Attachment C

WSJ: Millions Bought Insurance to Cover Retirement Health Costs. Now They Face an Awful Choice

By Leslie Scism: Updated Jan. 17, 2018 10:50 p.m. ET

Long-term-care insurance was supposed to help pay for nursing homes, assisted living and personal aides for tens of millions of Americans when they became unable to take care of themselves.

Now, though, the industry is in financial turmoil, causing misery for many of the 7.3 million people who own a long-term-care policy, equal to about a fifth of the U.S. population at least 65 years old. Steep rate increases that many policyholders never saw coming are confronting them with an awful choice: Come up with the money to pay more—or walk away from their coverage.

"Never in our wildest imagination did we consider that the company would double the premium," says Sally Wylie, 67, a retired learning specialist who lives on Vinalhaven Island, Maine.

In the past two years, CNA Financial Corp. has increased the annual long-term-care insurance bill for Ms. Wylie and her husband by more than 90% to $4,831. They bought the policies in 2008, which promise future benefits of as much as $268,275 per person. The Wylies are bracing for more increases.
To make their budget work, she has taken on a part-time landscaping job. The couple has delayed home maintenance, travels less and sometimes rents out their house. "We feel like we are out on a limb here, and these policies are supposed to be our safety net," she says.

A CNA spokesman says the Chicago insurer understands rate increases "can be challenging," but "it is important for us to take appropriate actions to ensure we can fulfill our obligations to our policyholders."

Only a dozen or so insurers still sell the coverage, down from more than 100. General Electric Co. said Tuesday it would take a pretax charge of $9.5 billion, mostly because of long-term-care policies sold in the 1980s and 1990s. Since 2007, other companies have taken $10.5 billion in pretax earnings charges to boost reserves for future claims, according to analysts at investment bank Evercore ISI.

When sales of long-term-care insurance were ramping up in the 1980s and 1990s, companies thought they had found the perfect product for middle-class families—and that's how they pitched it.

The annual premium was designed to hold steady until a claim was filed and premiums then halted, though the rates weren't guaranteed. Many policies paid out benefits for life.

Families flocked to what seemed like affordable peace of mind that would save them from draining their lifetime savings, leaning on children or enrolling in the federal-state Medicaid program for the poor.

Long-term care often costs more than $100,000 a year a person, financial advisers say. The nationwide total exceeds $200 billion, according to analysts at LTCG, a third-party administrator of long-term-care policies.

Almost every insurer in the business badly underestimated how many claims would be filed and how long people would draw payments before dying. People are living and keeping their policies much longer than expected.

After the financial crisis hit, nine years of ultralow interest rates also left insurers with far lower investment returns than they needed to pay those claims.

Long-term-care insurers barreled into the business even though their actuaries didn't have a long record of data to draw on when setting prices. Looking back now, some executives say marketing policies on a "level premium" basis also left insurers with a disastrously slim margin of error.

"We never should have done it, and the regulators never should have allowed it," Thomas McInerney, president and chief executive of Genworth Financial Inc. since 2013, says of the pricing strategy. "That's crazy."

Mr. McInerney says future policies should be sold based on the assumption that buyers could face modest rate increases as often as every year.

Long-term-care coverage often feels like a godsend to people already drawing benefits. "I would be destitute. I don't even know if I would be alive," says Ailene Adkins, 69. She has an autoimmune disorder and resides in an assisted-living facility in northern Virginia at the expense of Manulife Financial Corp.'s John Hancock unit.

She bought the policy in 1993 and paid slightly more than $12,000 in premiums before filing her claim. John Hancock has paid $1.2 million for her care since 2001. In 2017, long-term care insurers spent $9.2 billion on 295,000 policyholders, according to the American Association for Long-Term Care Insurance, a trade group for insurance agents.

Fewer than 100,000 long-term-care insurance policies were sold in the U.S. in 2016, and sales fell to about 34,000 in the first half of 2017, the industry-funded research firm Limra says. Both those totals are the lowest in more than 25 years. The business peaked in 2002 with about 750,000 sales.

The latest policies typically cover less and cost more. According to the insurance agents' trade group, a 60-year-old couple can expect to spend about $3,490 in combined annual premium for a typical policy that starts out with a maximum payout of $164,050 per person and then grows 3% a year to $333,000 when the couple is 85.

Buyers of so-called hybrid life insurance or annuities can use proceeds for long-term care instead of a death benefit. But such products are often even costlier than traditional long-term-care policies.

Few Americans are wealthy enough to foot their own nursing-home bills. The Medicare health-insurance program for older people pays for nursing-home stays only for a limited period after hospitalization.

Long-term-care insurance benefits generally start flowing when one of two conditions is met: The policyholder must be unable to perform two out of six basic "activities of daily living," such as bathing and dressing, or have a cognitive impairment requiring "substantial supervision." Dementia and Alzheimer's diseases are especially common causes of policy claims.

Advisers who answer phones at A Place for Mom, a business based in Seattle that provides referrals and is paid by senior-living communities, hear the despair of many families who lack insurance coverage.

"I would listen to families in chaos, families trying to find the money…and all the money is gone or not enough," says Carole Starr, who worked there from 2013 to 2015. She put down her headset and sobbed after some calls.

Debra Wilber applied for a long-term care policy in November. Her parents didn't have one because it was too expensive. She helps her father, a retired funeral-home director in New Jersey, care for her mother, a former executive assistant who has Parkinson's disease and dementia.

