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November 4, 2015

The Honorable Joe Hoppe
Minnesota House of Representatives
543 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
Saint Paul, MN 55155

The Honorable Joe Atkins
Minnesota House of Representatives
349 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
Saint Paul, MN 55155

The Honorable James Metzen
Minnesota Senate
75 Rev. Dr. Martin Luther King Jr. Blvd.
Saint Paul, MN 55155

The Honorable Paul Gazelka
Minnesota Senate
75 Rev. Dr. Martin Luther King Jr. Blvd.
Saint Paul, MN 55155

Re: Initial Progress Report

Dear Senators Metzen and Gazelka, and Representatives Hoppe and Atkins,

I am pleased to submit the Commerce Department's Long-Term Care Insurance Industry Initial Progress Report to the Legislature. Minnesota Laws 2015 Chapter 59 states that the Minnesota Commissioner of Commerce may submit progress reports to the chairs and ranking members of the Commerce Committees.

The progress report summarizes the Commerce Department's public hearing on Long-Term Care Insurance Industry Issues held on August 27, 2015 as well as the agency's stakeholder engagement since the hearing. The Commerce Department remains focused on addressing the ongoing challenges in the Long-Term Care Insurance industry and developing the appropriate regulatory responses to protect Minnesota consumers and businesses.

We hope you will find this report helpful.

Sincerely,

Mike Rothman
Commerce Commissioner

Enclosure



Initial Progress Report

November 4, 2015

The issues facing the long-term care industry are a serious challenge to Minnesota and the nation. Likewise, the affordability and reliability of long-term care insurance are a serious concern for consumers, insurers and state regulators.

An estimated 12 million Americans currently need long-term care – defined as institutional or home-based assistance with activities of daily living. In the coming decades, the aging of the Baby Boom generation will lead to even greater need for long-term care. According to the Census Bureau, the population 65 and over is projected to grow by more than 50 percent by 2030. The U.S. Department of Health and Human Services estimates that 70 percent of all Americans who reach age 65 will require some form of long-term care at some point in their lives.

The costs of long-term care are daunting for most families. Currently, the median annual cost for nursing home care exceeds \$91,000. The median annual cost for a home care aide is nearly \$46,000. Few families can bear these high costs for even a short time. As a result, most long-term care is provided by unpaid caregivers – by family, friends or neighbors.

Medicaid is the largest single source of funding for paid long-term care. Another funding source is people's personal savings – although these can be quickly depleted. That is why insurance for long-term care has become an important topic of discussion in the funding mix.

Since the late 1980s, long-term care insurance has been marketed to Minnesotans as a way to plan ahead for the potential future costs of long-term care. For many consumers and their families, this insurance product has played a vital role in their ability to pay for care. But for many others, it has been a real source of distress and frustration.

Many consumers have been confronted by large, and repeated, increases in their premiums. Especially for those who are retired and living on fixed incomes, these unexpected premium increases have posed agonizing dilemmas of having to pay more, give up their insurance policy or accept reduced benefits.

There is also the separate problem of consumers who have faithfully paid their premiums for years only to find themselves tangled in red-tape claims denials or delays with little explanation. Unfortunately, this problem occurs at a time when they are most vulnerable and least able to advocate for themselves.

Insurance companies have also faced serious problems in the long-term care insurance market. They developed and marketed products to help people address their long-term care needs. But insurers discovered that many key assumptions they made in designing policies and setting initial rates were seriously flawed. The costs and risks associated with long-term care have proved very problematic for insurers. The pricing of the original products has not gone well. Many insurers stopped offering long-term care policies, and some have consolidated.

On August 27, 2015, the Minnesota Department of Commerce convened a public hearing to examine key issues in the long-term care insurance industry. Members of the Midwest Zone of the National Association of Insurance Commissioners (NAIC) joined in the hearing. Commissioners, directors, superintendents and their staff from 13 state insurance departments participated. (See the attached participant list.) The hearing was webcast by the NAIC, and Commissioners, directors and superintendents joined the hearing from around the country.

The hearing featured testimony from a diverse roster of witnesses who offered their perspectives on long-term care insurance. The witnesses included consumers and family members, actuarial experts, trade group representatives, and top insurance industry leaders. (See the attached hearing agenda with the list of witnesses.)

At the hearing, witnesses were asked to address any or all of the following questions, if applicable:

- What are the key factors driving long-term care insurers' significant premium increases?
- What are the key consumer protection and claims practices issues?
- What has changed in long-term care insurance since the original products were sold?
- What is the current state of the older long-term care insurance blocks of business?
- What are the innovations in new long-term care insurance products?
- What are the key steps to prevent or mitigate the impacts of long-term care insurance premium increases?
- What are the key steps to improve long-term care insurance consumer protections and claims practices?
- What is the future of long-term care insurance as an option in funding long-term care?

The hearing was webcast live, with both the audio and video recordings archived on the Commerce Department website. Also archived on the website are all of the hearing presentation materials and the public comments that were submitted to the Commerce Department. The materials can be accessed here:
<http://mn.gov/commerce/insurance/consumers/medical/long-term-care/hearing-longterm-care.jsp>

The purpose of the hearing was to have a thorough and wide-ranging discussion about the state of the long-term care insurance industry – including issues related to rate increase requests, claims handling practices, policyholder protections and guidelines for regulation of

long-term care insurance. This discussion provided useful information to assist the Commerce Department in fulfilling its regulatory responsibilities regarding long-term care insurance.

In follow-up to this public hearing, the Commerce Department remains fully engaged with gathering information to ensure appropriate regulatory guidelines for protecting consumers in the long-term care insurance market.

On October 18-19, 2015, Minnesota hosted the NAIC Midwest Zone Conference, which included discussion regarding long-term care insurance regulatory practices.. In addition, Commerce Department staff have met with and presented to long-term care industry representatives.

At an upcoming NAIC meeting in November 2015, staff from the Commerce Department's Insurance Division will present recommendations, developed with feedback from other states, to improve uniformity of rate information requests to insurers and develop greater understanding and standardization of rate review procedures across states.

The long-term care insurance market presents ongoing challenges. The Commerce Department is focused on addressing these challenges and developing appropriate regulatory responses that will protect Minnesota consumers now and in the future..