERSTANDING OPTIONS – PERSONAL DECISION**

<table>
<thead>
<tr>
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<th>49. Options should only be listed for what is available to the policy holder.</th>
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<tr>
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<td>50. Does the letter contain descriptions of the consumer’s options (including daily benefit, elimination period, current lifetime maximum benefit in dollars, inflation option, partnership status)?</td>
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<td>51. Does the letter prompt the policy holder to consider their personal situation, such as: current age, health conditions, financial position, availability of caregivers, spouse or partner impacts, and potential need for institutionalized care?</td>
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</table>

**UNDERSTANDING OPTIONS – DISCLOSURES**

<table>
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<tr>
<th></th>
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<th>52. Does the letter include the average age of claim?</th>
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<td>53. Does the letter include the factors that influence the age, duration, and cost of a claim?</td>
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<td>54. Does the letter include the average duration of claim for in-home, assisted living, and nursing home care?</td>
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<td>55. Does the letter include the average cost of care in their area?</td>
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<td>- In home</td>
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<td>- Assisted living</td>
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<td>- Nursing home</td>
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<td>56. Does the letter include the average inflation rate for the cost of care for in-home and nursing home in their area?</td>
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</table>

**Yes** | **No** | 57. Does the letter include a disclosure if a reduction option results in the minimum daily or monthly amount falling below the cost of care in their region?
<table>
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<th>Yes</th>
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<td>58. Does the letter include a disclosure for Paid Up options advising the duration of care the reduced amount could cover based on care in their area?</td>
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<td>59. Is there a cash buy out option? If so, does the letter include a disclosure for to the policy holder advising they should consult with their certified personal accountant or tax advisor before electing this option?</td>
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<td>60. Do options clearly indicate value for consumers? Do CNF and other limited options clearly describe the reduction in value (benefit period)?</td>
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<td>61. Is there a unit price or value comparison?</td>
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<td>62. Most popular option.</td>
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<td>63. A statement telling consumers how to contact the company for more information, the full list of options, or help understand their options.</td>
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<td>64. Options should not include reducing daily benefit amount.</td>
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<td>65. Side-by-side illustrations of options compared with current benefits.</td>
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<td>66. Do the options reflect the impact of the inflation option in terms of growth or reduction if the option is to remove or reduce inflation?</td>
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<td>67. Are the pros and cons of each option indicated?</td>
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<td>68. For phased-in increases: Is there a table with all phase-in dates and premium amounts?</td>
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<td>69. For phased-in increases, are there letters sent 45-60 days before each phase of the increase?</td>
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<td>70. Are potential tax consequences of options clearly disclosed?</td>
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<tr>
<td>71. Does the letter disclose risk of losing partnership status and what it means if lost?</td>
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</tbody>
</table>
Considerations:

- Standardized format and order of letter segments
- Should companies notify consumers of rate increases when filed (in addition to notification 45-60 days before effective date?)
- Inflation Reduction – does the removal of inflation growth in the future maintain current inflated benefits? (Model Regulation 641 requires that inflation reduction or removal should not impact or remove past inflation of benefits).
- Should copy go to lapse notifier?
- Check website links and phone numbers to ensure they are accurate and functional.
- Cost of Care data:
  - What source should they use?
  - What is an acceptable for “in your area”? State, zip code, etc.?
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

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

This document is intended to establish consistent high-level guiding principles for long-term care reduced benefit options presented in policyholder notification materials. These principles are guidance and do not carry the weight of law or impose any legal liability.

Recognizing that each component outlined in these principles will not apply in all circumstances: [A1]

RECOMMENDS that insurance companies adhere to these fundamental principles.[A2]

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.

ENCOURAGES flexibility in determining the information that is appropriate for the policies subject to the rate increase and in the consumers’ best interest.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

Filing Rate Action Letters

Insurers should consider:

- Sending rate actions after the state has approved the rate action filing.
- Making the rate action effective on a policy anniversary date, recognizing the Long-Term Care Insurance Model Regulation (#641) allows for the next anniversary date or next billing date. [A5]
- Mailing rate increase notification letters at least 45-60 days prior to the date(s) a rate actions becomes effective consistent with any applicable state requirements. [A6]
- Sending rate increase notifications each year for rate increases that are phased-in over multiple years.
- Disclosing all associated future planned rate increases approved by the regulators in the initial and phased-in rate increase notification letters.
- Filing rate action letter templates in the SERFF rate increase filing to include statements of variability and sample letters highlighting the differences between the communications consistent with any applicable regulations. [A7]
- Presenting innovative options to the state regulators prior to filing new reduced benefit options.
  - This enables the regulators to evaluate potential anti-selection, adverse morbidity, and implications to the consumer and future claims experience.

Readability and Accessibility

Insurers should consider:

- Drafting a rate action letter that is easy to follow, flows logically, and displays the essential information and/or the primary action first, followed by the nonessential information.
- Presenting the reduced benefit options in a way that is comprehensible, memorable, and adjusted to the needs of the audience.
- The letter should consider the use of cover pages, tables of contents, glossaries, plain language, headers, maximized white space, appropriate font size and reading level for the intended audience. [A8]
- Utilizing illustrative tools, such as bullets, or illustrations as appropriate, and graphs or charts enabling a side-by-side comparison.
- Including definitions of complex terms and if a term, subject, or warning is repeated throughout the communication, consider making the language consistent throughout the document.
- Including Q&A’s that are succinct but answer the commonly asked questions in plain language.
- Providing appropriate accommodations for policyholders with disabilities or for Providing accessibility of its online and written material to all interested parties, to include 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. Offering translation services for policyholders for whom English is not a first language.A10.

Identification

Insurers should consider drafting the reduction benefit communication in a way that assists the policy holder in understanding:

- What is happening?
- Why it is happening to them?
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- 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

Insurers should consider:

- Drafting the communication in a way that helps the policy holder envision or reflect on the reason(s) why they purchased a long-term care insurance policy.
- Conveying as much empathy as possible regarding the impact a rate action(s) may have on the policy holder(s).
- Presenting all the reduced benefit options fairly, refraining from the use of bolding, repeating, or emphasizing one option over another.
- Displaying the ability to maintain current benefits and pay the increased premium before other options.
- Using word choices that appreciates how those 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 insurer should consider listing multiple contacts in the communication in an easy to identify location to include, when available, the phone number, email address, and website information when available. [A13]

For example:

- Customer Service
- Lapse Notifier
- The Producer
- Department of Insurance
- Area Agency on Aging
- State Health Insurance Assistance Program (SHIP)[A14]

The insurer should consider suggesting the policy holder consult a family member or other trusted advisor with one or more sources, such as:

- Family members
- Lapse Notifier
- The Producer
- Financial Advisor
- Certified Personal Accountant or Tax Advisor (in the event there are cash buy outs offered)

Understanding Policy Options

Insurers should consider the presentation of the communication by:

- Identifying what necessitated the communication on the first page.
  - For example, the header could say, “Your Long-Term Care Premiums Are Increasing”.

