

# LONG TERM CARE INSURANCE INDUSTRY — HOW BIG OF A RISK?

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NCOIL Annual Meeting  
Phoenix, Arizona  
November 17, 2017

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# State Guaranty Associations

## Protect Policyholders of Insolvent Insurers

- **Obligations**

When a covered company is liquidated, the GA system assumes the obligations of the insolvent insurer up to certain statutory limits.

- **Funding Sources**

The GAs have rights to a share of the assets of the insolvent insurer, and levy assessments on their Members (defined below) to fund GA obligations in excess of the insolvent estate's assets.

- **Members**

Most insurance companies licensed to write life, annuity, and/or accident & health ("A&H") policies in a state are members of the GA in that state. Exceptions, such as HMOs in certain states, are spelled out in a state's GA statute. GA membership is a statutory condition of licensure. A similar GA exists in each state for property & casualty insurers.

- **Accounts**

All Life, Annuity, and A&H business is allocated into separate GA assessment accounts. The assessments, for each type of policy, are limited to the applicable account.

- **Assessments**

Assessments are levied on each member in proportion to its share of the total assessable premium in the appropriate account. Assessments, in any given year, are limited to a percentage (usually 2%) of annual earned premium and may be abated or deferred if the assessment would threaten the member's solvency.

# How assessments are applied

	Life	Annuity	Health
Types of Policies Covered	<ul style="list-style-type: none"> <li>Life insurance</li> </ul>	<ul style="list-style-type: none"> <li>Allocated funding agreements</li> <li>Structured settlement annuities</li> <li>Immediate or deferred annuity contracts</li> </ul>	<ul style="list-style-type: none"> <li>Basic hospital, medical, and surgical</li> <li>Major medical insurance</li> <li>Disability insurance</li> <li><b>Long-term care insurance</b></li> </ul>
National* Assessment Capacity	\$2.6 billion	\$3.5 billion	\$5.0 billion
Utah** Assessment Capacity	\$26.3 million	\$37.7 million	\$32.7 million

