Ms. Karen Shutter  
IIPRC Executive Director  
444 North Capitol Street NW, Suite 701  
Washington DC 20001

Dear Ms. Shutter:

I am submitting this letter on behalf of The Northwestern Mutual Life Insurance Company and its subsidiary, Northwestern Long Term Care Insurance Company in support of a proposed new provision for non-duplication of benefits to address the use of multiple policies for one insured, as part of the Five-Year Review for Uniform Standards regarding Long-Term Care.

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. We are requesting that non-duplication of benefits language be added to the IIPRC Individual LTC Standards based on language already included in the Long-Term Care Insurance Model Regulation.

Section 6B(6) of the NAIC Model regulation permits companies to include a policy provision exclusion or limitation for:

“6) Expenses for services or items available or paid under another long-term care insurance or health insurance policy;”

We propose the following IIPRC standard be included for long-term care insurance policies:

“Expenses for services or items available or paid under another long-term care insurance or health insurance policy. The policy may include a non-duplication of coverage provision such that the benefits provided for allowable expenses under all long-term care insurance policies covering the insured do not exceed the actual expenses incurred for the covered services or items. If included, the provision shall describe how the ratio will be calculated to determine the proportional benefits that would be paid on a pro-rata basis under the policy form.”
Since companies may have a variety of approaches to address non-duplication of coverage for the reimbursement of expenses, this standard would offer the flexibility for the IIPRC to accommodate the design of different permissible contract provisions to protect against duplication of benefits under multiple policies.

Our proposed standard ensures the total amount being reimbursed will not exceed the actual expenses incurred in situations where benefits payable under all policies providing coverage for long-term care services issued by the company are greater than total actual expenses to be reimbursed. It would allow for provisions by which the benefits paid under each policy would be adjusted on a pro rata basis. At a minimum, insurers should have the ability to address the situation where claims for reimbursement of benefits exceed the actual expenses incurred.

**REASONS FOR OWNING MULTIPLE POLICIES**
The concept of people buying more coverage through multiple policies down the road is a real consideration, and with the increased popularity of LTC combo products, this practice may become much more prevalent. There are several reasons why owning multiple policies can be beneficial to consumers in their LTC planning:

- **Part of a planning process.** The sale of LTC insurance has become more a part of a financial planning process to protect retirement assets than a pure product sale. LTC insurance may be purchased in phases over a client’s lifetime, not just once as part of the consumer’s financial planning process. For example, a policyowner may purchase LTC at age 40 to meet *some* of the need for LTC coverage (there might be personal budget constraints that come into play), but as part of the policyowner’s financial security plan, this policyowner may wish to purchase a second LTC policy at age 50 to more fully meet the need, at a time when they might have to the financial wherewithal to afford this additional coverage.

- **Provides flexibility.** By purchasing multiple policies over time and as the consumers’ financial situation changes, consumers may benefit from increased flexibility in designing coverage that meets their specific ever-changing needs. Depending on which options and features are most important to the client, there are numerous alternative coverage configurations that could be considered. By purchasing multiple policies with various benefits, consumers can manage their premium costs while meeting their specific needs for mitigating their long-term care risks through insurance. For example, consumers may choose to index only a portion of their coverage for inflation protection. Rather than an all or nothing approach, multiple policies can be used to provide complimentary “layers” of coverage, if so desired.
• **Disincentivizes replacement.** Allowing the sale of multiple policies also acts as an alternative to a replacement of inforce coverage, if the newer policy can act to supplement or expand coverage already in force that is now viewed as not sufficiently meeting their financial needs. By disincentivizing replacement, the consumer will not “age” to the extent he or she would in a total replacement situation.

• **Accommodates “combo” products.** It is becoming more common for LTC policies to be purchased in addition to a combo product in order to provide the consumer’s desired level of coverage.