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

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- Including the reduced benefit options with the rate action letter.
- Limiting the number of options displayed on the letter to no more than four or five.
- Identifying which reduced benefit option(s) have limited timeframes.
- Advising they can ask about reducing their benefits at any time regardless of a rate increase.
- Providing enough information in the communication to make a decision.
  - If supplemental materials (e.g. insurer’s website) are provided, they would enhance the policy holder’s understanding, but not be necessary to use when making a decision.

Insurer should consider indicating the window of time to act by:

- Clearly indicating what the policy holder’s premium will increase to and by when.
- Displaying the due date(s) in an easy to identify location and repeat it multiple times throughout the document.
- Clearly differentiating due date(s) for each reduction option if available for a limited time.

Insurers should consider including disclosures regarding rate increase history:

- Disclosing that future rate actions could occur
- Advising 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
- Reminding policy holders that their policy is guaranteed renewable

Insurers should consider advising policy holders of their current benefits:

- For example, the communication could disclose the policy holder’s current benefits to include:
  - Daily maximum amount
  - Inflation option
  - Current pool of benefits for policies with a limited pool of benefits
  - 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.

Insurers should consider personal needs decision making by:

- Only listing reduced benefit options that are available to the policy holder.
- Calling on the policy holder to reflect on how each option could impact them personally.
- Prompting 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.
- Reminding the policyholder to consider the cost of care in the area and setting where they expect to receive care.
- Informing the policy holder of factors that impact long-term care costs, such as:
  - The average cost of care for in-home care, assisted living, and nursing home in their area.
  - The inflation rate of the cost of care for in-home and nursing home care in their area.
  - The average age and duration of a long-term care claim for in-home and nursing home care.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- Factors that influence the age, duration, and cost of a claim.
- Disclosing when a reduction option falls below the cost of care in their area.
- Calculating the number of days or months a paid-up option could cover based on the cost of care in their area.
- Buy Out or Cash Out Disclosures
  - The cash offerings, if any, 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.

**Insurers should consider the value of each option by:**

- Disclosing if the reduced benefit options may not be of equal value and are dependent on the unique situation of each policyholder and are not actuarially equivalent. [A22]
- Including a value indicator for each option that shows the value of expected benefits in relation to premium. [A23]
- Limiting reduced benefit options that have lower value to policy holders, such as eliminating the option to reduce the daily benefit amount.
  - Consumer studies show policy holders would only reduce the daily amount as a last option to keep their policy affordable (Penn Treaty). [A24]
- Reminding the policy holder if reducing to the lowest option available, they may have limited options to mitigate future rate increases. [A25]

**Insurers should consider communicating the impact of each option by:**

- Displaying the options in a way that enables the policy holder to compare each option side-by-side to include details such as:
  - Daily/Monthly Benefit
  - Benefit Decrease Percent
  - Benefit Period
  - NFO or CNF Amount
  - Inflation Option
  - If the policy is Still Partnership
  - Maximum Lifetime Amount
  - Qualified, changes to benefits may impact Partnership status.
  - Value Indicator
  - New Premium
  - New Premium [A26]
  - Premium Increase Percent and/or Current
  - Projecting how a reduction of the inflation protection could impact the premium and future coverage amounts by:
  - Illustrating the change in the benefit pool out five and fifteen years into the future revealing how the inflation is being recalculated if going back to original benefit amount. [A27]
- Providing a series of questions to help policy holders contemplate the pros and cons, the implications of each option action, such as:
  - 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.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

- 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 that their asset protection may be removed or reduced.[A28]

When rate actions span over multiple years, insurers should consider:

- Disclosing the full rate increase amount, how it is spread out across multiple years, and all associated future planned rate increases approved by regulators.
- Specifying if the premium increase referenced is the first, second, third, last, etc.
- Offering contingent nonforfeiture based on the full increase amount and offered with each phase of the rate action.
- Notifying policyholders at least 45-60 days in advance of each phase of the rate increase, applicable state requirements.[A29]

-
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES – REQUEST FOR PUBLIC COMMENT -

Drafted by the Reduced Benefit Options Workstream (#3) of the Long-Term Care Insurance (EX) Task Force

INTRODUCTION

The Reduced Benefit Options (RBO) Workstream 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 regulators have developed a list of RBO principles in order to provide guidance for evaluating RBO offerings.

PRINCIPLES AND ISSUES, INCLUDING THOSE WITH PARTICULAR NEED FOR STAKEHOLDER INPUT, INCLUDE:

1. Related to fairness and equity for policyholders that elect an RBO:
   - If some policyholders facing a rate increase are being offered an RBO but not others, an adequate explanation is needed.[KE1]
   - Each RBO should provide reasonable value relative to the default option of accepting the rate increase and maintaining the current benefit level[KE2].

2. Related to fairness and equity for policyholders that choose to accept rate increases and continue LTCI coverage at their current benefit level:
   - The extent of potential anti-selection should be analyzed, with consideration of the impact on the financial stability of the remaining block of business and the resulting effect on the remaining policyholders.[KE3]

3. Related to clarity of communication with policyholders eligible for an RBO:
   - Policyholders should be provided with maximum opportunity and adequate information to make decisions in their best interest.[KE4]
   - Companies should consider reducing the complication in decisions policyholders will face.[KE5] Companies should present RBOs in clear and simple language, format and content, with clear instructions on how to proceed and who to contact for assistance.

4. Related to consideration of encouragement or requirement for a company to offer certain RBOs:
- **Regulators should** evaluate legal constraints, impact on remaining policyholders and company finances, and impact on Medicaid budgets if regulators are driving encouraging or requiring reduced LTCI benefits. [KE6]

5. **Related to exploration of innovation, particularly where an outcome of improved health and lower claim costs are possible:**

- **Regulators and interested parties should continue to study the idea of rate increases being tied into insurers offering, e.g., hand railings for fall prevention in high-risk homes, and identify the pros and cons of rate increases being tied into insurers offering, e.g., hand railings for fall prevention in high-risk homes such an approach.** [KE7]

**WIDELY ESTABLISHED RBOs IN LIEU OF RATE INCREASES**

- a. Reduce inflation protection going forward, while preserving accumulated inflation protection
- b. Reduce Daily Benefit
- c. Decrease Benefit Period/Maximum Benefit Pool
- d. Increase Elimination Period
- e. Contingent Nonforfeiture
  - i. Claim amount can be sum of past premiums paid
  - ii. Only receive that benefit if the policyholder qualifies for a claim

**LESS COMMON RBOs FOR POTENTIAL DISCUSSION**

- a. Cash buyout
- b. Co-pay percentage on benefits
November 9, 2020

Commissioner Jessica Altman
Chairman, NAIC LTCI Reduced Benefit Options (EX) Subgroup
Pennsylvania Insurance Department

Dear Commissioner Altman,

The American Council of Life Insurers1 (ACLI) and the American Association of Health Insurance Plans2 (AHIP) support the work of the NAIC LTC (E) Task Force to achieve its charge of developing a consistent national approach for reviewing long-term care (LTC) rates and identifying options for consumers to modify benefits when faced with a premium increase on their LTC policy.

