Statement
of
John Hancock Life & Health Insurance Company

Presented by
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Before the
Subcommittee on Government Operations
Committee on Oversight and Government Reform
United States House of Representatives

Hearing on "Federal Long Term Care Insurance Program: Examining Premium Increases"

November 30, 2016

Chairman Meadows, Ranking Member Connolly and Members of the Subcommittee:

I am Mike Doughty, President and General Manager, for John Hancock Insurance.

John Hancock is one of the two original insurers of the Federal Long Term Care Insurance Program (FLTCIP), and is one of the largest insurers of both group and individual long term care insurance, based on the number of policies in force. John Hancock appreciates the opportunity to appear before you today to discuss the features of the program under the new contract that was awarded to John Hancock Life & Health Insurance Company by the U.S. Office of Personnel Management (OPM) on April 5, 2016, including pricing, consumer support available to enrollees under the program, and the extensive communications we have put in place to assist members of the federal workforce and their families.

We especially want to address the rate increase, why it was necessary, and to explain the steps we took, along with the Office of Personnel Management, to give enrollees affected by this significant rate increase, viable, alternative options. We recognize the financial burden the increase places on enrollees. We want to emphasize to the Committee that John Hancock does not — and cannot, according to the terms of the new contract — make additional profit on the premium increase amount. The new contract, contract number OPM-3516C0004 ("the contract"), became effective May 1, 2016 and will continue until April 30, 2023.

General Information about John Hancock

John Hancock, through its insurance companies, comprises one of the largest life insurers in the United States, and has been in the business of insuring American lives since 1862. Throughout its 154 year history, John Hancock has been a leading innovator in product design and a leading provider of insurance and investment products to consumers, providing Americans security through their working years and retirement. As you may be aware, John Hancock recently announced its decision to discontinue selling new standalone long term care policies because the small demand for the product did not warrant the expense of the operational infrastructure required to support it going forward. However, this decision does not impact the Federal Long Term Care Insurance Program. The federal program is managed separately, and the Experience Fund, where the program's assets are kept, is also separate. Under the Office of Personnel Management's oversight and management, John Hancock will continue to issue coverage under the Federal Long Term Care Insurance Program to eligible enrollees who apply.

John Hancock will continue to offer long term care as riders to life insurance policies, and will also continue to service more than one million long term care customers with existing policies. To date, John Hancock has paid more than $8.5 billion in long term care claims for its group and retail business, plus over $750 million in claims for the Federal Long Term Care Insurance Program since the program began in 2002. Currently, John Hancock pays out over $1.2 billion per year in claims, plus over $168 million for the federal program.

Knowing how important claim payment is to policyholders, John Hancock supported including an independent third-party review process in the enabling legislation for the Federal Long Term Care Insurance Program. Subsequent to this, in 2008, John Hancock was the first

company to launch an independent third-party review process for its non-FLTCIP long term care insurance policyholders. John Hancock did this before either the National Association of Insurance Commissioners (NAIC) or states required such a provision. John Hancock did this to give its policyholders reassurance that any disputed benefit eligibility or claim decision would provide recourse from a neutral party. Under this provision, the decision of the independent third party is binding upon John Hancock, but not on the policyholder. John Hancock continues to believe that independent third party review is an important consumer protection. A similar third party appeal provision has been built into the Federal Long Term Care Insurance Program since the program's inception.

As evidenced by our decision to bid on the 2016 Contract, John Hancock is committed to the Federal Long Term Care Insurance Program and its enrollees.

We believe that a history of financial strength and stability is important to consumers considering the purchase of long term care insurance and can be a market differentiator. John Hancock has strong ratings for financial strength and stability, as noted below:

Financial Strength Ratings

	Standard & Poor's	Moody's	A.M. Best	Fitch	DBRS
The Manufacturers Life Insurance Company	AA-	A1	A+	AA-	AA (low)
John Hancock Life Insurance Company (U.S.A.)	AA-	A1	A+	AA-	
John Hancock Life Insurance Company of New York	AA-	A1	A+	AA-	
John Hancock Life & Health Insurance Company	AA-	A1	A+	AA-	
Manulife (International) Limited	AA-				
Manulife Life Insurance Company	A+				

Source: http://www.manulife.com/Credit-Ratings. All ratings current as of August 31, 2016. Credit rating agencies assign financial strength or credit ratings to Manulife Financial, its subsidiaries and its securities.

