



**WHERE PROTECTION & REGULATION MEET**

**Genworth Long-term Care Public Hearing  
Wednesday, February 5, 2020**

# Genworth Life Rate Increase Hearing

## South Carolina Department of Insurance

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**Dave Dillon, FSA, MAAA**  
Senior Vice President & Principal

FEBRUARY 5, 2020



# Overview of Rate Increase Requests

BLOCKS	SUMMARY
Group GE Group	<ul style="list-style-type: none"><li>70% increase requested on all policies</li><li>Sold between 1992 and 2012</li><li>Applies to approximately 506 South Carolina policyholders.</li></ul>
Indiv Pre-PCS	<ul style="list-style-type: none"><li>Average 53.2% increase requested, varying from 7% to 80%</li><li>Sold between 1989 and 1998</li><li>Applies to approximately 1,041 South Carolina policyholders</li></ul>
Indiv PCS	<ul style="list-style-type: none"><li>Average 43.9% increase requested, varying from 29% to 62%</li><li>Sold between 1994 and 2003</li><li>Applies to approximately 1,358 South Carolina policyholders</li></ul>
Indiv PCS II	<ul style="list-style-type: none"><li>Average 37.2% increase requested, varying from 29% to 48%</li><li>Sold between 1998 and 2003</li><li>Applies to approximately 3,186 South Carolina policyholders</li></ul>
Indiv Choice 1	<ul style="list-style-type: none"><li>Average 35.9% increase requested, varying from 29% to 43%</li><li>Sold between 2001 and 2004</li><li>Applies to approximately 3,779 South Carolina policyholders</li></ul>
Indiv Choice 2	<ul style="list-style-type: none"><li>21.4% increase requested on all policies</li><li>Sold between 2003 and 2011</li><li>Applies to approximately 6,168 South Carolina policyholders</li></ul>

## Actuarial Standards of Practice # 8

- Provides guidance to actuaries with respect to preparing or reviewing required regulatory filings related to rates or financial projections.
- Two of the key sections are 3.11 Regulatory Benchmark and 3.12 Reasonableness of Assumptions.
- 3.11.1 Regulatory Benchmark
  - 3.11.1 Rate Adequacy—Rates may be considered adequate if they provide for payment of claims, administrative expenses, taxes, and regulatory fees and have reasonable contingency or profit margins.
  - 3.11.2 Rates Not Excessive—Rates may be considered excessive if they exceed the rate needed to provide for payment of claims, administrative expenses, taxes, regulatory fees, and reasonable contingency and profit margins.

## Actuarial Standards of Practice # 8

- 3.11 Regulatory Benchmark, continued
  - 3.11.3 Rates Not Unfairly Discriminatory—Rates may be considered unfairly discriminatory if the rates result in premium differences among insureds within similar risk categories that: (1) are not permissible under applicable law; or (2) in the absence of an applicable law, do not reasonably correspond to differences in expected costs.
  - 3.11.4 Projected Loss Ratio—A projected loss ratio may be considered unreasonable if it does not meet or exceed a threshold under applicable law.
- 3.12 Reasonableness of Assumptions
  - The actuary should review the assumptions employed in the filing for reasonableness. The assumptions should be reasonable in the aggregate and for each assumption individually.....

# Rate Review Process

## South Carolina Code of Laws, Chapter 72, Title 38

- In terms of the standard of the review, the law states that the Director may disapprove or modify premium rates under 6 criteria. 4 of these are related to the regulatory benchmark criteria in ASOP #8:
  - The benefits provided are unreasonable in relation to the premiums charged,
  - Appear to be inadequate,
  - Unfairly discriminatory, and
  - Excessive in relation to benefits.
- 2 of the criteria are related to the reasonableness of assumptions criteria in ASOP #8:
  - Assumptions that are unreasonable in the aggregate, and
  - Assumptions that are unreasonable individually.

# Rate Review Process

## South Carolina Code of Laws, Chapter 72, Title 38

- Director shall consider 6 additional factors regarding whether to disapprove or modify a premium rate filing:
  - Past and prospective loss experience in and outside the State;
  - Underwriting practice and judgment;
  - A reasonable margin for reserve needs;
  - Past and prospective expenses, both countrywide and those specifically applicable to the State;
  - Prior approved rate changes; and
  - Any other relevant factors necessary including the factors set forth in the regulation.

