

Statement from

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Delaware Insurance Department

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Regarding

Proposed Long-Term Care Insurance Premium Rate Increases Requested by
John Hancock Life Insurance Company (U.S.A.)

This statement is submitted in support of the proposed long-term care insurance premium rate increases requested by John Hancock Life Insurance Company (U.S.A.) (“John Hancock”).

I. OVERVIEW

General Company Background

John Hancock has been in the business of insuring Americans’ lives since 1862. Today we are a market leader in many of our product lines, including long-term care insurance, which we’ve been writing since 1987. Our company’s parent, Manulife Financial Corporation, ranks as the 12th largest life insurer in the world and the 3rd largest in North America based on market capitalization as of October 31, 2011¹.

The rate filings that are the subject of this statement relate to long-term care insurance policies insured by John Hancock.

Background Regarding John Hancock’s Long-Term Care Business

We believe in the vital role long-term care insurance plays in the financial planning process and in the lives of our customers and their families, especially in an environment in which government programs are severely strained and the need for private sources to help cover long-term care costs continues to rise dramatically. We are proud to be one of the largest writers of long-term care insurance in the United States. We also insure and administer the Federal Long-Term Care Insurance Program, which covers eligible civilian and military employees of the federal government and their eligible family members.

¹ (Source for rankings: Thomson Reuters 10/31/11)

Over the years John Hancock has paid more than \$3.7 billion in long-term care insurance claims, and today pays more than \$1.5 million in claims per day. We have helped more than 61,000 families navigate the long-term care services landscape and receive benefits. We are committed to long-term care insurance and we are a key player in the industry, as demonstrated by our ability to be there when our customers need us most, at time of claim. It is our intention to remain a key industry player and an industry leader in this very important line of business.

John Hancock has been a leader in innovative long-term care insurance product design, evolving our products to meet the changing needs of consumers and innovations in the long-term care delivery system including such benefits as Shared Care, which allows spouses to access a combined pool of benefits. We have also been a leader in offering a new, more affordable and more relevant approach to inflation protection, a built-in, annually compounded inflation provision that tracks the Consumer Price Index.

Long-term care insurance and the laws and regulations that govern it have evolved over time to keep up with the demands of consumers. Our company actively supports the current NAIC Model Long-Term Care Insurance Act and Regulation (“NAIC Models”) including all rate stabilization provisions. In fact, John Hancock has a demonstrated history of proactively meeting new NAIC consumer protection standards throughout the nation in advance of their ultimate state adoption, including but not limited to the implementation of: independent 3rd party review of claim denials, the contingent nonforfeiture benefit (which provides for a paid up policy at a reduced benefit level if a policyholder lapses their policy after receiving a substantial rate increase, as defined by regulation), benefit upgrade and downgrade provisions, all NAIC recommended disclosures, and – of particular note - the application of key post-rate stabilization actuarial standards to pre-rate stabilization business as it relates to inforce rate increases.

A Changing Landscape

The goal in pricing long-term care insurance is to generate adequate premium to cover a long term care event that is undetermined in duration and severity, and that may not take place until 20 to 40 years from the time the person is first covered. Over that period, key elements that get factored into pricing can change. Many things have in fact changed over the past few decades in long-term care and the long-term care insurance industry, such as new developments and enhancements in medicine and technology; new types of care providers (e.g. assisted living facilities and Independent Care Providers); and an increase in the lifespan of individuals and the desire of people to hold onto their policies.

There have also been economic factors such as lower interest rates that have had, and continue to have, a significant impact on the entire insurance industry. However, it is important to note that the rate increases we have requested on long-term care insurance do **not** reflect the lower than expected investment returns. John Hancock is absorbing the investment losses completely, and is not passing these losses onto our customers.

Few could have foreseen these changes and how they would lead to insurers taking on unanticipated levels of risk. However, it is for this reason that long-term care insurance originated, and is regulated, as a product where premiums can be adjusted over time, if needed.