What is Long Term Care Insurance?

Long term care services help people meet their basic personal needs. Given the high costs of long term care (for example, nursing home costs average in excess of $100,000 per year in metropolitan areas, while assisted living and home health care services average more than $50,000 in many places), many choose to purchase insurance to help meet their long term care needs. Long term care insurance provides coverage for costs incurred by individuals in need of help with activities of daily living, such as dressing and bathing—or for services needed due to cognitive impairment. Long term care costs are generally not covered by health insurance.

Participants in long term care insurance programs pay premiums in the present for claims that are generally not expected to be paid out for 20 or 30 (or more) years.

General Information about Long Term Care Partners, LLC

The size, scale, and visibility of the Federal Long Term Care Insurance Program led the program's original joint insurers, John Hancock and MetLife, to establish a separate entity to administer the program. Since the inception of the program in 2002, Long Term Care Partners, LLC has handled all aspects of administration. Long Term Care Partners is also the administrator of BENEFEDS, through which it performs enrollment and premium administration for the Federal Dental and Vision Insurance Program (FEDVIP) and handles premium allotments for the Federal Flexible Spending Accounts Program (FSAFEDS).

The staff of Long Term Care Partners brings deep experience in the long term care insurance business, sensitivity to the federal workforce, annuitant, and military communities, and proven capability to use information technology to build customer-focused systems, automate transactions, and enhance customer access, in order to assist enrollees and their families. Long Term Care Partners is subject to, and consistently meets, very high performance and customer service metrics established by the Office of Personnel Management. Additionally, Long Term Care Partners prides itself on the high caliber of service it provides to enrollees and their families with its outstanding care coordination personnel, staffed by registered nurses with clinical experience in long term or geriatric care.

Background on the Federal Long Term Care Insurance Program

The legislation establishing the Federal Long Term Care Insurance Program was signed into law on September 19, 2000, and was a bipartisan effort to make long term care insurance available to federal employees, annuitants, the military, and their eligible family members.

The Federal Long Term Care Insurance Program is regulated by the Office of Personnel Management.

After a full and open competitive bidding process, the Office of Personnel Management awarded the first seven-year contract to a consortium under which John Hancock and Metropolitan Life Insurance Company (MetLife) jointly insured the program. For both the second contract period (May 2009 to April 2016) and the third contract period (May 2016 to April 2023), the Office of Personnel Management again conducted a full and open competitive bid process, and awarded the contracts to John Hancock, the only entity to submit a compliant bid.

The Federal Long Term Care Insurance Program Experience Fund & How It Works

The legislation creating the Federal Long Term Care Insurance Program requires the insurance providers to account for all premiums received for the Federal Long Term Care Insurance Program — and to track investment returns — separately from all other funds. John Hancock maintains a separate account for the Federal Long Term Care Insurance Program,

known as the Experience Fund, that is used exclusively for the program's assets and liabilities. Pursuant to the statute, the Experience Fund receives all premiums collected and investment income earned. This funding approach allows for a seamless transition to a successor carrier, as was the case in 2009, when the MetLife/John Hancock consortium ended and John Hancock became the sole successor carrier. The statute also requires that enrollees pay the entire premium for the coverage, so that no taxpayer dollars subsidize enrollee premiums.

Some key points regarding the structure of the Federal Long Term Care Insurance Program and its Experience Fund include the following:

- Assets in the Experience Fund must be used exclusively to pay Federal Long Term Care Insurance Program claims, expenses, and risk charges.