We appreciate the opportunity to comment on the “RBO Principles” and the “Principles on Long-Term Care Reduced Benefit Options Presented in Policyholder Notification Materials”, which were exposed by the Long-Term Care Insurance Reduced Benefit Options (RBO) (EX) Subgroup on October 9, 2020.

Our comments are premised on the following:

- Industry recognizes the concerns expressed by consumers and regulators regarding necessary LTC premium increases.

- While data supports that an overwhelming majority of LTC policyholders maintain their coverage, even in the face of a substantial increase, industry is committed to working with state regulators to consider options and solutions that are fair and equitable for consumers.

- Industry supports the establishment of consistent high-level principles to guide regulators in understanding the characteristics associated with a particular block of business and how these characteristics impact the choices provided to consumers.

We agree with the October 6, 2020, draft edits made to the “RBO Principles” and do not have additional comments. Our comments to the “Principles on Long-Term Care Reduced Benefit Options Presented in Policyholder Notification Materials” are separated into general comments and specific comments. Our general comments are provided below. Comments with respect to specific sections are contained in the attached chart.

---

1 The American Council of Life Insurers advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. Ninety million American families depend on our members for life insurance, annuities, retirement plans, long-term care (LTC) insurance, disability income insurance, reinsurance, dental, vision, and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States.

2 AHIP is the national association whose members provide coverage for health care and related services to hundreds of millions of Americans every day. Through these offerings, we improve and protect the health and financial security of consumers, families, businesses, communities and the nation. We are committed to market-based solutions and public-private partnerships that improve affordability, value, access, and well-being for consumers.
GENERAL COMMENTS
As discussed on previous public calls of the RBO Subgroup, the principles are intended to be viewed as considerations, rather than requirements, that carriers can choose to include in notifications to consumers regarding a rate increase on their LTC policy. The elements ultimately included in a rate increase notification letter will vary by carrier and by product. A grounding statement in the introduction section of the principles clarifying this intent would help with consistency in their use and avoid any future confusion in their application. We suggest the following statement, which is similar to one contained in the “Principles for Artificial Intelligence” recently adopted by the NAIC:

“This document is intended to establish consistent high-level guiding principles for long-term care reduced benefit options presented in policyholder notification materials. These principles are guidance and do not carry the weight of law or impose any legal liability.”

In addition, we believe it is important to recognize and acknowledge that including all the elements identified in the principles will result in a consumer notification letter that is lengthy, confusing, and overwhelming to consumers.

The NAIC Long-Term Care Model Regulation allows flexibility with respect to what must be included in consumer notices at the time of a rate increase. Any principles applied outside of the construct of the model regulation should not eliminate this flexibility.

Finally, carriers have dedicated, specially trained customer service teams in place to assist policyholders with any questions regarding their coverage, rate increases, available options, and claims. Carriers spend a significant amount of time training their customer service teams. Customer service teams understand that premium increases can be a financial burden on policyholders. Carriers ensure that customer service teams fully understand their products and are able to answer any policyholder questions. As a result, communications to policyholders regarding a rate increase should strongly encourage them to contact the carrier to discuss specific options that are available to them given the policyholder’s personal situation and their current benefit levels.

SPECIFIC COMMENTS
The attached chart contains our comments to specific sections of the “Principles on Long-Term Care Reduced Benefit Options Presented in Policyholder Notification Materials”, along with an explanation for suggested changes.

CONCLUSION
Thank you for the opportunity to provide these comments. ACLI and AHIP welcome the opportunity to discuss our comments with you in the future, and we would also welcome the opportunity to contribute to additional discussion regarding the comments raised in our letter.

Sincerely,

Jan M. Graeber  
Senior Actuary, ACLI

Ray Nelson  
AHIP Consulting Actuary
## INTRODUCTION

1. 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

This document is intended to establish consistent high-level guiding principles for long-term care reduced benefit options presented in policyholder notification materials. These principles are guidance and do not carry the weight of law or impose any legal liability.

Recognizing that each component outlined in these principles will not apply in all circumstances:

| RECOMMENDS | that insurance companies take into consideration 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. |
| ENCOURAGES | flexibility in determining the information that is appropriate for the policies subject to the rate increase and in the consumers’ best interest. |

Consistent with discussions on prior public calls of the RBO Subgroup and to avoid any future confusion regarding the application of these principles, we believe a grounding statement should be added to this section that acknowledges that these principles are intended to be considerations rather than requirements. We suggest a statement similar to one contained in the “Principles for Artificial Intelligence” recently adopted by the NAIC.

In addition, Sections 9 and 27 of the NAIC Long-Term Care Model Regulation addresses elements that must be included in consumer notices at the time of a rate increase. The language contained in these sections allows carrier flexibility with respect to benefit reduction options that are consistent with the policy or certificate design or the carrier’s administrative processes. Any principles applied should not eliminate this flexibility.
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<tr>
<th>Section</th>
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<tr>
<td>2</td>
<td><strong>Insurers may consider:</strong></td>
<td>This change clarifies that these elements are considerations rather than requirements.</td>
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<td>• Sending rate actions after the state has approved the rate action filing.</td>
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<td>• Making the rate action effective on a policy anniversary date or regular billing date following required rate increase notification.</td>
<td>Not all policyholders are billed on their anniversary date. This suggested change reflects consistency with the language contained in Section 9B(4)(a) of the NAIC Long-Term Care Model Regulation, which states that a general explanation for applying premium rate or rate schedule adjustments must include: (a) A description of when premium rate or rate schedule adjustments will be effective (e.g., next anniversary date, next billing date, etc.).</td>
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<td>• Mailing rate increase notification letters at least 45-60 days prior to the date(s) a rate actions becomes effective consistent with any applicable state requirements.</td>
<td>This change reflects consistency with the language contained in Section 9E of the NAIC LTC Model Regulation, which states: “An insurer shall provide notice of an upcoming premium rate schedule increase to all policyholders or certificate-holders, if applicable, at least forty-five (45) days prior to the implementation of the premium rate schedule increase by the insurer.”</td>
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<td>• Sending rate increase notifications each year for rate increases that are phased-in over multiple years. • Disclosing all associated future planned rate increases approved by the regulators in the initial and phased-in rate increase notification letters.</td>
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<td>• Including a sample rate increase letter with the filing for informational purposes, if required by the state. Filing rate action letter templates in the SERFF rate increase filing to include statements of variability and sample letters highlighting the differences between the communications.</td>
<td>We request that this consideration be revised to better reflect current state practices regarding inclusion of the consumer notice letter in a rate filing.</td>
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**Communication Touch and Tone**

10 Insurers **may consider:**

- Drafting the communication in a way that helps the policyholder envision or reflect on the reason(s) why they purchased a long-term care insurance policy.
- Conveying as much empathy as possible regarding the impact a rate action(s) may have on the policyholder(s).
- Presenting *all* the reduced benefit options fairly, refraining from the use of bolding, repeating, or emphasizing one option over another.
- Displaying the ability to maintain current benefits and pay the increased premium before other options.
- Using word choices that appreciates how those words could influence a policyholder'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”

The requested change clarifies that not every option available to the policyholder will be presented in the policyholder rate increase notification letter.