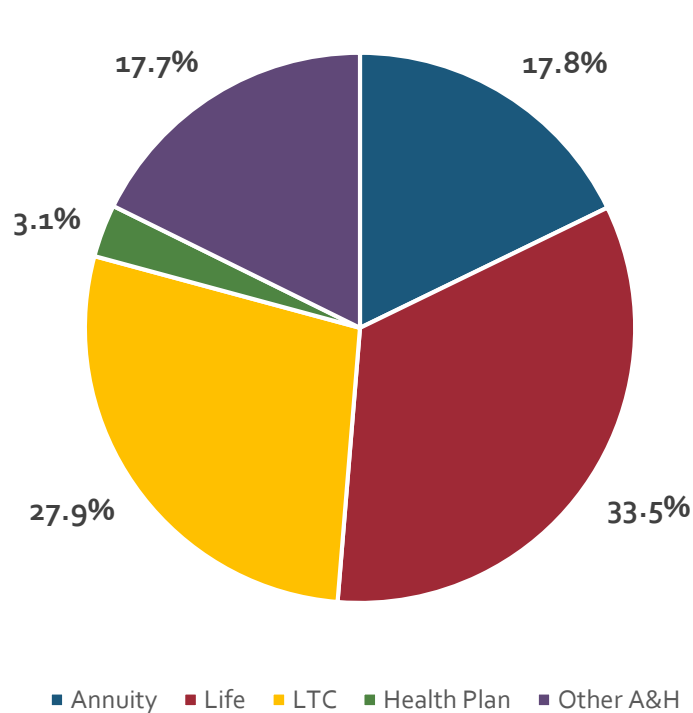
\* Excludes New York

\*\* 2015 figures as estimated and published by NOLHGA

# Nationally: LTC writers not subject to majority of assessments

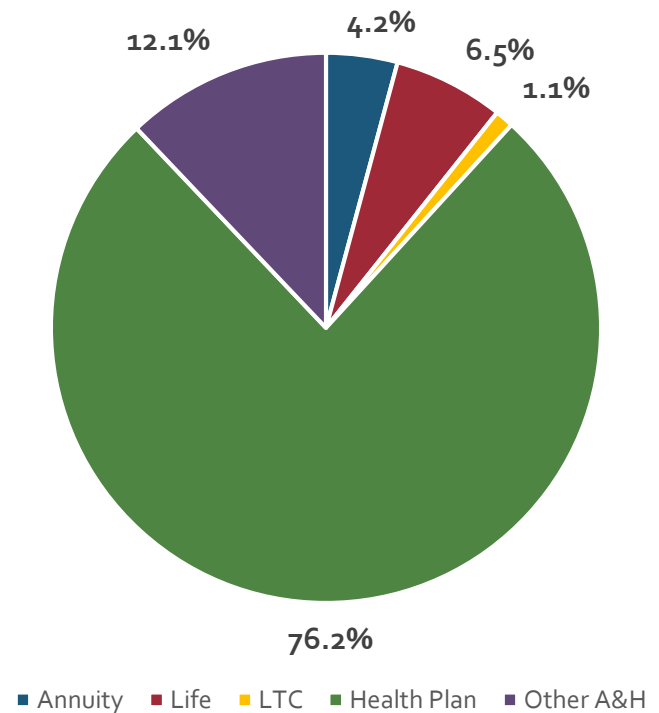
Health insurers account for only a small fraction of total LTC premiums...

## LTC Premium Share



...but they must pay the lion's share of assessments for LTC policies

## Current Assessment Share

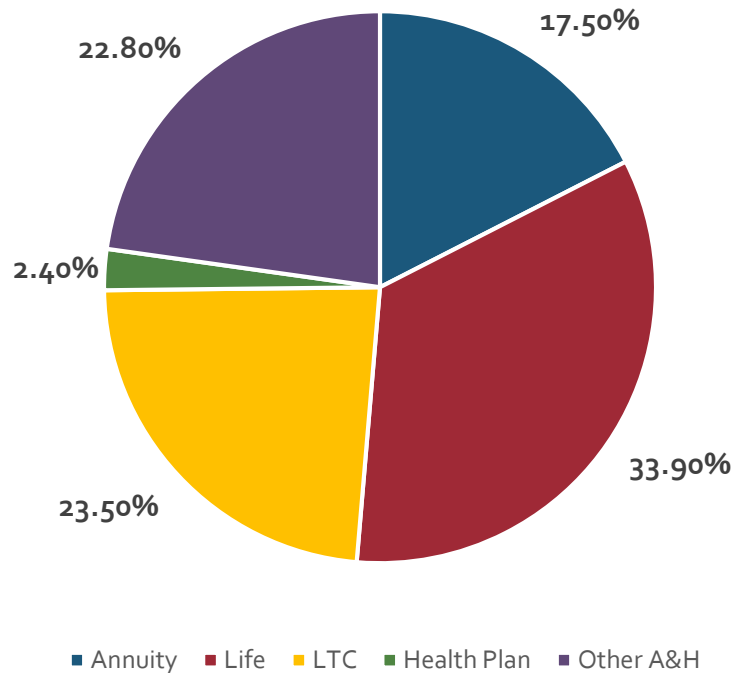


Note: Insurer type determined by examining 2015 group level data at the national level and assigning a group type based on the category with the plurality of premium.