- The Experience Fund must have sufficient funding to cover all current and projected claims and program expenses for all current enrollees in the program.

- Determining the balance of the Experience Fund at any given point in time requires projecting the expected total liability decades into the future, until the last claim is covered, which, for the current enrollee population, is likely to be around the year 2085.

- The only source of the funding to pay claims is the premiums deposited in the Experience Fund and investment income earned.

- All investment gains or losses and any surplus belong to the Experience Fund, not to John Hancock.

- The Experience Fund is reviewed regularly by John Hancock and the Office of Personnel Management, and is subject to external, independent audit as of September 30 of each year.

- Risk charges contractually payable to John Hancock and to the program administrator, Long Term Care Partners, are set by formula, capped, and subject to performance metrics established by the Office of Personnel Management.

- As of September 30, 2015, the Experience Fund had assets of $4.8 billion.

What Caused The Need For A Rate Increase?

Sustainability is a critical and required aspect of the Federal Long Term Care Insurance Program and the Experience Fund. By law and under the contract, premiums must "reasonably and equitably reflect the cost of the benefits provided." Premiums may be adjusted under the contract as necessary to achieve overall Federal Long Term Care Insurance Program funding sufficiency.

In the Fall of 2013, we observed trends in our non-FLTCIP business that could affect the federal program, so we began an assessment of that program as well. This review was completed

in May 2014 and led John Hancock to conclude that the Experience Fund would experience a deficit – *i.e.*, then current premiums would not be sufficient to cover projected claims for current enrollees. We found that new claims were increasing, particularly at older attained ages, claims are lasting longer than expected and that policies with higher daily benefit amounts were exhibiting disproportionately higher claims.

We concluded our initial analysis in May 2014 and presented the conclusions to the Office of Personnel Management in June 2014, during a "funded status" meeting. We continued to evaluate our assumptions for investment returns and future mortality and morbidity improvements.

The premium rate increases effective November 1, 2016, reflect changes to John Hancock's actuarial assumptions based on its 2013-2014 study and subsequent changes to assumptions for future investment returns and future mortality and morbidity improvements. These changes were intended to correct for the following trends:

- **Morbidity Rates –** Claims are lasting longer than expected, and more people than expected are claiming at the older attained ages and later policy durations.

- **Investment Returns –** Returns are lower than expected, due to the sustained low interest rate environment.

- **Expectations of Future Mortality Improvement**, informed by a new table published by the Society of Actuaries in 2014.

Similar trends have caused long term care carriers nationwide to seek rate increases. Prior to the increase, there was a funding shortfall of $2.3 billion, as of September 30, 2015.

This does not mean money had been lost or that the Federal Long Term Care Insurance Program Experience Fund had a negative balance. On the contrary, the program had ample funds to reimburse projected claims for many years to come. There was no current liquidity or solvency issue. The funding shortfall reflected the results of *projected* liabilities exceeding *projected* assets, based on new assumptions about future claims usage and investment returns. The 2016 premium increase was, in effect, a course correction that addressed this shortfall by bringing the program's projected assets and liabilities into alignment.

John Hancock cannot guarantee that rates will not have to be increased in the future. As is the case for all long term care insurance — not just the Federal Long Term Care Insurance Program — John Hancock is required to price using assumptions that will result in premiums that are sufficient, along with a reasonable margin to absorb the impact of moderately adverse (*i.e.*, moderately worse than expected) claims experience. This pricing is intended to cover all claims for existing enrollees, *unless* the underlying assumptions change and an adjustment to the premiums becomes necessary. The Federal Long Term Care Insurance Program needed a rate increase when the actuaries determined, in mid-2014, that the rates were not adequate based on new data and emerging claims trends. The revised assumptions were reviewed by independent actuarial firms. Both John Hancock and the Office of Personnel Management have a contractual