# Individual Filing Observations

## Individual Filings (Pre-PCS, PCS, PCS II, Choice 1, and Choice 2)

- Given all information available today, the proposed rates would not have been permissible for sale at issue under South Carolina law because the rates are too high in relation to the benefits offered.
  - In most cases, the current premiums are higher than would have been permissible at the time of sale.
  - Many of the proposed rates are higher than similar policies are currently being sold for.
- South Carolina policyholders are currently paying higher than the nationwide average for Genworth policyholders with the same benefits.
  - A rate decrease of approximately 9% on average would be necessary to produce rates equivalent to the nationwide average.
- The most recent approved rate increase was 20% in 2017.
- The Company applied a prospective discount/interest rate of generally 4% to historical cash flows as old as 30 years.
  - Actual investment returns since 2009 have averaged approximately 5.5%, rather than the 4% assumed in the Company's projections.
  - Due to the recession around 2008, the time period producing returns of 5.5% was a historically low-interest period, and the earlier cash flows likely produced even higher returns, which are not considered in these filings.

# Specific Filing Observations

## Pre-PCS Filing (SC Tracking #327758)

- The Company indicated that the proposed 53.2% increase is only a portion of the 83.1% increase they intend to implement on these policies.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of approximately 117%.
- If the rate increase is approved as proposed, the rates would be approximately 3 times the original rates.
- Some policyholders, like those with limited benefit periods, are projected to produce reasonably favorable results for the Company if the requested increase is approved.

# Specific Filing Observations

## PCS Filing (SC Tracking #327756)

- The Company indicated that the proposed 43.9% increase is only a portion of the 146.3% increase they intend to implement on these policies.
- The data provided suggests that claims will be even higher than currently projected, meaning that the Company would likely request further increases even if the 146.3% in planned increases were approved.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of approximately 174%.
- If the rate increase is approved as proposed, the rates would be approximately 4 times the original rates.

# Specific Filing Observations

## PCS II Filing (SC Tracking #327754)

- The Company indicated that the proposed 37.2% increase is only a portion of the 118.4% increase they intend to implement on these policies.
- The data provided suggests that claims will be even higher than currently projected, meaning that the Company would likely request further increases even if the 118.4% in planned increases were approved.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of approximately 172%.
- If the rate increase is approved as proposed, the rates would be approximately 3.75 times the original rates.
- The Company is requesting approval of their “Stable Premium Option”, requiring policyholders to accept the rate increase as well as reduce benefits substantially in order to be protected from future increases.

# Specific Filing Observations

## Choice 1 Filing (SC Tracking #327757)

- The Company indicated that the proposed 35.9% increase is only a portion of the 312.1% increase they intend to implement on these policies.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of approximately 107%.
- If the rate increase is approved as proposed, the rates would be approximately 2.75 times the original rates.
- The Company is requesting approval of their “Stable Premium Option”, requiring policyholders to accept the rate increase as well as reduce benefits substantially in order to be protected from future increases.

# Specific Filing Observations

## Choice 2 Filing (SC Tracking #327813)

- The Company indicated that the proposed 21.4% increase would be the only increase, assuming experience unfolds as they currently project.
- The Company is requesting approval of their “Stable Premium Option”, requiring policyholders to accept the rate increase as well as reduce benefits substantially in order to be protected from future increases.
  - A reduction in benefits would only make sense if the further rate increases were going to be needed; however, the Company claimed that they do not expect any future increases.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of approximately 62%.
- If the rate increase is approved as proposed, the rates would be approximately 2 times the original rates.

# Specific Filing Observations

## Choice 2 Filing Continued(SC Tracking #327813)

- The Company originally projected to spend 68% of premiums on claims.
  - If their best-estimate projections come true, they will spend less than 68% of premiums on claims even if they do not receive a rate increase.
- The Company argues that they are experiencing adverse conditions because the total amount of claims is expected to be \$4 billion higher than expected.
  - This ignores the reality that premiums are expected to be \$7 billion higher.
  - This means that the Company already expects enough premium to cover the extra claims, plus an extra \$3 billion in additional surpluses on these policies.

# Group Filing Observations

## GE Group Filing (SC Tracking #337657)

- The most recent approved rate increase was 20% in 2017.
- To date, not counting the proposed rate increase, there has been a cumulative rate increase of approximately 44%.
- If the rate increase is approved as proposed, the rates would be approximately 2.5 times the original rates.
- The Company uses a discount rate of 3.5% for this filing, but uses a 4.0% for the individual filings. In both cases, the Company describes this as their best estimate and there does not appear to be any reason for these assumptions to differ.
  - As noted earlier, the 4.0% on individual appears unreasonably low. However, by stating it is their best estimate in the individual filings, the Company appears to be confirming that the 3.5% at least is unreasonable.
- A rate increase of approximately 21% would be necessary for South Carolina rates to meet the nationwide average.