Long Term Care Insurance Rates and Current Trends

Long-term care insurance is written on a guaranteed renewable basis, which means that a company cannot cancel coverage as long as premiums are paid, but does

have the legal right to increase premium rates on inforce policies if actual experience is significantly worse than original pricing assumptions.

When long-term care insurance was originally introduced, carriers had limited information with which to price the product. Best estimates were used at that time based on other insurance products which, with experience over time, have turned out to be not entirely predictive of long-term care assumptions. Voluntary lapses (i.e. how many people cancel their policy) have proven to be much lower than on other insurance products. Lower lapse rates coupled with a decline in mortality (i.e. people living longer) in the years since these products were introduced, mean that more customers are reaching the age where frailty and dementia are much more likely to occur.

Alzheimer's/dementia, strokes and central nervous systems disorders have caused a lengthening of claims as medical advances increase the lifespan of people with these and other conditions. The LTC industry is still comparatively young and, until recently, there has been very little actual claims data to rely on for setting original pricing assumptions, particularly at the older ages and later policy durations beyond the 10th year of coverage. For example, we now have nearly twice as much claims data (as shown in the attached Exhibit A) and four times the claims data at the older ages and later durations – when most individuals go on claim - compared to just a few years ago, due to the natural maturation of our business. We regularly conduct an extensive study of our long-term care claims, whereby we examine and analyze claim patterns and trends based on our actual claims experience. The process involves a close review of morbidity and termination trends. Morbidity is driven primarily by three factors: claims incidence, length of claims, and utilization of benefits. Terminations are reflective of lapse rates (when people give up their policies) and mortality (how long people are expected to live). The findings of our claims studies are taken into account when determining product pricing.

Our recent claims analysis, based on our extensive claims data, confirmed that, with respect to morbidity, the incidence and severity of claims was significantly higher than expected, and the duration of claims was longer than expected (i.e. claim terminations were lower than expected). Some specific findings include:

- Claims incidence is higher than expected at older ages (over age 80) and later policy durations on most policy series.
- Lapse rates in the later policy durations which were originally assumed by the industry to be between 3 to 6%, have actually been less than 1%.
- Mortality improvements observed throughout the LTC and life insurance industry have led to more people reaching the age where claims are more likely to occur.

Put simply, more people are using the insurance than anticipated, reinforcing the value of the product to our customers, but creating a pricing issue.

The end result of the significant changes in long-term care, along with the maturation of the long-term care insurance industry itself, is that many long-term care insurance companies have observed similar trends in their claims and have had to seek inforce rate increases in order to honor their promise to pay claims in the future. The amount of the rate increases we are seeking varies by policy series, with the average for each policy series ranging between 22% and 71%. The maximum rate increase for any one policy in Delaware is 90%.

We recognize that premium increases are difficult for many customers to afford. Therefore, we have developed options for our customers to adjust benefits to keep premiums at or close to their current level, as described in the next section.

II. EASING THE BURDEN ON OUR CUSTOMERS

We recognize the difficulty that these premium rate increases will pose for many of our customers. These are financially challenging times for everyone, including our customers, and we do not want them to give up their coverage because of increased

premiums. Therefore, we have taken significant actions to limit the magnitude of the rate increases and developed some meaningful alternatives that will allow our customers to hold onto their policies and, at the same time, mitigate and in many cases completely avoid the rate increase.

Applying NAIC Rate Stability Rules on all Policies

While some of the affected policies are regulated by the rate stability law that affects policies issued in Delaware on or after January 1, 2005, the majority of the affected policies were issued prior to rate stabilization. Nevertheless, John Hancock has voluntarily followed the key rate stability requirements – which are stricter - for all of these policies, consistent with John Hancock’s general approach of being at the forefront of protecting consumer interests by complying with stricter NAIC model law and regulations even before they are adopted by states. As a result, we have voluntarily capped the rate increase on our older policies, which are not subject to rate stability, in the following manner:

- We applied an 85% minimum loss ratio on the increased portion of premium (pre rate stability requirements would only require 60%)
- We restricted our rate increase so that the resulting new premiums after the rate increase are not greater than the current new business rates, adjusted for benefits (pre rate stability requirements do not require this cap on the rate increase). This capped the amount of the rate increase we have requested for many ages.
- We certified that no further increases are anticipated based on our current assumptions (pre rate stability requirements do not require such certification)

- We will administer the NAIC contingent nonforfeiture benefit (not required on pre rate stability products)

Voluntarily Grading Premium Increases to Zero at Issue Ages 80+

In addition, we have ensured that none of our customers who were age 80 or older when they purchased their policy will experience a rate increase. We are not increasing rates more at younger ages to compensate for this.