**Consultation and Contact Information**

11 The insurer **may consider** listing multiple contacts in the communication in an easy to identify location to include, *when available*, the phone number, email address, *and* website information *when available*. For example:

- Customer Service
- Lapse Notifier
- The Producer
- Department of Insurance

Contact information for parties other than the policyholder should be limited to information that is applicable to all policyholders subject to the rate increase, such as the carrier’s customer service department or the state Department of Insurance. Information that is unique to each policyholder and would require
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<td>1.2</td>
<td>The suggested change captures the intent that the policyholder considers consulting with others when making a decision regarding mitigation of a rate increase and includes the sources listed.</td>
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### Understanding Policy Options

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<th>Insurers should consider including disclosures regarding rate increase history:</th>
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<tr>
<td>- Disclosing that future rate actions could occur</td>
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Carriers should have flexibility to provide information that is most helpful and relevant...
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<tr>
<th>Section</th>
<th>Explanation of Requested Change</th>
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</table>
| 8       | Providing information about advising 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  
|         | - Reminding policyholders that their policy is guaranteed renewable to the policyholder. Much of the information in the draft bullets is already required at the time of application or policy delivery. |
| 16      | Insurers should consider advising policyholders of their current benefits:  
|         | - For example, the communication could disclose the policyholder's current benefits to include:  
|         |   - Daily maximum amount  
|         |   - Inflation option  
|         |   - If Partnership protection applies  
|         | Partnership protection is addressed below and should be removed from this section. |
| 17      | - Description of benefits: 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.  
|         | Inclusion of these suggestions becomes challenging due to the wide variety of products and benefit limits that depend on the nature of care received. Not all policies have a “pool of benefits”. If a policy does have a “pool of benefits”, this is a calculated amount that is dependent on factors such as where care is received, past and future benefits paid, and elected benefit changes. Inclusion of a “pool of benefits” or a projection of the pool can be misleading and result in policyholders making current or future decisions that are not in their best interest. We strongly recommend that this consideration be revised. |
| 18      | Insurers **may** consider personal needs decision making by:  
|         | - Only listing reduced benefit options that are available to the policyholder.  
|         | - Calling on the policyholder to reflect on how each option could impact them personally.  
<p>|         | Consumer notification letters should be as generalized as possible and not contain numerous elements that are unique or specific to each policyholder, which requires |</p>
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<tr>
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<tr>
<td>Prompting the policyholder 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.</td>
<td>special modification to carrier administrative systems.</td>
</tr>
<tr>
<td>Reminding the policyholder to consider the cost of care in the area and setting where they expect to receive care.</td>
<td>Where a policyholder actually receives care and the cost of that care will vary based on each policyholder’s unique situation and could be different than where the policyholder currently resides.</td>
</tr>
<tr>
<td>- The average cost of care for in-home care, assisted living, and nursing home in their area.</td>
<td>Carriers should encourage the policyholder to consider circumstances specific to them and avoid the use of averages.</td>
</tr>
<tr>
<td>- The inflation rate of the cost of care for in-home and nursing home care in their area.</td>
<td></td>
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<tr>
<td>- The average age and duration of a long-term care claim for in-home and nursing home care.</td>
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<tr>
<td>- Factors that influence the age, duration, and cost of a claim.</td>
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<tr>
<td>Disclosing when a reduction option falls below the cost of care in their area.</td>
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<tr>
<td>Calculating the number of days or months a paid-up option could cover based on the cost of care in their area.</td>
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</table>

Buy Out or Cash Out Disclosures

- The cash offerings, if any, should disclose to the policyholder 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.

Insurers should consider the value of each option by:

- Disclosing if the reduced benefit options may not be of equal value and are dependent on the unique situation of each policyholder and are not actuarially equivalent.

The suggested change reflects consistency with the language required in Section 27H of the NAIC LTC Model Regulation:

"A premium increase notice required by Section 9E of this regulation shall include: (1) An offer to reduce policy benefits provided by the current coverage consistent with the requirements of this section; (2) A disclosure stating that all options available to the policyholder may not be of equal value; and (3) In the case of a partnership policy, a disclosure that some benefit reduction options may result in a loss in partnership"
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<tr>
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<tbody>
<tr>
<td>21</td>
<td>Including a value indicator for each option that shows the value of expected benefits in relation to premium.</td>
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<td></td>
<td>Inclusion of any sort of value indicator constitutes policyholder steering and should not be included in a rate increase notification letter. In addition, it is not clear how the values would be determined, which results in inconsistency across the LTC market.</td>
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<tr>
<td>22</td>
<td>Limiting reduced benefit options that have lower value to policy holders, such as eliminating the option to reduce the daily benefit amount.</td>
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<td></td>
<td>Actual carrier experience shows that a reduction in the daily benefit is a commonly elected benefit reduction option and is not an inappropriate option.</td>
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<tr>
<td>23</td>
<td>Reminding the policy holder if reducing to the lowest option available, they may have limited options to mitigate future rate increases.</td>
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<tr>
<td></td>
<td>This statement could discourage a policyholder from making a decision that might be the most appropriate and in their best interest. Depending on an individual’s specific situation, this might be the best option for them.</td>
</tr>
<tr>
<td>24</td>
<td>Insurers should consider communicating the impact of each option by:</td>
</tr>
<tr>
<td></td>
<td>Companies should have the flexibility to format the letter in a way that is the most appropriate for the options presented to their policyholders and the most conducive with their administrative systems. Not all benefit reduction options, such as a reduction in inflation protection or benefit period, have a defined benefit decrease percent.</td>
</tr>
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<td></td>
<td>Displaying the options in a way that enables the policyholder to compare each option side-by-side to include details such as:</td>
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<tr>
<td></td>
<td>- Daily/Monthly Benefit</td>
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<td></td>
<td>- Benefit Period</td>
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<td>- Maximum Lifetime Amount</td>
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<td>- Value Indicator</td>
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<td>- Premium Increase Percent \ and/or New Premium</td>
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<td>- Benefit Decrease Percent</td>
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<td>- NFO or CNF Amount</td>
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<td>- If the policy is Still Partnership Qualified, changes to benefits may impact Partnership status.</td>
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</table>
| 25 | - Projecting how a reduction of the inflation protection could impact the premium and future coverage amounts by:  
  - Illustrating the change in the benefit pool out five and fifteen years into the future revealing how the inflation is being recalculated if going back to original benefit amount.  
  | Any future projections can be misleading and result in a policyholder making a decision that is not in their best interest. For example, if any benefits are received, depending on policy design, the future “pool of benefits” might be reduced. See our previous comment regarding “pool of benefits”.  |
| 26 | - Providing a series of questions to help policy holders contemplate the pros and cons of each option, such as:  
  - 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.  
  | Pros and cons of benefit reduction options can be different for different policyholders. Including generalized pros and cons could constitute steering.  
  The considerations listed are redundant with prior considerations in other sections and their inclusion makes the letter overwhelming, confusing, and could result in poor policyholder decisions.  |
| 27 | - When rate actions span over multiple years, insurers may consider:  
  - Disclosing the full rate increase amount, how it is spread out across multiple years, and all associated future planned rate increases approved by regulators.  
  - Specifying if the premium increase referenced is the first, second, third, last, etc.  
  - Offering contingent nonforfeiture based on the full increase amount and offered with each phase of the rate action.  
  - Notifying policyholders at least 45–60 days in advance of each phase of the rate increase, consistent with any applicable state requirements.  
  | This change reflects consistency with the language contained in Section 9E of the NAIC LTC Model Regulation, which states: “An insurer shall provide notice of an upcoming premium rate schedule increase to all policyholders or certificate-holders, if applicable, at least [forty-five (45) days] prior to the implementation of the premium rate schedule increase by the insurer.”  |
November 8, 2020