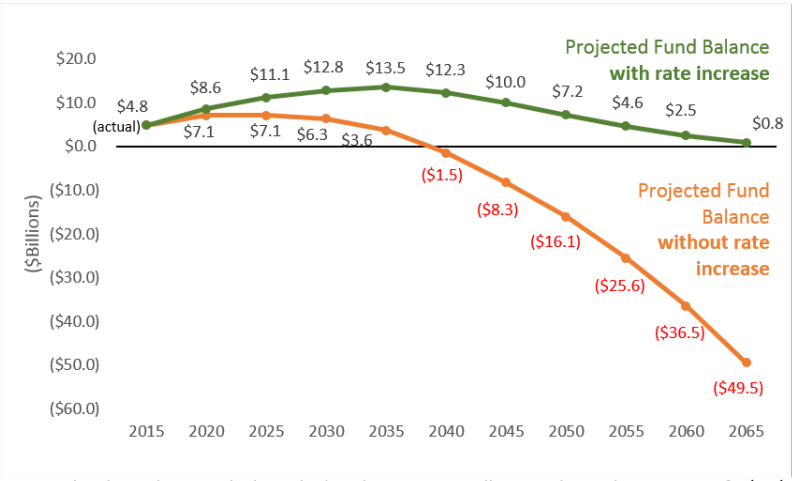
responsibility to adjust current premiums where necessary to achieve overall program funding sufficiency.

The importance of new and credible data are critical to determining long term care pricing, and the more data that emerges, the more accurately actuaries can price coverage. As displayed in the chart below, *without the 2016 premium increase*, projections indicated underfunding that would have accelerated over time if left uncorrected, and if claims had exceeded the expected claims, including a margin for adverse experience. By 2039, under this scenario, the program's Experience Fund would have run out of money, based on the revised assumptions.

However, *with the 2016 premium increase***,** as shown below, the Experience Fund is projected to maintain funding sufficient to pay all current enrollees' projected future claims, including a margin for adverse experience, over the life of the business.

John Hancock does not make additional profit on the premium rate increase amount. Any surplus remains in the Experience Fund and can only be used for the benefit of plan participants. If actual future experience after the 2016 rate increase is equal to or better than current expectations, the resulting surplus ultimately could be used to reduce premiums of enrollees, or to enhance their benefits.

Projected FLTCIP Fund Balance, with and without rate increase, 2016-2045
(in $ billions; values shown at fiscal year end; based on 9/30/2015 Funded Status Report)



Note: The chart above—which applied to the FLTCIP enrollee population (274,465 as of 5/31/16) before the 2016 rate increase – illustrates the fund's projected cumulative balance over time ***with and without the rate increase,*** *including a margin for adverse experience, as is consistent with industry pricing practice. John Hancock conducts a comprehensive experience study for its long term care business typically every three years. Its most recent comprehensive review of claims experience was completed in 2014. The projections in the above chart reflect changes to John Hancock's actuarial assumptions based on this study.*

With the 2016 premium increase, *the FLTCIP Experience Fund is projected to maintain funding sufficient to pay all current enrollees' projected future claims, with a margin included for adverse experience, over the life of the business.*

John Hancock does not make additional profit on the rate increase; any surplus remains in the Experience Fund, and can only be used for the benefit of plan participants. If actual future experience is equal to current expectations, the resulting surplus ultimately will be used to reduce premiums or enhance benefits.

Without the 2016 premium increase, *projections indicate underfunding that would accelerate over time if left uncorrected and claims exceed expected, with a margin included for adverse experience. By 2039 the FLTCIP Experience Fund would run out of money, based on revised assumptions.*

Preparing for the Enrollee Decision Period

On April 5, 2016, statements by both the Office of Personnel Management and John Hancock about the third contract award noted that:

- A rate increase for current enrollees was part of the third contract.

- In the summer of 2016, enrollees would be provided with benefit restructuring options to help offset or mitigate the increase.

- Further details would be forthcoming.

On July 17, 2016, changes to the Federal Long Term Care Insurance Program website, LTCFEDS.com, went live, including:

- A banner announcing the onset of the Enrollee Decision Period.