Future Inflation Reduction Option

For our customers who purchased 5% automatic compound or simple inflation coverage, where their benefits automatically increase by 5% each year for the life of the policy, we have developed an option to reduce their future inflation percentage. This option, if elected by customers, will allow them to avoid the rate increase altogether. Since this is a prospective reduction in inflation, all inflation additions previously applied to the policy will remain in place, so there will not be any reduction of their current benefit level. Only future inflation increases would be at a rate lower than 5%. Depending on the policy series, the new inflation percentage offered as an option to customers will be in the range of 2.7% to 3.9%.

Exhibit B illustrates how this option would work for a customer who purchased our Gold Select policy in 1996 at age 50, with 5% compound lifetime inflation, a \$100 daily benefit, and 4 year benefit period. That customer's current annual premium is \$983.10 which, with the proposed rate increase, would change to \$1,740. If this customer elects the future inflation reduction option, their premium would remain at \$983.10. While their benefits grew at a compound inflation rate of 5% for the years 1996 to 2011, beginning in 2012 their benefits would grow at a compound rate of 3.4%.

Exhibit C shows in bar graph form the difference the future inflation reduction would have on the customer's benefit going forward.

It is important to note that although the rate of future growth of the benefit amount would be lower than 5%, inflation in the cost of long-term care services has been in the 2%-4% range in recent years, according to recent industry cost of care studies.

Exhibit D shows the results of the John Hancock 2011 study, prepared by an independent third party, which indicates that the cost of care has been rising over the past nine years by 1.3% to 3.5%, depending on the type of care. At the low end of the range is care by a home health aide, which has seen a 1.3% growth rate in costs. Long-term care services provided in the home represent approximately 45% of John Hancock's claims, and that number is steadily increasing. Nursing home care accounts for approximately 25% of John Hancock's claims, and the cost of that care has grown by 3.2% for semi-private care and 3.5% for private care. Care in an assisted living facility, which accounts for approximately 30% of John Hancock's claims, has grown by 3.4% in costs. Based on these statistics, we believe that, for many, the future inflation reduction option is a good alternative to the premium rate increase, as it enables our customers to preserve their current benefits and avoid the rate increase altogether.

The future inflation reduction option can only be offered to customers when the rate increase is accepted by a state in its entirety. This is primarily because phasing in reductions to the inflation rate would result in multiple inflation reductions over time and multiple variations by person, which cannot be supported administratively and would result in an overall higher rate increase.

We believe that the inflation reduction option is a unique and innovative concept, one that will allow our customers to preserve their core coverage while avoiding the premium rate increase altogether. Although it is a reduction in the future growth of benefits, we think it will be an attractive alternative for customers who do not want to

pay, or cannot pay, the higher premiums. In fact, we have some experience with implementing this type of customer option before, and found it to be a popular option. In 2010, we implemented a future inflation reduction option for the long term care insurance program for federal government employees. We offered, as part of our options to those customers, the ability to reduce their future inflation coverage from 5% to 4%, and completely avoid their rate increase of up to 25%. Approximately half of those affected opted to reduce their inflation to 4%, with the other half deciding to pay the premium rate increase and maintain their inflation coverage at 5%. We were pleased that only 1% of those affected lapsed their coverage, and that the level of complaints received in response to the change in premiums was low – less than 0.6%.