# In Utah: LTC writers not subject to majority of assessments

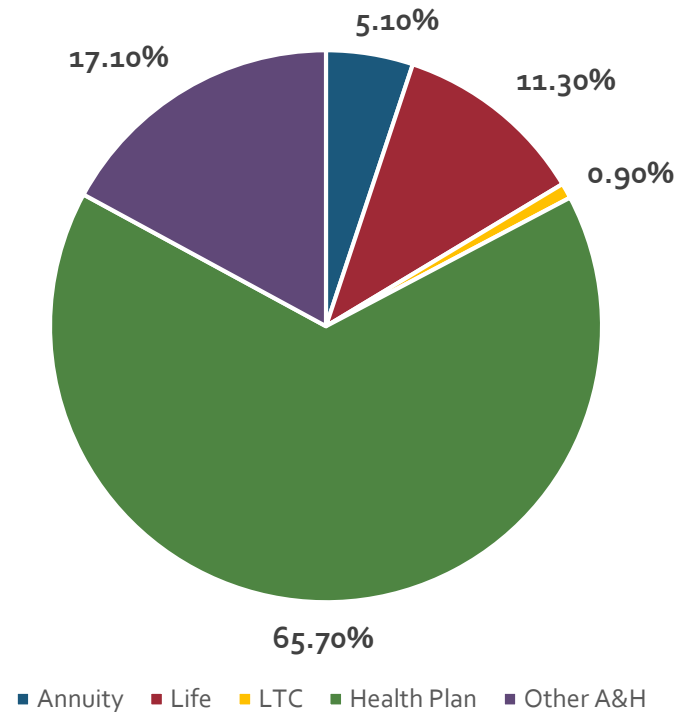
Health insurers account for only a small fraction of total LTC premiums...

## LTC Premium Share in UT



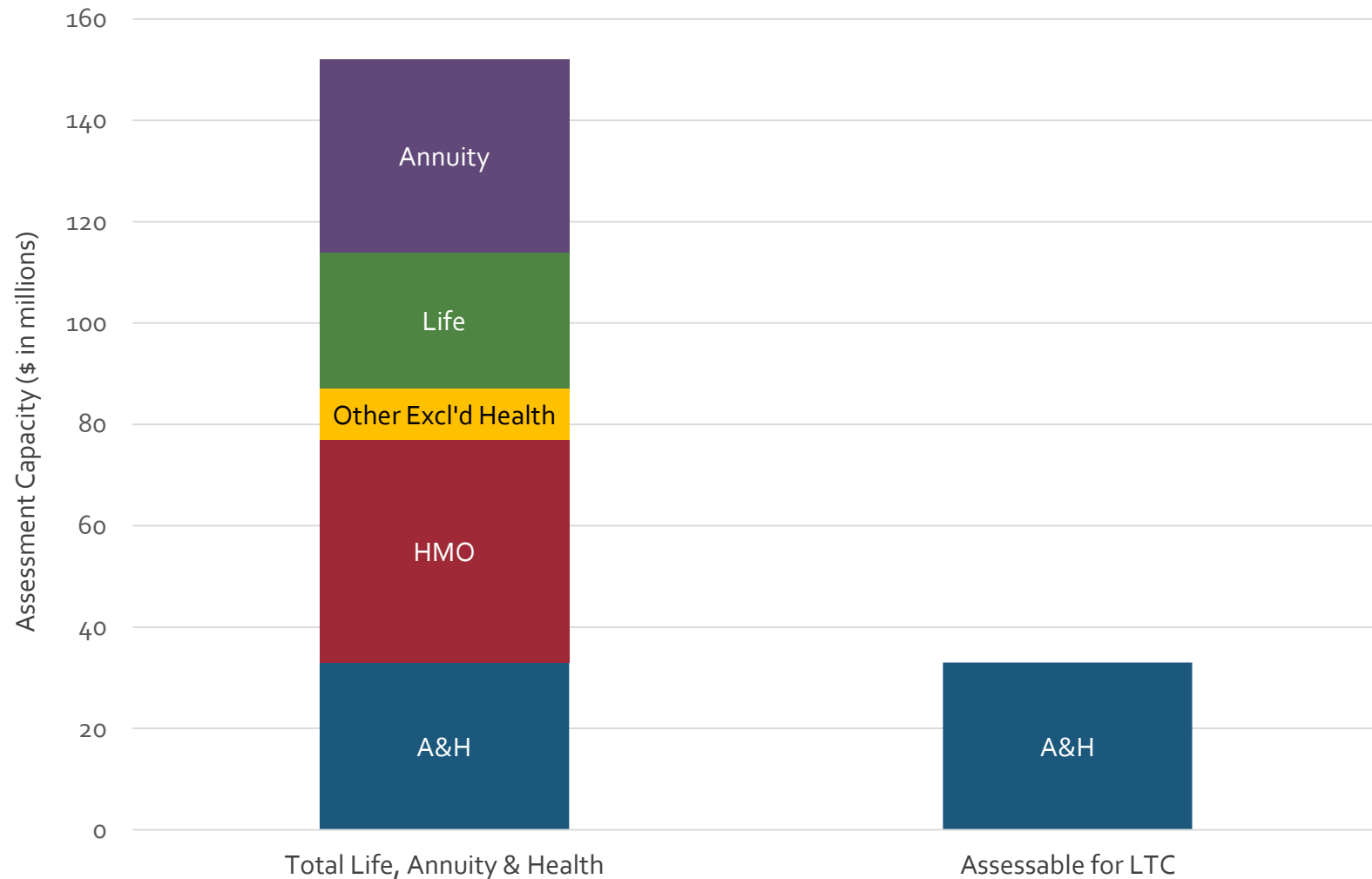
...but they must pay the lion's share of assessments for LTC policies

