

DATE: June 16, 2016

TO: IIPRC Product Standards Committee (PSC)

FROM: Industry Advisory Committee

SUBJECT: IIPRC 5 Year Review For Phase 6: Individual LTC Standards
*Consumer Representatives' Comments Dated April 7, 2016 Re:
Non-Duplication of Benefits Provision Proposed by IAC*

In Response to the Consumer Representatives' Comments Dated April 7, 2016 on the Non-Duplication of Benefits Comments Made by Industry:

The purpose of the IIPRC was and is to establish national standards based on the majority regulatory view and existing Models to the degree practical and possible. The 2010 decision made by the IIPRC to exclude the option for a non-duplication of benefits provision in our view violated both of these tenets. Accordingly, we believe that there is justification to re-open this issue for discussion with the regulators.

It is becoming increasingly common for consumers to own or purchase more than one standalone or "combo" LTC product. This is often because consumers want to cover LTC risks but need to stage their purchases or combine different kinds of coverage to fit within limited budgets. However, it is problematic for insurers to issue multiple policies to a client without addressing the issue of "betterment" as a result from duplication of benefits. Accordingly, it is imperative for the insurers that we once again address the implications of not permitting an IIPRC non-duplication of benefits provision in the LTC standards.

From our perspective, the current standards have certain unintended consequences that the consumers groups have not considered.

Practically speaking, some consumers have purchased multiple policies that ultimately reimburse them for the same risk. The current IIPRC LTC standards which prohibit the inclusion of non-duplication of benefits provision allow consumers to buy multiple policies and to use those policies simultaneously for purposes of reimbursing expenses. As an example, if a policyholder buys four policies, each with a \$100 a day benefit, and incurs expense of \$100 per day, the current standards allow that policyholder to recover \$400 a day for a \$100 expense, thereby profiting from the product. ***We do not believe that HIPAA and the tax-qualified nature of the product was intended to allow policyholders to essentially profit from owning multiple policies.***

Likewise, a non-duplication of benefits provision ***would not*** have the effect of limiting the policyholder from receiving benefits under multiple policies if the expenses incurred exceeded the benefit limits of one of the policies. As an example, if a policyholder owned four policies, each with a \$100 a day benefit, they would be entitled to \$400 a day if expenses incurred were \$400 a day. ***Therefore, there is no logical reason why the current standards are better for***

consumers.

While the consumer representatives may argue that the policyholder should be entitled to use multiple policies to fund the same risk and that insurers have considered this utilization in pricing, we disagree. These situations present greater opportunity for anti-selection, fraud and financial abuse of the policyholder (since the benefits will not actually be used to reimburse expenses and the excess may be used by family etc. for other purposes). ***Because of the potential for anti-selection, fraud and financial abuse, consumers will ultimately bear the cost through future rates increases.*** That doesn't seem very consumer friendly to us.

As a result of the prohibition on the use of a non-duplication of benefits provision, ***some insurers have limited the ability of policyholders to purchase multiple policies.*** This approach protects the insurers, but limits the flexibility afforded policyholders to initially buy a smaller policy at a lower cost and add one or as their needs change over time.

Finally actuaries raised this point: the assumptions are, for the most part, that one person equates to one exposure. Assume that an insurer had a block of business with two policyholders. One policyholder has 4 policies while the other has 1 policy. The insurer may expect an incidence rate of 50% or that one of the two lives goes on claim. If the policyholder with 4 policies goes on claim, then the experience looks like an 80% incidence rate since 4 out of 5 policies go on claim. The insurer would have to pass that adverse experience through to the remaining policyholder.

It is important to note that many of the “issues” which the consumer representatives are raising in their April 7th letter with regard to industry’s proposal to reconsider inclusion of a non-duplication of benefits provision would equally apply to the current Model which permits non-duplication provision.

Since the purpose for the industry’s proposed standard is to avoid duplication of benefits and resulting scenario of betterment whereby the insured might receive cash over and above the actual expenses incurred, we also fail to see the rationale for the consumer representatives’ request that the Actuarial Workgroup consider whether there should be separate rate standards for long-term care policies sold as “additional coverage.”

Proper Disclosure Concerns

As previously stated in our December 1, 2015 5 Year Review comments, we believe that the existing IIPRC LTC advertising standards and Outline of Coverage standards already provide for proper disclosure.

Submitted by the Industry Advisory Committee:

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