# QUESTIONS

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# Genworth Long Term Care

South Carolina Department Of Insurance

LTC Rate Increase Request Hearing

February 5, 2020

Matt Keppler, President, LTC Closed Block

Lynn White, SVP, Chief Of Staff

# Agenda

**LTC Insurance Is Valuable Coverage**

**Genworth's LTC Position**

**LTC Claim Experience**

**LTC Rate Increases**

**South Carolina Current Filings & Prior Approvals**

**Options Available To Policyholders**

**Policyholder Communications / Service**

**Summary**

# LTC Insurance Is Valuable Coverage

## Need

**Age 65+ Population Is Projected To Grow To 84 Million In 2050<sup>1</sup>**

**By 2025, The Number Of People Age 65 And Older With Alzheimer's Disease Is Projected To Reach 7.1 Million<sup>2</sup>**

**Spending By The Federal Government, States And Individuals On Formal Long Term Supports And Services (LTSS) For Those Aged 65 And Older Will Increase From 1.3% Of GDP In 2010 To 3% Of GDP In 2050<sup>3</sup>**

## Cost

**The Average Cost Of A LTC Event Is ~\$172k<sup>4</sup> Vs. Median Retirement Account Balance Of ~\$135k (For Those 55-64 Years Old)<sup>5</sup>**

**Private Nursing Home Room – Median Annual Cost In South Carolina Is \$91k<sup>6</sup>**

**Assisted Living Facility – Median Annual Cost In South Carolina Is \$42k<sup>6</sup>**

## Leverage

**Access To LTC Benefits That Far Exceed Premiums Paid**

<sup>1</sup>US Census Bureau News Release, "Fueled by Aging Baby Boomers, Nation's Older Population to Nearly Double in the Next 20 Years, Census Bureau Reports," May 6, 2014

<sup>2</sup>Alzheimer's Association, 2019 Alzheimer's Disease Facts and Figures

<sup>3</sup>Congressional Budget Office, "Rising Demand for Long-Term Services and Supports for Elderly People"

<sup>4</sup>PricewaterhouseCoopers, "Formal Cost of Long-Term Care Services,"

<sup>5</sup>Center for Retirement Research at Boston College, "401(K)/IRA Holdings in 2016: An Update from the SCF," October 2017

<sup>6</sup>Genworth, 2019 Cost of Care Survey

# Genworth's LTC Position

**Genworth Manages The Largest LTC Block In The Industry, Servicing 1.1 Million Policyholders And Managing ~50,000 Active And Pending Claims**

**~18,000 Policyholders And ~1,100 Claimants Are South Carolina Policyholders**

**Incurred Losses On Legacy LTC Blocks Have Placed Pressure On Capital**

Legacy Policy Losses, Excluding Assumption Updates (After-Tax, \$ In Millions)					
2014	2015	2016	2017	2018	'14 - '18 Average
~\$585	~\$225	~\$270	~\$455	~\$550	~\$425 <sup>1</sup>

Statutory After-Tax Losses On Legacy LTC Policies Have Averaged \$425 Million Per Year Over The Last Five Years (Excluding Reserve Increases)

Cumulative Genworth Consolidated Statutory After-Tax Losses On Legacy LTC Policies Of \$3.6<sup>2</sup> Billion As Of 9/30/2019

Remaining Genworth Consolidated Statutory Capital Of \$2.0 Billion As Of 9/30/2019

**LTC Premium Increases, LTC Reserves And Remaining Statutory Capital Will Be Used By Genworth To Pay Future LTC Claims**

**Genworth Is Seeking Actuarially Justified Premium Increases To Reduce The Amount Of Future Losses And To Ensure All Future Claims Can Be Paid**

<sup>1</sup> Losses relate to Pre-PCS, PCS I, PCS II, Choice I, RiverSource and Harvest products and assume a 21% tax benefit for 2018 and a 35% tax benefit for 2017 and prior

<sup>2</sup> Cumulative losses since 2006

Policyholder and claim data as of 12/31/2019

# LTC Claim Experience

Genworth's LTC Claim Experience						
	2000	2005	2010	2015	2018	2019
Cumulative Claims Paid (Count)	31,000	76,000	140,000	224,000	279,000	298,000
Cumulative Amount Paid (\$ Millions)	\$900	\$2,700	\$6,500	\$13,000	\$18,400	\$20,400