## LTC Assessment Share in UT



Note: Insurer type determined by examining 2015 group level data at the national level and assigning a group type based on the category with the plurality of premium. Utah Penn Treaty assessment as of 3/2017, approximately \$12,727,000.

# 76% of Utah premiums excluded from LTC assessments



Life, Annuity, and A&H capacity as estimated and published by NOLHGA; HMO and Other Excl'd Health capacity estimated based on review of guaranty association statutes and financial data from SNL Financial

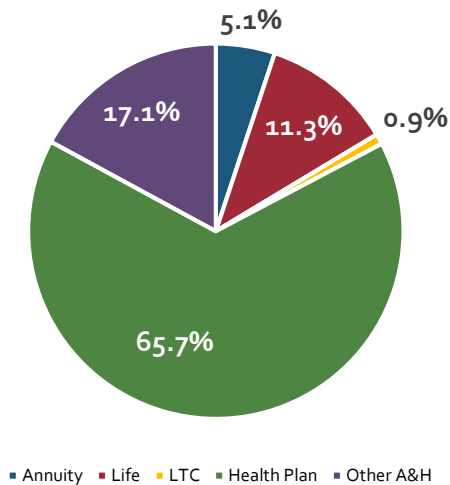
# NAIC's Receivership Model Law (E) Working Group

- The charges for the Receivership Model Law Working Group include evaluating the need for amendments to the Life and Health Insurance Guaranty Association Model Act (#520) to address issues in connection with the insolvency of long-term care (LTC) insurers. The Working Group initially identified the four options to change Section 9 (assessments) of the Model:
  - **Option 1\*** — Aggregate the life / annuity and health insurance accounts for the purpose of making Class B assessments with respect to LTC policies issued by an insolvent member insurer. Accounts remain separate for all other purposes.
  - **Option 2** — Eliminate separate accounts for life and health insurance and annuities entirely. Class B assessments with respect to any insolvent member insurer would be paid by all association members in accordance with the methodology provided by legislation.
  - **Option 3\*** — Include HMOs as members of the guaranty association. HMOs would be a third account under Section 6 of the Model. However, Class B assessments with respect to LTC policies issued by an insolvent member insurer would be apportioned among all three accounts in accordance with the methodology provided by legislation. This option will require changes to the Model to provide for the payment of claims against HMOs.
  - **Option 4** — Provide that Class B assessments with respect to LTC policies issued by an insolvent member insurer would be allocated among the life and health insurance accounts pursuant to a methodology and formula established by the Association, and approved by the Commissioner.

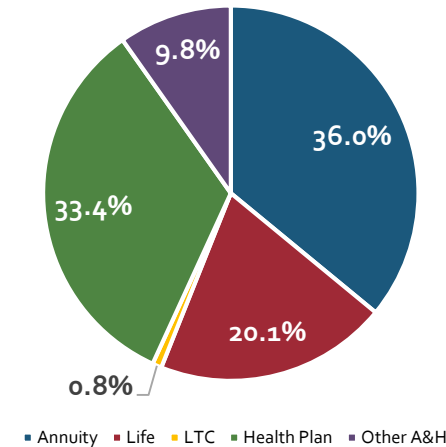
\* The proposed draft is a hybrid of Options 1 and 3 (include HMOs in the health account and aggregate the life/annuity and health insurance accounts for purposes of making Class B assessments with respect to LTC policies of an insolvent member insurer).