- Enhanced online accounts allowing enrollees to log in and view their personalized options.

- Additional tools, including videos and webinars, accessible through enrollee accounts.

Formal announcements with details about the rate increase and meetings with stakeholders began on July 18, 2016, to coincide with the Federal Long Term Care Insurance Program Enrollee Decision Period service centers being fully staffed and operational, and the initial mailings of customized option packages being sent to affected enrollees. All mailings were completed by July 27, 2016.

Background and preparation for the Enrollee Decision Period

John Hancock submitted a bid for the third Federal Long Term Care Insurance Program contract on October 16, 2015. Although John Hancock did not know at the time if it would be awarded the contract, in anticipation of a possible award, John Hancock and the administrator, Long Term Care Partners, spent months developing enrollee options and system requirements for this complex effort. Once the contract was awarded, John Hancock and the Office of Personnel Management worked together to put in place the systems and communications that would enable enrollees to make informed choices, including well-trained representatives in Long Term Care Partners' call centers who were adequately staffed and had access to tools that would allow them to provide high quality personalized service to program enrollees. Consequently, when the Enrollee Decision Period began on July 18, 2016, everything enrollees needed in order to receive support and take action on their personalized options was in place.

The contract reflected that there would be a rate increase, resulting in new higher premiums. The increase affected most of the program's 272,000 enrollees, with the exception of those 80 years or older at the time of their original enrollment, those currently in claim status, those who applied to the program on or after August 1, 2015, and those enrolled in the Alternative Insurance Plan (a plan available to those who did not pass underwriting for long term care insurance under the Federal Long Term Care Insurance Program). Before the increase, the average monthly premium was $134. The average monthly increase was $111, representing an average increase of 83% if an enrollee accepted the rate increase and did not elect one of the

alternative personalized options in the offer package. Increase amounts varied widely, from 0% to 126%, depending on a given enrollee's age at time of enrollment, policy series originally purchased, and plan design. Generally speaking, enrollees with older plans (FLTCIP 1.0) that have longer benefit periods (5 year and unlimited benefit period) — as well as higher inflation options (*e.g.*, 5% and 4% automatic compound inflation coverage) and younger ages as of the date the policies were issued — faced the highest rate increases.

John Hancock and the Office of Personnel Management considered implementing graduated or "stepped" premium increases over several years in order to reduce the immediate impact of the increase. But in addition to adding complexity and potential confusion, extending the period over which the rate increases would be administered would have resulted in enrollees ultimately paying more — up to 13% more for some plan designs — since the increase would now have to take into account — and correct for — additional years of inadequate premiums. Instead, the current "all-at-once" approach was adopted, with personalized options for enrollees to help mitigate the rate increase.

Enrollee Options to Mitigate the Rate Increase

John Hancock and the Office of Personnel Management recognized the budgetary strain that a rate increase can have on enrollees especially those on fixed incomes. To help ease the burden, all affected enrollees were provided with options to help reduce the impact of their rate increase, or eliminate it altogether, by reducing their plan coverage. A personalized option package was mailed to all affected enrollees. The package allowed enrollees to select from among the following, depending on the specifics of their coverage:

- Choose a "premium neutral option" to fully offset the premium increase (in some cases, this option may substantially reduce the rate of future inflation protection growth or benefits).

- Choose a partial increase, accepting roughly half the premium increase along with moderate benefit package reductions.

- Accept the full increase and retain current benefits and inflation protection.

- Cease premium payments and receive a limited "paid-up" policy with a greatly reduced lifetime maximum benefit (available only to enrollees whose premium has increased beyond a certain percentage based on the age of the person as of the date the policy was issued).

Enrollees had until September 30, 2016, to make a decision and could change their decision as often as they wanted until this deadline. After this date, enrollees still had time to make or change their decision; in mid-October, enrollees were mailed an updated Schedule of Benefits, reflecting the new premium and benefits effective as of November 1, 2016, and were given a period of 30 days from receipt of their new Schedule of Benefits to make a change or selection from any of the options that were included in their personalized options packages

mailed in July. Whatever the final decision, the effective date of the change was November 1, 2016.