Commissioner Jessica Altman, Chair
Members of The Long Term Care Reduced Benefits Subgroup (Ex TF)
Reduced Benefit Options Workstream (#3)

Re: Draft RBO Principals and RBO Consumer Notices Principles

Dear Commissioner Altman:

We appreciate the work of the sub-group in laying out draft principals for state insurance departments to consider when evaluating Reduced Benefit Options (RBO) and RBO Notices to policyholders.

In regard to: Principles on Long-Term Care Reduced Benefit Options Presented in Policyholder Notification Materials

We are generally in agreement with the principals listed in this document. However a request that insurers consider using or complying with these principles has no strength of regulation or regulatory compliance. The issues that resulted in this workstream came directly from complaints about the complexity and variations of current notices, and questions and problems stemming from these notices. Stronger regulatory action and requirements are unquestionably necessary, and we hope the group takes a much stronger approach to the use and application of these principals.

In regard to: Reduced benefit options associated with long-term care insurance (ltci) rate increases

The sub-group has been discussing how to evaluate RBO options that might be offered and how information about those options should be conveyed to policyholders. California Health Advocates (CHA) submits these comments based on our observations and experiences with clients referred to us by our SHIP network (HICAP). We will submit comments and questions on the draft document in track changes separately from these comments.

We have seen an increasing number of complex premium increase notices with varying numbers of RBO options and premium offsets. The length and complexity of these premium increase notices are difficult for policyholders to evaluate. They and their family members are often overwhelmed by dense language and mysterious choices in a multipage notice with text and boxes. Policyholders are unable to weigh the value of any RBO against the amount of premium reduction offered, and sometimes make questionable choices based on dollars and dollar savings without understanding the impact of changes to their benefits.

Suggested Standards for Policyholder Notices

We have some broad suggestions and examples regarding the format and content of notices that notify policyholders of a premium increase, and subsequent options that might be exercised to reduce the

Bonnie Burns, Consultant,
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amount of an increase. Some of these suggestions have been submitted in prior comments. Here are some examples to consider:

- A notice should begin with a cover page that clearly identifies the broad topics included in the notice and the pages where each broad topic can be found. Each technical word should be bolded and the reader referred to a glossary included in the notice.
  - Each page should have a title to reflect the information on that page, for example: These Are Your Options To Reduce The Amount Of Your Premium Increase
  - RBOs should be expressed in simple clear language: Your premiums will increase to $$$ on 00-00-00. Here is the premium you pay now ($$ box) and the benefits you have now (listed). You have until 00-00-00 to make any changes and reduce the increased premium. This is the amount of premium ($$$) you will pay if you don’t make any changes to your benefits.
  - Readers should be directed to specific pages for specific information: See page XX for options you have to reduce the amount of the new premium and how each of these choices affects the premium you will pay on 00-00-00.
    - Here is where you can get help understanding these choices.
    - See page XXXXX to understand why your premium is increasing. You will find other important information on this page.
  - Text and boxes on each page should be expressed in simple, easy to understand language and there should be clear separation between each item and cell. Each box should be clearly labeled and each cell should have white space and bold lines between each cell.

From our experience we know that changes like these will help policyholders and their family members understand and choose the most suitable options for their individual circumstances.

Industry Data

We have previously commented on information that we believe regulators should have about RBOs, premium reductions, and policyholder actions and reactions to these offers. We believe that regulators need greater understanding of the effect of premium increases and policyholder actions as a result of those increases. For instance, we hear frequently that “most people pay the increased premium.” We are not aware of any available information about policyholders who don’t pay the increase, what actions were taken by policyholders to avoid an increase, or what actions might occur in the months following an increase.

- Which RBOs are exercised more frequently than others?
- If insurers offer the reduction or elimination of less common benefits such as return of premium, or some other contractual option like limited pay, what effect do those benefits have on premium increases, premium reductions, and lapses immediately or later?
Bonnie Burns, Consultant,
California Health Advocates
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Do insurers offer a full range of RBO options with each incremental increase, or only with an initial rate increase? Do RBO offers change with subsequent increases? Are policyholders notified in a clear and prominent way about known rate increases or the potential for future rate increases as part of their RBO decisions?

If insurers offer a cash benefit option how is the amount of that option calculated? What questions do policyholders ask about this RBO and how frequently is this option exercised?

How many Partnership policyholders have lost asset protection by exercising an RBO? Which states have the highest number of lost Partnership asset protection?

How often do insureds or their family members request reductions outside of the limited application of a premium increase? Are such requests granted?

What percentage of policyholders, in a class or within a policy form, lapse with the first, second, or third premium increase?

Do lapses increase in six to 12 months following a premium increase? What age ranges account for the most lapses? What is the age range for the highest and lowest numbers of lapses?

Do insurers notify the agent of record when a premium increase is imposed? Does an agent get a list of their clients being affected by a rate increase and information about RBO offers? What happens to orphaned policyholders when an agent of record is no longer available? Is an agent’s commission affected by the RBO choices a policyholder makes?

Pricing, Value, and Premium Reductions

We are concerned about the value of each RBO offered and how values are assigned to each option. There aren’t clear measurements for the value of one option over another, nor is it clear if an insurer benefits from one option more than another.

There are many questions that remain to be answered about how premium reductions are calculated and how some options may affect the remaining pool of insureds over time. These pricing issues are critically important for policyholders with legacy policies of long duration as those pools grade down to increasingly smaller numbers of insureds over time and the risk of future increases grows larger.