• **Extends coverage.** Unlike health insurance, most LTC insurance policies in the market today provide a pool of benefits that are not fixed by a “use-it or lose-it” time frame. This means that multiple polices can work together to extend coverage. That is, to the extent benefits are not used initially, the combined benefit pools are conserved for later use in a claim. In this way, the premiums for each policy purchase useable long-term care protection.

• **Supplements employer sponsored coverage.** Another important scenario is where employers are providing individual policies which qualify for a multi-life discount. An employer plan typically provides for a base level of coverage; however, often the employee wishes to buy additional coverage either at the same time or in the future in the form of other individual policies that supplement the employer-sponsored coverage and may have different benefit configurations or optional benefits. In order for these employees to fully meet their desired level of protection for LTC risk mitigation, it is important to accommodate such multiple policies.

**IMPLICATIONS**

Expense reimbursement policies commonly offered in the industry, are by definition, intended to reimburse an insured up to the actual expenses incurred. Since these policies are priced to reimburse the actual expenses incurred, it is critical there not be a windfall situation where the insured is reimbursed multiple times for the same expenses and receive more than their actual expenses commonly known as “betterment”. By definition, a reimbursement policy should NEVER provide an insured more than their incurred expenses, whether through one policy or multiple policies. We believe this creates a moral hazard and the implications could be serious:

• **Allowing enrichment or double-dipping.** There could be inequities across otherwise similar insureds – or outright fraud - where an insured with two policies could seek reimbursement twice for the same incurred expense.
• **Exhaustion of coverage.** If a consumer decides to own multiple policies, it should be because they want the extra coverage to cover a possible future LTC need. Without non-duplication of benefits contract language, an insured could be reimbursed in excess of expenses incurred and therefore will have less coverage available for future LTC services and are more likely to exhaust coverage prematurely while they still have a need for long-term care. Non-duplication of benefits language provides that an insured preserves benefits for future incurred LTC expenses. LTC insurance is unlike health insurance which is fixed by a use-it or lose-it time frame.

• **Tax disqualification.** There could be potential tax issues if insureds are receiving tax-free benefits from multiple tax qualified expense long-term care insurance reimbursement policies that exceed actual incurred expenses.

• **Partnership impacts.** Under Partnership LTC policies, for every dollar of LTC insurance benefits received, a Medicaid applicant is able to retain a dollar of additional assets and still qualify for Medicaid. If Partnership LTC insurance policies don’t provide for non-duplication of benefits, then in those cases where a claimant is paid benefits by multiple policies which are more than the actual expenses incurred, that difference results in a higher amount of assets protected. This means that these individuals could inappropriately shelter more assets from Medicaid with a greater amount of assets protected at a cost to the state Medicaid programs.

• **Morbidity implications.** Worsening of morbidity experience that could require future rate increases – We know that morbidity rates are significantly higher for indemnity plans (10-20%) and cash plans (60-80%) compared to reimbursement plans. Providing incentives where insureds will receive cash in addition to expense reimbursement could have a significant impact on morbidity results.

**PRECAUTIONS**
Regulators have expressed concern regarding the sale of multiple policies, especially the sale of excessive coverage that would have no potential to ever pay benefits. There are ways to address these concerns while also appropriately reimbursing insureds for the expenses, regardless of the number of policies they own. Examples of our current practices providing consumer protections to mitigate inappropriate sales of multiple policies include:

• Suitability standards to ensure coverage is appropriate for the consumer and to protect against sales of unnecessary coverage.

• Issuer underwriting limits on the amount of total coverage that can be purchased by one insured (e.g., a maximum monthly or daily limit) to avoid over-insurance that is not realistically usable.

• No additional commissions paid to the agent for the sale of multiple policies vs. single policies for the same total coverage amount. No multiple policy fees.
We request that you review the information provided above and take our comments into consideration as the IIPRC performs the Five-Year Review of the Long-Term Care Standards.

If you have any questions or need additional information, please feel free to contact me.

Sincerely,

[Signature]

Angela S. Hanson  
Assistant Director Product Compliance