Even after November 1, 2016, as has always been the case, enrollees can make changes to their coverage, such as decreasing their coverage, although the personalized options from the Enrollee Decision Period would no longer be available.[1]

As of November 16, 2016, more than 96% of enrollees who have responded have chosen either to accept the increase or to take one of the benefit reduction options. So far, about 3.3% have chosen to discontinue coverage or receive the "paid-up" option. In short, the vast majority of enrollees are opting to keep their coverage and not drop it, presumably because they recognize the value of the coverage, even with the rate increase. As of November 16, 2016, there are about 266,000 active, premium-paying enrollees. About 6,000 additional enrollees elected the "paid-up" option, giving them a fixed amount of coverage without further premium payments.

We recognize the desirability of finding ways to address rate stability going forward. As a result, we have formed a working group with the express purpose of evaluating program, product, and regulatory changes that could improve the stability of rates for the Federal Long Term Care Insurance Program. This working group will include members drawn from John Hancock, Long Term Care Partners, and OPM. The group will solicit input from top long term care insurance industry experts, and, upon completion will present a set of recommendations to the Office of Personnel Management.

The Federal Long Term Care Insurance Program Has Helped Enrollees with Their Long Term Care Needs

In the absence of private insurance, or access to publicly funded programs, Americans have no choice but to bear the burden of long term care costs out-of-pocket. Potential long term care needs pose the largest unfunded liability facing the American family today. When the costs of long term care have to be borne by individuals, the assets accumulated over a lifetime of hard work can be and often are wiped out.

A brief look at the Federal Long Term Care Insurance Program claims data tells a compelling story about the value of the coverage to enrollees. Since the start of the Federal Long Term Care Insurance Program in 2002, the program has paid over $750 million in claims to program enrollees and currently pays more than $14 million in such claims per month. As of October 31, 2016, more than 11,700 enrollees have received claim reimbursement, and over 4,500 enrollees are currently in claim status. We project that in the year 2040 alone, claims for those currently enrolled in the program will exceed $1 billion, which illustrates the expected growth in claims and underscores the need to ensure that the program is adequately funded.

Just looking at the 20 largest claims for the program, as of November 21, 2016:

[1] The personalized options cannot remain available indefinitely because they were calculated to be actuarially equivalent for the various populations at the time of the Enrollee Decision Period. Those populations will change over time and they would no longer be actuarially equivalent in the future.

- Total claims dollars paid to date for 20 largest claims/claimants = $12,202,780.02.

- Total premium paid by these top 20 claimants = $374,252.59.

- Of these top 20 claims, 12 remain open.

- Total amount of claims dollars paid to these top 20 claimants ranges from $505,376.09 - $895,781.28.

- 16 of the top 20 have unlimited benefit periods and 10 of these remain open.

There have been numerous reports about rate increases in the private long term care insurance market. But while private long term care insurance is not perfect, it would be wrong to dismiss it out of hand. Private long term care insurance is still sought by tens of thousands each year looking for relief from the financial impact and stress of long term care needs. Throughout the Enrollee Decision Period the number of new applications to the program has remained constant or higher than prior to the start of the Enrollee Decision Period.

The Federal Long Term Care Insurance Program contains a number of specialized features and benefits that have proven to be helpful and meaningful to members of the federal family, such as international benefits, care coordination by licensed registered nurses, third party review of disputed claims, no war exclusion, a generous informal care/family care benefit paid at 100% to name a few, as well as a track record of meeting or exceeding stringent performance metrics set by the Office of Personnel Management.[2]

Thank you, Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee for the opportunity to speak to you today and to offer this testimony. I will be happy to answer any questions you may have.

[2] The performance metrics are established as part of the contract and are reported annually in the Quality Assurance Surveillance Plan (QASP), which is submitted to the Office of Personnel Management for review.