We look forward to continuing discussions of these issues. Thank you for the opportunity to comment and I look forward to continued discussion of these issues.

Sincerely,

Bonnie Burns, Consultant
California Health Advocates

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Exposure Draft: Comments are due to Eric King, eking@naic.org, by close of business on Monday, Nov. 9, 2020.

REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES
– REQUEST FOR PUBLIC COMMENT –

Drafted by the Reduced Benefit Options Workstream (#3) of the Long-Term Care Insurance (EX) Task Force

INTRODUCTION

The Reduced Benefit Options (RBO) Workstream 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 regulators have developed a list of RBO principles in order to provide guidance for evaluating RBO offerings.

PRINCIPLES AND ISSUES, INCLUDING THOSE WITH PARTICULAR NEED FOR STAKEHOLDER INPUT, INCLUDE:

1. Related to fairness and equity for policyholders that elect an RBO:
   - If all policyholders facing a rate increase are being offered an RBO but not others, an adequate explanation is needed for any differences being offered to individual or group policyholders, or by policy form or date of issue.
   - Do the RBOs provide reasonable value relative to any default options exercised to reduce the rate increase and maintaining the current benefit level?

2. Related to fairness and equity for policyholders that choose to accept rate increases and continue LTCI coverage at their current benefit level:
   - To what extent could anti-selection take place should the impact on the financial stability of the remaining block of business at further risk and the resulting effect on the remaining policyholders?

3. Related to clarity of communication with policyholders eligible for an RBO:
   - What recommendations for ensuring policyholders should be provided with have maximized maximum opportunity and information to make decisions in their best interest?
attachment Two-E
Long-Term Care Insurance (EX) Task Force
12/4/20

Exposure Draft: Comments are due to Eric King, eking@naic.org, by close of business on Monday, Nov. 9, 2020.

Attachment Two
Long-Term Care Insurance (EX) Task Force
7/2/20 – 10/6/20 draft edits

- Should regulators, in some cases, encourage a company to consider offering fewer options in order to reduce the compiliation in decisions policyholders will face? Companies should present RBOs in clear and simple language, format and content, with clear instructions on how to proceed and who to contact for assistance.

4. Related to consideration of encouragement or requirement for a company to offer certain RBOs:
   - Evaluate legal constraints, impact on remaining policyholders and company finances, and impact on Medicaid budgets if regulators are driving reduced LTCI benefits.

5. Related to exploration of innovation, particularly where an outcome of improved health and lower claim costs are possible:
   - Identify pros and cons of rate increases being tied into insurers offering, e.g., hand railings for fall prevention in high-risk homes.

WIDELY ESTABLISHED RBOs IN LIEU OF RATE INCREASES
   a. Reduce inflation protection going forward, while preserving accumulated inflation protection
   b. Reduce Daily Benefit
   c. Decrease Benefit Period/Maximum Benefit Pool
   d. Increase Elimination Period
   e. Contingent Nonforfeiture
      i. Claim amount can be sum of past premiums paid
      ii. Only receive that benefit if the policyholder qualifies for a claim

LESS COMMON RBOs FOR POTENTIAL DISCUSSION
   a. Cash buyout
   b. Co-pay percentage on benefits
Reduced Benefit Options Associated with Long-Term Care Insurance (LTCI) Rate Increases

Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options

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 the quality of consumer notices and RBO materials presented to policyholders.
- Consider the relevant lessons learned and consumer focus group studies from the Penn Treaty liquidation.
- Review existing RBO consumer notice checklists or principle documents from multiple states (i.e., Nebraska, Pennsylvania, Texas and Vermont).
- Address pertinent comments submitted on the RBO 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) Guiding Principles on Long-Term Care Insurance Reduced Benefit Options Presented in Policyholder Notification Materials

This document is intended to establish consistent high-level guiding principles for long-term care insurance reduced benefit options presented in policyholder notification materials. These principles are guidance and do not carry the weight of law or impose any legal liability.

Recognizing that each component outlined in these principles will not apply in all circumstances:

RECOMMENDS that insurance companies recognize 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 that the following principles are complementary and should be considered as a whole.
Filing Rate Action Letters

Insurers should consider:

- Sending rate actions after the state has approved the rate action filing.
- Making the rate action effective on a policy anniversary date, recognizing that the *Long-Term Care Insurance Model Regulation* (#641) allows for the next anniversary date or next billing date.
- Mailing rate increase notification letters at least 45 days prior to the date(s) a rate action becomes effective, consistent with any applicable state laws and/or regulations.
- Sending rate increase notifications each year for rate increases that are phased-in over multiple years.
- Disclosing all associated future planned rate increases approved by regulators in the initial and phased-in rate increase notification letters.
- Filing rate action letter templates in the NAIC System for Electronic Rate and Form Filing (SERFF) rate increase filing to include statements of variability and sample letters highlighting the differences between the communications, consistent with any applicable state laws and/or regulations.
- Presenting innovative options to state insurance regulators prior to filing new reduced benefit options.
  - This enables regulators to evaluate potential anti-selection, adverse morbidity, and implications to consumers and future claims experience.

Readability and Accessibility

Insurers should consider:

- Drafting a rate action letter that is easy to follow, flows logically, and displays the essential information and/or the primary action first, followed by the nonessential information.
- Presenting the reduced benefit options in a way that is comprehensible, memorable, and adjusted to the needs of the audience.
- Using cover pages, a table of contents, glossaries, plain language, headers, maximized white space, and appropriate font size and reading level for the intended audience.
- Using illustrative tools, such as bullet points or illustrations as appropriate, and graphs or charts enabling a side-by-side comparison.
- Including definitions of complex terms; and if a term, subject or warning is repeated throughout the communication, consider making the language consistent throughout the document.
- Including a question-and-answer section that is succinct but answers the commonly asked questions in plain language.
- Providing appropriate accommodations for policyholders with disabilities or for policyholders for whom English is not a first language.

Identification

Insurers should consider drafting the RBO communication in a way that helps policyholders understand:

- What is happening?
- Why it is happening to them?
  - Ensure the letter does not negatively reference the state insurance department.
- When is it happening?
- What can they do about it?
- How do they take action?
Communication Touch and Tone

Insurers should consider:

- Drafting the communication in a way that helps policyholders envision or reflect on the reason(s) why they purchased a long-term care insurance policy.
- Conveying as much empathy as possible regarding the impact a rate action(s) may have on policyholders.
- Presenting reduced benefit options fairly, refraining from the use of bolding, repeating or emphasizing one option over another.
- Displaying the policyholder’s ability to maintain current benefits by paying the increased premium.
- Using word choices that appreciate how those words could influence a policyholder’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 insurer should consider listing multiple contacts in the communication in an easy-to-identify location to include: when available; phone number; email address; and website. For example:

- Customer service.
- Lapse notifier.
- Insurance producer.
- State insurance department.
- State Health Insurance Assistance Program (SHIP).