Her parents, both 79 years old, "worked hard and live in a nice house in a nice town, and now we are facing the application for Medicaid," says Ms. Wilber, 55. "I'll be damned if I will go through what they are having to go through."

When the business was being launched, actuaries mined data that included the federal government's National Nursing Home Survey. The information was used to create tables with projections of the rates at which people would become infirm and how long they would require care, says Vincent Bodnar, an actuary in the 1990s at a consulting firm.

The Society of Actuaries, a professional group, ran education sessions about the intricacies of pricing long-term-care policies. Insurance executives recall being prodded by their own sales forces to keep rates low. State regulators have said they didn't inspect assumptions behind the prices rigorously enough.

It turned out that nearly everyone underestimated how long policyholders would live and claims would last. For example, actuaries, insurers and regulators didn't anticipate a proliferation of assisted-living facilities. And they assumed families would do whatever they could to avoid moving loved ones into nursing homes, holding down policy claims.

By the late 1990s, assisted-living facilities were widely popular. Especially at well-run ones, staff members looked after policyholders so well that they lived years longer than actuaries had projected.

Residents "are taking their medications; they are not falling," says Mr. Bodnar, now a senior executive at Genworth .

Another flawed assumption was that about 5% of policies on average would lapse annually. Actual results have been very different. Just 1% or so of policies lapsed in the average year, actuaries and executives say.

Actuaries now say they realize they didn't bake into their original estimates the possibility that many people buying the policies were unusually meticulous planners who intended to always pay their premiums. Those buyers might also have carefully looked after their health and diet, enhancing the chances they would live long.

The business's dire condition also is a consequence of lower interest rates, especially since 2008. Many insurers assumed annual earnings of about 7% on customer premiums, which are invested until needed to pay claims. The net yield for U.S. life insurers' overall portfolios is down more than 20% since 2007 and was an estimated 4.6% last year, according to ratings firm A.M. Best Co.

To overcome such miscalculations, Genworth 's Mr. McInerney says he spends half his time talking to state regulators in efforts to win approval for rate increases on about 800,000 older policies. Genworth has 1.2 million long-term-care insurance policies outstanding.
"The state capital buildings are all beautiful in their own way," he says about his visits. In the majority of states so far, cumulative premium increases have ranged from 50% to 150%, and more are needed, according to Genworth .
Credit Suisse analysts tallied more than 4,500 rate-increase requests nationwide from 2009 to early 2017 by 16 once-big sellers of long-term-care insurance. The proposed increases affected hundreds of thousands of policyholders. Many of the approved requests topped 50%.

Harriet Fisher, a former teacher and real-estate agent in Maryland, decided to reduce the maximum payout from her John Hancock policy. After the insurer said it would increase her premium by a double-digit percentage, she "stewed over" what to do but decided she didn't want to pay more, she says.

She says she doesn't recall the agent warning her when she was buying the policy about a decade ago that a large increase could occur. John Hancock declined to comment.

Most states reluctantly allow at least some portion of the rate increases sought by insurers to go through. Former Pennsylvania insurance commissioner Teresa Miller says regulators try to balance the financial health of insurers against struggling policyholders who often are "just trying to figure out how to pay their bills every month."

Last year, a state-court judge in Pennsylvania approved the liquidation of two long-term-care insurance units of Penn Treaty American Corp., based in Allentown, Pa., and known for its relatively low rates.

The judge blasted regulators for not granting rate increases sought by Penn Treaty years before its collapse. The two long-term-care insurance units had a projected gap of $3.4 billion between their assets and claims liabilities.

Penn Treaty has about 67,000 long-term-care policies across the U.S. Statutes in most states limit payments to policyholders of failed long-term-care insurers to $300,000.

Leaton Williams III and his wife, Jane, have paid $90,000 in premiums on the Penn Treaty policies they bought about 20 years ago while in their 50s. The coverage included lifetime benefits.

Now they will get no more than $300,000 a person, the cap by North Carolina's guaranty association. Mr. Williams, a retired federal employee, says his wife was recently diagnosed with dementia.

Fear of such an illness was "the absolute reason that we went with long-term care, and now we're kind of stuck," he says.

Few companies were hit as hard as Genworth . Long a top seller of long-term-care policies, the company's life-insurance units were downgraded below investment grade in 2016. Its losses on long-term-care policies total about $2 billion and are a reason why Genworth , of Richmond, Va., agreed in late 2016 to sell itself to a Chinese conglomerate.
Terms of the $2.7 billion acquisition include an additional cash infusion of $1.1 billion by China Oceanwide Holdings Group Co. The Chinese company wants to use Genworth s expertise to bring long-term-care insurance to China. The deal is under review by an American national-security panel, state regulators and other officials.
As the industry reels from its mistakes, some policyholders complain that it has nothing to lose by denying legitimate long-term-care claims. Last year, Mary "Mollie" White's family filed a breach-of-contract lawsuit against Senior Health Insurance Co. of Pennsylvania in an Ohio state court.

The insurer, which isn't selling new policies, had rejected a claim to pay in-home aides for Ms. White, 89, who has memory loss. The company questioned if she was incapacitated enough to draw on the benefits and followed procedures correctly when applying.

In an August settlement, Ms. White received $77,600, or about $10,000 less than she sought but more than four times as large as the company's offer, court filings show. A lawyer for the company declined to comment.

"It was very stressful," says Ms. White's daughter, Ruth White. "I wouldn't encourage others to buy."