**Relative To Most Other Lines Of Insurance, LTC Products Are More Recent Market Entrants (1970s) And Were Priced Decades Before Experience Actually Developed**

**Genworth Continues To See Large Increases In The Volume Of Claim Data And, Since 2014, Has Significant New Claim Experience In Attained Age 75+**

**Development Of Experience Informs The Setting Of Assumptions**

**Genworth Continues To Monitor Claim Experience And Make Adjustments When Appropriate**

**The Large Increase In Claims Has Been Compounded By Other Factors, Including The Low Interest Rate Environment And Changes To Other Key Pricing Assumptions**

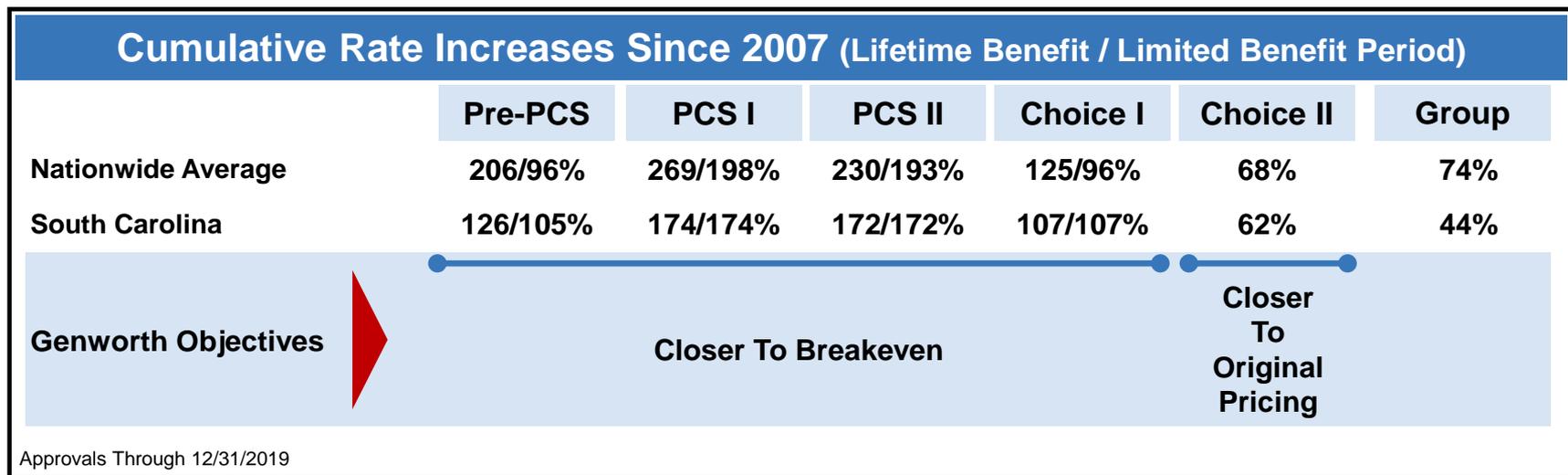


# LTC Rate Increases

LTC Premium Increase Requests Commenced After LTC Claim Experience Became More Definitive

Genworth Filed First LTC Premium Increase In 2007 And Then Subsequent Increases In 2010 & 2012. In 2014, Developed A Detailed, Multi-Year Rate Action Plan (MYRAP)

Adverse Lapse Experience Was More Apparent In Earlier Rate Actions While Claim Experience Continues To Drive The Need For Rate Increases Since The Launch Of MYRAP



There Is A Need For Urgency In Addressing The Challenges Of Inforce Blocks ... The Timely Review And Disposition Of Actuarially Justified Rate Increases Is Critical