The insurer should consider suggesting policyholders consult a family member or other trusted advisor, such as:

- Lapse notifier.
- Insurance producer.
- Financial advisor.
- Certified personal accountant or tax advisor (in the event cash buyouts are offered).

Understanding Policy Options

Insurers should consider the presentation of the communication by:

- Identifying what necessitated the communication on the first page.
  - For example, the header could say, “Your Long-Term Care Premiums Are Increasing.”
- Including the reduced benefit options with the rate action letter.
- Limiting the number of options displayed on the letter to no more than four or five.
- Identifying which reduced benefit option(s) have limited time frames.
- Advising policyholders that they can ask about reducing their benefits at any time, regardless of a rate increase.
- Providing enough information in the communication to make a decision.
  - If supplemental materials (e.g., insurer’s website) are provided, they would enhance the policyholder’s understanding, but not be necessary to use when making a decision.
Insurers should consider indicating the window of time to act by:

- Clearly indicating what the policyholder’s premium will increase to and by when.
- Displaying the due date(s) in an easy-to-identify location and repeating it multiple times throughout the document.
- Clearly differentiating due date(s) for each RBO, if available for a limited time.

Insurers should consider including disclosures regarding rate increase history:

- Disclosing that future rate actions could occur.
- Advising 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.
  - Percentage of increase approved to include the minimum and maximum, if they vary by benefit type.
- Reminding policyholders that their policy is guaranteed renewable.

Insurers should consider advising policyholders of their current benefits:

- For example, the communication could disclose the policyholder’s current benefits to include:
  - Daily maximum amount.
  - Inflation option.
  - Current pool of benefits for policies with a limited pool of benefits.

Insurers should consider personal needs decision-making by:

- Only listing reduced benefit options that are available to the policyholder.
- Calling on policyholders to reflect on how each option could impact them personally.
- Prompting policyholders 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.
- Reminding policyholders to consider the cost of care in the area and setting where they expect to receive care.
- Informing policyholders of factors that impact long-term care costs, such as:
  - The average cost of care for in-home care, assisted living, and nursing home care in their area.
  - The inflation rate of the cost of care for in-home and nursing home care in their area.
  - The average age and duration of a long-term care claim for in-home and nursing home care.
  - Factors that influence the age, duration and cost of a claim.
- Disclosing to policyholders when an RBO falls below the cost of care in their area.
- Calculating for policyholders the number of days or months a paid-up option could cover based on the cost of care in their area.
  - Buyout or cash-out disclosures.
    - The cash offerings, if any, should disclose to policyholders that the option could result in a taxable event and they should consult with their certified personal accountant and/or tax advisor before electing this option.

Insurers should consider the value of each option by:

- Disclosing if the RBOs may not be of equal value and are dependent on the unique situation of each policyholder.
Insurers should consider communicating the impact of options by:

- Displaying the options in a way that enables policyholders to compare options, including details such as:
  - Daily/monthly benefit.
  - Benefit period.
  - Inflation option.
  - Maximum lifetime amount.
  - Premium increase percentage and/or new premium.
  - Nonforfeiture (NFO) or contingent nonforfeiture (CNF) amount.
  - If the policy is Partnership qualified, changes to benefits may impact Partnership status.
  - Current premium.

- Providing a series of questions to help policyholders contemplate the implications of each action, such as:
  - What will happen if they take no action?
  - What will happen 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 buyout, 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 that their asset protection may be removed or reduced.

When rate actions span over multiple years, insurers should consider:

- Disclosing the full rate increase amount, how it is spread out across multiple years, and all associated future planned rate increases approved by regulators.
- Specifying if the premium increase referenced is the first, second, third, last, etc.
- Offering contingent nonforfeiture based on the full increase amount and offered with each phase of the rate action.
- Notifying policyholders at least 45 days in advance of each phase of the rate increase, consistent with any applicable state laws and/or regulations.
REDUCED BENEFIT OPTIONS ASSOCIATED WITH LONG-TERM CARE INSURANCE (LTCI) RATE INCREASES

Principles and Issues (including those with particular need for stakeholder input)

AUTHORITY

The Reduced Benefit Options (RBO) Workstream 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 developed a list of RBO principles in order to provide guidance for evaluating RBO offerings.

PRINCIPLES AND ISSUES (including those with particular need for stakeholder input)

1. Related to fairness and equity for policyholders who elect an RBO:

   - If some policyholders facing a rate increase are being offered an RBO but not others, an adequate explanation is needed.
   - Each RBO should provide reasonable value relative to the default option of accepting the rate increase and maintaining the current benefit level.

2. Related to fairness and equity for policyholders who choose to accept rate increases and continue LTCI coverage at their current benefit level:

   - The extent of potential anti-selection should be analyzed, with consideration of the impact on the financial stability of the remaining block of business and the resulting effect on the remaining policyholders.

3. Related to clarity of communication with policyholders eligible for an RBO:

   - Policyholders should be provided with maximum opportunity and adequate information to make decisions in their best interest.
   - Companies should present RBOs in clear and simple language, format and content, with clear instructions on how to proceed and whom to contact for assistance.

4. Related to consideration of encouragement or requirement for a company to offer certain RBOs:

   - Regulators should evaluate legal constraints, the impact on remaining policyholders and company finances, and the impact on Medicaid budgets if encouraging or requiring reduced LTCI benefits.
5. Related to exploration of innovation, particularly where an outcome of improved health and lower claim costs are possible:

- Regulators and interested parties should continue to study the idea of rate increases being tied into an insurer’s offering; e.g., providing hand railings for fall prevention in high-risk homes, and identifying the pros and cons of such an approach.

Widely Established RBOs in Lieu of Rate Increases

   a. Reduce inflation protection going forward, while preserving accumulated inflation protection.
   b. Reduce daily benefit.
   c. Decrease benefit period/maximum benefit pool.
   d. Increase elimination period.
   e. Contingent nonforfeiture.
       i. Claim amount can be sum of past premiums paid.
       ii. Only receive that benefit if the policyholder qualifies for a claim.

Less Common RBOs for Potential Discussion

   a. Cash buyout.
   b. Copay percentage on benefits.
Reduction of benefits options associated with long-term care insurance (LTCI) rate increases

Principles and issues (including those with particular need for stakeholder input)

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REduced benefit options associated with long-term care insurance (LTCI) rate increases

Guiding principles to ensure quality consumer notices of rate increases and reduced benefit options

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 the quality of consumer notices and RBO materials presented to policyholders.
- Consider the relevant lessons learned and consumer focus group studies from the Penn Treaty liquidation.
- Review existing RBO consumer notice checklists or principle documents from multiple states (i.e., Nebraska, Pennsylvania, Texas and Vermont).
- Address pertinent comments submitted on the RBO 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) Guiding Principles on Long-Term Care Insurance Reduced Benefit Options Presented in Policyholder Notification Materials

This document is intended to establish consistent high-level guiding principles for long-term care insurance reduced benefit options presented in policyholder notification materials. These principles are guidance and do not carry the weight of law or impose any legal liability.

