



**INTERNATIONAL ASSOCIATION
OF INSURANCE RECEIVERS**
PROMOTING PROFESSIONALISM AND ETHICS

February 7, 2017

James Kennedy (TX)
Chair, Receivership Model Law Working Group ("RMLWG")

RE: Request for Comment on LTCI Issues and Implications

On behalf of the International Association of Insurance Receivers ("IAIR"), this letter responds to your request for comments on issues and implications of long-term care insurance ("LTCI") insolvencies on receivership practices and processes, the guaranty fund system, the applicability of provisions within *Life and Health Insurance Guaranty Association Model Act (#520)* on long-term care insurance and any other receivership laws/regulations.

IAIR was founded in 1991 as an association of professionals involved with insurance receiverships and financially stressed or troubled insurers. IAIR's mission includes facilitating the exchange of information concerning the administration and restructuring of such insurers. IAIR's members include experienced insurance receivers (including rehabilitators and liquidators), insurance regulators, life and health and property and casualty insurance guaranty associations, and other professionals (attorneys, accountants, actuaries, information technology experts, etc.) that provide consulting services in rehabilitation and liquidation proceedings.

When LTCI products were introduced in the late 1970's and early 1980's, there was no insured experience data available. LTCI is a lapse supported product. As there is usually no value to the policyholder upon lapse, the reserves on lapsing policies help fund the benefits for those remaining in force. The lapse rate has developed significantly lower than priced. This is due to changes in policyholder behavior. The result has been inadequate premiums on legacy blocks of LTCI. Additionally, socioeconomic factors influencing the long-term care market have significantly changed. There are more options available to those unable to perform routine activities of daily living and the cost of such care has risen. These factors among others resulted in adverse development of many legacy LTCI products that were underpriced and under reserved.

Rate increases are often sought to remediate adverse development. However, rate increases for LTCI products could likely have a significant adverse effect as policyholders who had paid premiums for possibly decades may be unable to afford the increased premiums at this time in their lives and may lose their prior investment in this guaranteed renewable protection. Due to the nature of LTCI and public policy concerns, rate increase requests have had varying experience in being approved.

The long exposure period of LTCI and the guaranteed renewable provision further complicate resolution in receivership actions. Life and annuity blocks of business are typically assumed by another company with

funding provided from the company assets and by guaranty association assessments. However, due to the issues discussed above, there is limited or no market for LTCI blocks.

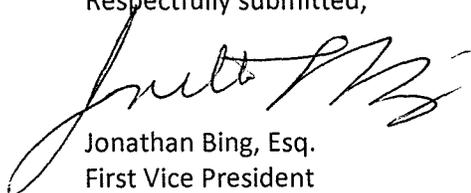
From a guaranty association perspective, LTCI is treated as health insurance and assessments for its coverage fall upon the member insurers that write health insurance, many of which do not write LTCI. LTCI is often written by life insurers or monoline insurers who specialize in that product. In addition, over the last few years, health markets within a state may be dominated by one insurer, or a small number of insurers, resulting in only a few member insurers to bear a large portion of the assessments for an extended period of years. Industry is calling for a change in the assessment process to ensure those companies writing LTCI pay a proportionate share of assessments for LTCI products and that LTCI assessment obligations do not create significant and disproportionate financial burdens on a small group of health insurers in a state.

Additionally, while most states have adopted \$300,000 or more of guaranty association coverage for LTCI policies, a few states remain at the older \$100,000 limit. While even the lower limit is not expected to be an issue for some LTCI policyholders, there are likely to be exceptions where the benefits due under the LTCI policy exceed the guaranty association coverage.

Finally, the introduction of hybrid life and annuity LTCI products create some confusion regarding how these products would be covered by a guaranty association should the insurer fail. Clarification regarding under which line of business these products would be viewed in an insolvency might be advantageous in furthering the consumer protection intent of the guaranty associations.

We thank you for the opportunity to opine in this matter. IAIR would be pleased to respond to any questions on the foregoing and welcomes the opportunity to assist and participate in further discussions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jonathan Bing". The signature is written in a cursive, flowing style with a large initial "J".

Jonathan Bing, Esq.
First Vice President
International Association of Insurance Receivers