# Summary Of Current South Carolina Rate Filings

	Pre-PCS	PCS I	PCS II	Choice I	Choice II	Group
<b>Issue Years In SC</b>	<b>1989-1998</b>	<b>1994-2003</b>	<b>1998-2003</b>	<b>2001-2004</b>	<b>2003-2011</b>	<b>1992-2012</b>
<b>Policy Forms</b>	50000 et al, 50001 et al 50020 et al, 60394 et al 60491 et al, 6484 et al 7021 et al	7000 et al 7020 et al	7030 et al 7031 et al 7032 et al	7035 et al	7042 et al 7044 et al 7042 Rev et al 7044 Rev et al	7040 et al
<b>SC Inforce Lives</b>	<b>~1,000</b>	<b>~1,400</b>	<b>~3,200</b>	<b>~3,800</b>	<b>~6,200</b>	<b>~800</b>
<b>Average Rate Increase Requested</b>	<b>53.2%</b>	<b>43.9%</b>	<b>37.2%</b>	<b>35.9%</b>	<b>21.4%</b>	<b>70.0%</b>
<b>Additional Annual Premium If Approved</b> (\$ Millions)	<b>\$0.9</b>	<b>\$1.7</b>	<b>\$3.4</b>	<b>\$3.5</b>	<b>\$3.2</b>	<b>\$0.4</b>
<b>Date Filed</b>	<b>Sept 2018</b>	<b>Sept 2018</b>	<b>Sept 2018</b>	<b>Sept 2018</b>	<b>Oct 2018</b>	<b>Nov 2019</b>
<b>Lifetime Loss Ratios</b>	<b>104.8% / 103.6%</b>	<b>140% / 135.6%</b>	<b>121.5% / 114%</b>	<b>101% / 91.5%</b>	<b>72.5% / 66.2%</b>	<b>119.3% / 104%</b>

SC Inforce Lives and Additional Annual Premium If Approved are as of the filings

Choice II Is Non-AARP

Lifetime Loss Ratios as included in filings (Without Pending Rate Increase / With Pending Rate Increase); Choice II includes Moderately Adverse Experience (MAE);

# Summary Of Prior South Carolina Approvals

Filing Year	Pre-PCS	PCS I	PCS II	Choice I	Choice II	Group
2007	9%	12%	11%			
2010		18%	18%			
2012	20%	20%	20%	20%		20%
2013 / 2014	20%	20%	20%	20%	13%	
2015 / 2016	20%	20%	20%	20%	20%	
2017	20% / 9%	20%	20%	20%	20%	20%

**Stable Premium Option Included As Part Of 2017 Approval For Choice I**

Starting In 2012, Pre-PCS Through Choice I Filings Differentiate Rate Increase Percentages Between Lifetime And Limited Benefit Periods  
Choice II Is Non-AARP

# Options Available To Policyholders

**Keep Your Current Coverage  
And Pay The Full Premium  
Increase**

**Adjust Your Coverage -  
Reducing Benefit Options**

Reduce Daily/Monthly/Lifetime Benefit  
Reduce Benefit Period  
Reduce/Eliminate Benefit Increase  
Option (BIO)  
Increase Elimination Period  
Eliminate Policy Riders

**Pay Nothing More -  
Optional Limited Benefit**

Limited Paid-Up Long Term Care  
Insurance Benefit

**Adjust Your Coverage - New Policyholder Alternative**

**Stable Premium Option (SPO) Approved On Choice I Policies In South Carolina & Filed On Choice II  
And PCS II Policies**

<b><u>SPO Benefits</u></b>	<b><u>Choice I &amp; PCS II</u></b>	<b><u>Choice II</u></b>
3 Year Benefit Period	✓	✓
1% Benefit Increase Going Forward	✓	✓
Retention Of Increased Daily Benefit + Continued Growth At 1%	✓	✓
Option Of Longer Elimination Period Or Coinsurance	✓	✓
Rate Guarantee	<b>2028</b>	<b>2024</b>

# Policyholder Communications / Service



## About Long Term Care Insurance Premium Increases

We understand that the reason for premium increases—and the choices we're asking you to make about your long term care insurance policy—may not be easy to understand. We are providing this website in order to help you make a well-informed decision that best suits your budget and needs. If you'd rather talk to someone about your questions, you can call us at 866.419.0401, where our dedicated customer service team will be happy to help.

<p><b>Why Increases are Needed</b> How long term care insurance premiums are developed</p>	<p><b>My Options</b> We are committed to helping you figure out what options may best meet your wants and needs</p>	<p><b>The Value of Coverage</b> Why should I consider maintaining my coverage?</p>	<p><b>Genworth's Promise</b> Genworth's commitment to our policyholders</p>	<p><b>FAQs</b> Frequently Asked Questions</p>
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[Genworth.com/LTCpremiums](http://Genworth.com/LTCpremiums)

- Why Premium Increases Are Needed
- Policyholder Options
- The Value Of LTC Coverage