# Alternative scenarios distribute LTC assessments more rationally (Utah)

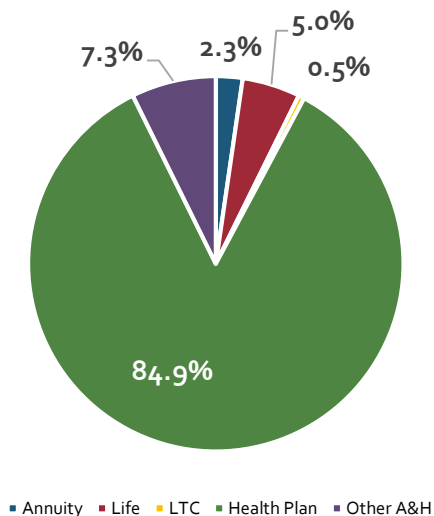
## 1. Current: Health Account Assessed for LTC



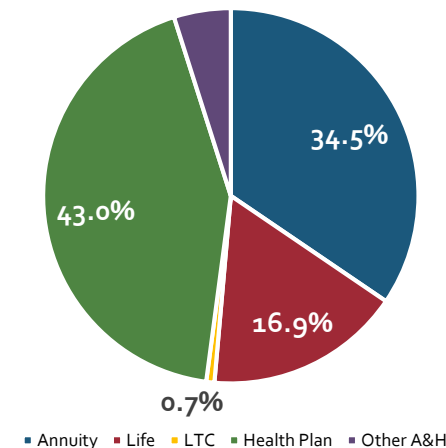
## 2. 50% to Life & Annuity: Assess Life & Annuity Accounts for half the cost of LTC insolvency



## 3. Current + HMOs: HMOs included in current account structure



## 4. 50% to Life & Annuity, HMOs included: Same as #2 but with HMOs included in current account structure



Note: Insurer type determined by examining 2015 group level data at the national level and assigning a group type based on the category with the plurality of premium.



# Major Changes in the Revisions to Model 520, Life and Health Insurance Guaranty Association Model Act

- Specifies that coverage applies to health care providers rendering services covered by an applicable health insurance policy or certificate.
- Extends coverage to HMO enrollees.
- Excludes Medicaid from GA coverage, consistent with current exclusion of Medicare.
- Clarifies that the “Moody’s rollback” provision is not intended to apply to a LTC or health benefits policy or contract (including a rider).
- Adds a new definition of “health benefit plan” and definition of “member insurer” to include HMOs, consistent with other NAIC model definitions.
- Increases the number of board members to allow for HMO members.
- Clarifies that GAs have authority to file for justified rate increases.

# Major Changes in the Revisions to Model 520, Life and Health Insurance Guaranty Association Model Act

- Removes \$300 cap on Class A assessments (administrative costs) to enhance board flexibility to address Class A assessments (claim costs).
- *Provides that assessments from LTC insurance insolvencies be shared with the life account using a 50/50 split between the health and life accounts. The formulaic methodology would be incorporated into the GA's Plan of Operations and approved by the commissioner.*
- Includes drafting note describing a pre-funding concept that may be appropriate in certain states
- Provides for recoupment of assessments through surcharges on premium where a member insurer is exempt from tax liability and cannot offset an assessment against tax.

# Next Steps in the Process

- The draft Model 520 was exposed for 30 days by the NAIC's Receivership Model Law Working Group on October 27, 2017, comments are due November 27, 2017.
- The Working Group is conducting a joint call with its parent Receivership Insurance Task Force on November 29, 2017 to consider comments received, potential amendments and adoption.
- If adopted by the Task Force, the Model will be considered for adoption at the Task Force's parent committee, Financial Condition (E) Committee at its meeting on December 4, 2017.
- Depending on what happens at the Task Force and E Committee, it could be adopted by the entire membership after the first of the year and before the Spring National Meeting at the end of March.

# Questions?

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