Recognizing that each component outlined in these principles will not apply in all circumstances:

RECOMMENDS that insurance companies recognize 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 that the following principles are complementary and should be considered as a whole.
Filing Rate Action Letters

Insurers should consider:

• Sending rate actions after the state has approved the rate action filing.
• Making the rate action effective on a policy anniversary date, recognizing that the Long-Term Care Insurance Model Regulation (#641) allows for the next anniversary date or next billing date.
• Mailing rate increase notification letters at least 45 days prior to the date(s) a rate action becomes effective, consistent with any applicable state laws and/or regulations.
• Sending rate increase notifications each year for rate increases that are phased-in over multiple years.
• Disclosing all associated future planned rate increases approved by regulators in the initial and phased-in rate increase notification letters.
• Filing rate action letter templates in the NAIC System for Electronic Rate and Form Filing (SERFF) rate increase filing to include statements of variability and sample letters highlighting the differences between the communications, consistent with any applicable state laws and/or regulations.
• Presenting innovative options to state insurance regulators prior to filing new reduced benefit options.
  o This enables regulators to evaluate potential anti-selection, adverse morbidity, and implications to consumers and future claims experience.

Readability and Accessibility

Insurers should consider:

• Drafting a rate action letter that is easy to follow, flows logically, and displays the essential information and/or the primary action first, followed by the nonessential information.
• Presenting the reduced benefit options in a way that is comprehensible, memorable, and adjusted to the needs of the audience.
• Using cover pages, a table of contents, glossaries, plain language, headers, maximized white space, and appropriate font size and reading level for the intended audience.
• Using illustrative tools, such as bullet points or illustrations as appropriate, and graphs or charts enabling a side-by-side comparison.
• Including definitions of complex terms; and if a term, subject or warning is repeated throughout the communication, consider making the language consistent throughout the document.
• Including a question-and-answer section that is succinct but answers the commonly asked questions in plain language.
• Providing appropriate accommodations for policyholders with disabilities or for policyholders for whom English is not a first language.

Identification

Insurers should consider drafting the RBO communication in a way that helps policyholders understand:

• What is happening?
• Why it is happening to them?
  o Ensure the letter does not negatively reference the state insurance department.
• When is it happening?
• What can they do about it?
• How do they take action?
Communication Touch and Tone

Insurers should consider:

- Drafting the communication in a way that helps policyholders envision or reflect on the reason(s) why they purchased a long-term care insurance policy.
- Conveying as much empathy as possible regarding the impact a rate action(s) may have on policyholders.
- Presenting reduced benefit options fairly, refraining from the use of bolding, repeating or emphasizing one option over another.
- Displaying the policyholder’s ability to maintain current benefits by paying the increased premium.
- Using word choices that appreciate how those words could influence a policyholder’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 insurer should consider listing multiple contacts in the communication in an easy-to-identify location to include: when available; phone number; email address; and website. For example:

- Customer service.
- Lapse notifier.
- Insurance producer.
- State insurance department.
- State Health Insurance Assistance Program (SHIP).

The insurer should consider suggesting policyholders consult a family member or other trusted advisor, such as:

- Lapse notifier.
- Insurance producer.
- Financial advisor.
- Certified personal accountant or tax advisor (in the event cash buyouts are offered).

Understanding Policy Options

Insurers should consider the presentation of the communication by:

- Identifying what necessitated the communication on the first page.
  - For example, the header could say, “Your Long-Term Care Premiums Are Increasing.”
- Including the reduced benefit options with the rate action letter.
- Limiting the number of options displayed on the letter to no more than four or five.
- Identifying which reduced benefit option(s) have limited time frames.
- Advising policyholders that they can ask about reducing their benefits at any time, regardless of a rate increase.
- Providing enough information in the communication to make a decision.
  - If supplemental materials (e.g., insurer’s website) are provided, they would enhance the policyholder’s understanding, but not be necessary to use when making a decision.
Insurers should consider indicating the window of time to act by:

- Clearly indicating what the policyholder’s premium will increase to and by when.
- Displaying the due date(s) in an easy-to-identify location and repeating it multiple times throughout the document.
- Clearly differentiating due date(s) for each RBO, if available for a limited time.

Insurers should consider including disclosures regarding rate increase history:

- Disclosing that future rate actions could occur.
- Advising 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.
- Percentage of increase approved to include the minimum and maximum, if they vary by benefit type.
- Reminding policyholders that their policy is guaranteed renewable.

Insurers should consider advising policyholders of their current benefits:

- For example, the communication could disclose the policyholder’s current benefits to include:
  - Daily maximum amount.
  - Inflation option.
  - Current pool of benefits for policies with a limited pool of benefits.

Insurers should consider personal needs decision-making by:

- Only listing reduced benefit options that are available to the policyholder.
- Calling on policyholders to reflect on how each option could impact them personally.
- Prompting policyholders 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.
- Reminding policyholders to consider the cost of care in the area and setting where they expect to receive care.
- Informing policyholders of factors that impact long-term care costs, such as:
  - The average cost of care for in-home care, assisted living, and nursing home care in their area.
  - The inflation rate of the cost of care for in-home and nursing home care in their area.
  - The average age and duration of a long-term care claim for in-home and nursing home care.
- Factors that influence the age, duration and cost of a claim.
- Disclosing to policyholders when an RBO falls below the cost of care in their area.
- Calculating for policyholders the number of days or months a paid-up option could cover based on the cost of care in their area.
  - Buyout or cash-out disclosures.
    - The cash offerings, if any, should disclose to policyholders that the option could result in a taxable event and they should consult with their certified personal accountant and/or tax advisor before electing this option.

Insurers should consider the value of each option by:

- Disclosing if the RBOs may not be of equal value and are dependent on the unique situation of each policyholder.
Insurers should consider communicating the impact of options by:

- Displaying the options in a way that enables policyholders to compare options, including details such as:
  - Daily/monthly benefit.
  - Benefit period.
  - Inflation option.
  - Maximum lifetime amount.
  - Premium increase percentage and/or new premium.
  - Nonforfeiture (NFO) or contingent nonforfeiture (CNF) amount.
  - If the policy is Partnership qualified, changes to benefits may impact Partnership status.
  - Current premium.

- Providing a series of questions to help policyholders contemplate the implications of each action, such as:
  - What will happen if they take no action?
  - What will happen 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 buyout, 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 that their asset protection may be removed or reduced.

When rate actions span over multiple years, insurers should consider:

- Disclosing the full rate increase amount, how it is spread out across multiple years, and all associated future planned rate increases approved by regulators.
- Specifying if the premium increase referenced is the first, second, third, last, etc.
- Offering contingent nonforfeiture based on the full increase amount and offered with each phase of the rate action.
- Notifying policyholders at least 45 days in advance of each phase of the rate increase, consistent with any applicable state laws and/or regulations.