Approximately 73% of our Delaware individual policyholders who will be subject to our proposed rate increase have lifetime automatic inflation coverage on their policies and would be eligible to completely eliminate the inforce premium rate increase by choosing to reduce their future inflation percentage. 85% of the dollars of the rate increase would be eligible for this option. We would also like to point out that the rate increases we are seeking are generally lower for plans without built-in inflation. For the 27% of Delaware customers who would not be eligible for the future reduced inflation option, the average premium increase we are requesting is 23%.

It takes considerable administrative resources and it is highly complex and expensive to program our systems to offer the future inflation reduction option, but we believe it is important to give our customers the ability to preserve their core coverage, while avoiding the rate increase altogether. So far we have received a very positive response to this unique alternative, from both our distribution partners and state insurance regulators.

Application of Cost Disclosure Requirements and Implications to our Future

Inflation Reduction Option

Delaware Regulation 1404 Section 6.1.6.1 requires that all carriers disclose on the policy cover page the maximum amount of premium rate increase that the carrier could implement in any calendar year. John Hancock's cost disclosure states that we will not increase premium rates more than 30% in any calendar year. We are requesting the department pre-approve successive annual premium increases capped at 30% up to the amount of the filed for rate increases. By doing this it allows us to offer our policyholders the future inflation reduction option which will allow them to eliminate their premium increases altogether.

Other Personalized Options

For the 27% of our Delaware customers who do not have automatic lifetime inflation coverage, we have developed other personalized options to allow them to mitigate the impact of the rate increase by reducing their coverage. These options include lengthening their elimination period, shortening their benefit period, reducing their daily benefit, or dropping riders. For these customers, the average premium rate increase we are requesting is 23%, which is lower than the overall average increase.

To illustrate how these options would work, Exhibit E shows a customer who purchased a Gold Select policy in 1996 at age 50, with a \$100 daily benefit, 4 year benefit period, and no built-in inflation. The current annual premium for this customer is \$418.10, which would change to \$525 with the proposed rate increase. One option available to this customer would be to reduce the daily benefit from \$100 to \$80, which would limit their premium increase to \$1.90 per year.

Exhibit F shows a customer who purchased a similar policy, but with a lifetime benefit period rather than a 4 year benefit period. The current annual premium for that

customer is \$632.80, which would change to \$855.10 with the proposed rate increase. This customer could change the benefit period from unlimited to 6 years, and thereby decrease their annual premium to \$600.50, which is \$32.30 lower than what they're currently paying. It is worth noting that the current average length of a long-term care claim is just under 3 years.

In addition, although a contingent non-forfeiture benefit is required for policies issued in Delaware on or after January 1, 2003 if the rate increase is high enough to trigger this benefit, we will offer such a benefit without regard to the issue date of the policy for any Delaware customer whose rate increase is high enough to trigger the benefit.

We recognize that all of these options are, in fact, benefit reductions. Nevertheless, they provide a viable solution for our customers who may not be able to afford the premium increase and do not want to forego coverage.

Customer Service

Almost as important as making these inflation reduction and personalized options available, is the need for effective communications with impacted customers. Customers will be provided with clear and concise information regarding the impact of the rate increase on their policies, and the future inflation reduction option or other personalized options available to them to mitigate or avoid the rate increase. Customers will receive a customized option letter that describes some of the options that may best fit their situation.

Customers will be given sufficient time to make a decision as well as assistance with making a decision that is best for them. We will provide our customers with 60 days advance notice of the rate increase and the future inflation reduction option and other personalized options available to them. Trained representatives at our

Customer Service Center will be available to assist our customers who have questions. In addition, we will be providing our producers with extensive information and training materials regarding this rate action so they will be equipped to assist their customers.

III. CONCLUSION

As a market leader in the long-term care insurance industry, we believe it is our responsibility to do what we deem necessary to meet the future needs of our claimants and ensure the ongoing stability of the business.

We are confident that our rate filing submissions fully support the premium rate increases we are seeking, and hope that this statement helps to provide some context for these filings. We believe we are taking innovative steps to ease the burden on our customers, both from applying rate stability protections to pre rate stability products and with the development of our future inflation reduction option and other personalized options that will be available to our customers.