**Policyholders Can Also View And Select Coverage Options Online By Logging Into Their MyGenworth Account**

**Genworth**

Genworth Life Insurance Company  
PO Box 40005  
Lynchburg, VA 24506

Customer service:  
800 883.1127  
M-Th: 8:30 - 6PM ET  
F: 9 - 6PM ET  
Fax: 800 876.8220

**Coverage Options**  
Page 1 of 1

The median monthly cost of care provided in your area:  
In Home Care \$3,813.00 (Based on 44 hours/week)  
Assisted Living \$4,451.00  
Nursing Home \$8,517.00  
Genworth 2018 Cost of Care Study

www.genworth.com Register / log-in to view and select coverage choices online

Policyholder: Jane Q. Sample  
Date: 08/20/2019  
Policy number: UCG123456  
Premium before increase: \$173.17 monthly

Your options:	① Keep current coverage	② Elect Stable Premium option		③ Review and Adjust your coverage	
If you are comfortable with your current level of coverage, pay the increased premium. If we don't hear from you by 11/10/2019 this 72.000% rate increase will take effect.	If you would like to change your benefits to <b>guarantee no additional premium increases until at least 2028</b> , you may select one of the alternatives below. A detailed description of this option can be found in the enclosed sample endorsement.	Stable Premium A	Stable Premium B	Alternative C	Alternative D
Daily maximum benefit	\$175.50	\$176.39	\$176.39	\$138.45	\$175.50
Benefit Period	Unlimited	3 years	3 years	Unlimited	4 years
Inflation protection	Simple 5%	Compound 1%	Compound 1%	Simple 5%	Simple 5%
Elimination Period (Days before benefits begin)	100 days Facility/ 0 days Home Care	180 days Facility/ 90 days Home Care	100 days Facility/ 0 days Home Care	100 days Facility/ 0 days Home Care	100 days Facility/ 0 days Home Care
Coinsurance	None	None	10%	None	None
Monthly premium	\$297.86	<input type="checkbox"/> \$110.04	<input type="checkbox"/> \$110.04	<input type="checkbox"/> \$234.98	<input type="checkbox"/> \$166.99
<b>④ Pay nothing more</b>	If you would like to stop paying premiums on your policy, you can choose the option at right. Please read the detailed description of the option in the enclosed endorsement and Important Information Regarding This Premium Increase. The benefit value is current as of the date of this notice; a final benefits value will be sent to you following your selection of this option.			\$23,294.13 Paid up policy benefit <input type="checkbox"/> Contingent Benefit Upon Lapse	

You may have other ways to reduce your benefits than those shown above; contact the Customer Service team for additional quotes. More information on your options can be found in the enclosed endorsement and Important Information Regarding This Premium Increase. Please read all documents before making a decision. The options shown here are quotes and may change. **You do not need to return this form if you are keeping your current coverage.** If changing your coverage to one of the options above, please check the blue box to indicate your choice, then sign and return this form by fax or mail in the enclosed envelope by: 11/10/2019.

Policyholder Signature \_\_\_\_\_ Date \_\_\_\_\_

By signing, you represent and agree that (1) we are authorized to process the requested change to your policy, (2) the change will not be effective until reflected in a policy amendment we send to you, (3) the benefits and premiums quoted above are subject to confirmation and may change, and (4) you have read and understand the information on this form and the enclosed documents, including the Important Information Regarding This Premium Increase.

**Thoughtfully Designed & Tested Letters With Custom Quotes**

**Provides Multiple Options To Policyholders**

**Includes Local Cost Of Care Data For Comparison**

**Award Winning, Dedicated Customer Service Team**

*(SQM<sup>®</sup>™ 2018 Contact Center Of The Year; World Class Certification 2016-2018)*

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**~60 Trained Specialists To Answer Questions / Provide Options**

**Assisted Over 269,000 Policyholders / Producers In Last Two Years**

# Summary

**Seeking Actuarially Justified LTC Premium Increases To Reduce The Amount Of Future Losses And To Ensure All Future Claims Can Be Paid**

**Genworth Has Absorbed Cumulative Losses Of \$3.6 Billion From 2006 Through 9/30/2019 And Will Continue To Incur Significant Losses**

**Implementing Premium Rate Increases In A Reasonable And Responsible Manner**

**We Offer A Variety Of Options To Mitigate The Impact Of Premium Rate Increases**

**Thank You**



# Closing Remarks

## Director Ray Farmer



**WHERE PROTECTION & REGULATION MEET**

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Or

803-737-6160

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