Statement
of
John Hancock Life & Health Insurance Company

Presented by

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before the

Special Committee on Aging
and
Homeland Security and Governmental Affairs
Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia
of the
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Good afternoon, Chairman Kohl and Chairman Akaka, and members of the Committees. I am Marianne Harrison, President and General Manager of the Long term Care Business Unit at John Hancock in Boston. As one of the two original insurers of the Federal Long Term Care Insurance Program (FLTCIP), and one of the largest insurers of both group and individual long term care insurance, John Hancock welcomes the opportunity to appear before you today to discuss the features of the FLTCIP under the new contract period, including pricing, our communications campaign, and consumer support available to eligible members of the federal workforce and their families.

BACKGROUND

General Information About John Hancock

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. The importance to us of the John Hancock brand and our reputation cannot be overstated. We believe that any product we sell must be worthy of our brand and reflect our reputation in the marketplace.

We are committed to the FLTCIP and to the overall group and individual long term care insurance markets. Based on new premium sold, John Hancock ranked first in the long term care insurance market in 2007 and 2008, and is the leader to date in 2009.[1] We currently have more than 1.2 million long term care insurance policyholders. To date, John Hancock has paid more than $2.4 billion in long term care insurance claims and we pay over $1 million in claims every day.

[1] LIMRA, Individual and Group LTCI Sales Surveys for 2007, 2008 and 2009.

We believe that a history of financial strength and stability is important for consumers considering the purchase of long term care insurance and can be a market differentiator. John Hancock has some of the highest ratings for financial strength and stability. The following are our financial ratings as of today's date.

John Hancock Life & Health Insurance Company	
Standard & Poor's	AA+ (2nd of 8 categories)
Moody's	Aa3 (2nd of 9 categories)
A.M. Best	A+ (1st of 9 categories)
Fitch Ratings	AA (2nd of 9 categories)

The company's parent, Manulife Financial Corporation, ranks as the 3rd largest public life insurer in the world and the largest in North America, based on market capitalization as of July 31, 2009.

John Hancock Support for Consumer Protections

As the leader in the long term care insurance market, John Hancock recognizes that we have an opportunity, and a responsibility, to engage in the ongoing national debate on this critically important product and its potential to help mitigate the impact of potentially devastating costs on the financial well-being of American families. In the absence of private insurance, or access to publicly funded programs, Americans have no choice but to bear the burden of these costs out-of-pocket. When the costs of long term care have to be borne by individuals, the assets accumulated over a lifetime of hard work can be wiped out. Hence the value of long term care insurance. We believe it is good business policy to support consumer protection legislation, at both the state and national level, to help ensure that Americans can purchase quality long term care insurance products with confidence in the carrier's financial integrity and ability to keep their promises.

John Hancock commends and supports the initiatives proposed by Senator Kohl in S.1177, the Confidence in Long Term Care Insurance Act of 2009. This bill would strengthen the consumer protections afforded to purchasers of long term care insurance by:

- implementing the latest protections found in the NAIC Long term Care Model Act and Regulation to all tax-qualified and Partnership long term care insurance coverage;
- requiring the creation of and distribution of a model disclosure form which will provide consumers with consistent information regarding this insurance in an easily understandable format;
- creating a national web-based long term care comparison tool so that consumers may easily compare the coverages available to them in their state,
- requiring data collection and analysis of long term care insurance at regular intervals, both on a state and national basis, in order to evaluate the marketplace, ensure that consumers are well served by the products sold, as well as provide information as to the impact of Partnership programs on future state Medicaid budgets.

We believe that such initiatives will not only strengthen consumer protections, but will also serve as an excellent platform to educate the public on planning for its future long term care needs.

In July 2008, we testified to the Committee on Energy and Commerce Subcommittee on Oversight and Investigations of the United States Congress, reporting that we had added independent third party review of claim denials to our new contracts, well in advance of any regulatory requirement. In fact, such a provision has been included in the FLTCIP since its inception.

Further, John Hancock has been a long-standing, strong and vocal advocate of the rate stabilization provisions adopted by the National Association of Insurance Commissioners (NAIC) in its 2000 model law and regulation for long term care insurance. As early as September 2000, John Hancock provided testimony before the Senate Special Committee on Aging, along with then Kansas Insurance Commissioner and Vice President of the NAIC, Kathleen Sebelius, in support of the rate stabilization provisions, which were introduced by the NAIC in response to consumer concerns about premium rate increase activity undertaken by certain long term care insurance carriers. While most state regulations at that time were designed to prevent insurers from setting rates too high, the rate stability provision stipulated that long term care insurance premiums be set in accordance with “moderately adverse” assumptions, so as to lessen the likelihood that premiums would have to be raised.

General Information About Long Term Care Partners, LLC

The size, scale and visibility of the FLTCIP led to the need for and the establishment of a fully dedicated entity to administer the Program. John Hancock and MetLife, as partners during the initial contract period, established Long Term Care Partners, LLC (LTCP) in 2002 to handle all aspects of administration for the FLTCIP. Originally a joint venture company, equally owned by the two carriers, LTCP is now owned by John Hancock, effective with the new contract. Its staff brings deep experience in the long term care insurance business, sensitivity to the federal workforce and annuitant communities, and proven capability to use information technology to build customer-focused systems, automate transactions, and enhance customer access. Long Term Care Partners consistently receives high marks from its customers on satisfaction surveys related to service levels and responsiveness.

FLTCIP Funding Mechanism

The FLTCIP funding mechanism is similar to a participating plan. All of the premiums collected for the FLTCIP go into a separate account, referred to as the Experience Fund, and cannot be used to cover unrelated liabilities of the insurer or for any purposes other than the FLTCIP. The Experience Fund is a mechanism that allows for complete and total accounting transparency. All premiums must go into the Experience Fund, and all debits such as Program claims, expenses and fees are paid out of the Experience Fund. The value of the Experience Fund is evaluated annually, to determine whether the Fund, along with future premiums and investment income, is adequate to pay expected claims, expenses and fees over the course of time. The results are presented in a report given to OPM each Spring. The Fund itself is audited annually by OPM's Office of the Inspector General.

If the Experience Fund has enough money to cover the Program's expected needs, no corrective action is needed. If the Experience Fund appears inadequate to cover the Program's long term needs, analysis is done to determine whether a rate adjustment is warranted. If the Experience Fund has a surplus that is not needed to cover provisions for moderately adverse experience, premiums can be reduced, or benefits can be enhanced for the participants without raising premium rates.

In the future, if the FLTCIP contract was awarded to a different insurance carrier, the full value of the Experience Fund would be transferred to the successor carrier, less any unreimbursed expenses and obligations that the Fund had incurred during the prior contract period. The Experience Fund thus serves as the financial foundation for the new FLTCIP contract period.

FLTCIP PREMIUMS

Pricing Assumptions

The goal in pricing long term care insurance is to generate adequate premium for a costly event that may not take place until 20, 30 or even 40 years from the time the person is first covered, while also maintaining affordability over the same time frame. Simply stated, premium rates must be sufficient to pay claims plus expenses, now and over the future lifetime of enrollees. The traditional structure of group life insurance, with premiums that rise each year as a person ages, would be unattractive and impractical for most consumers. Therefore, the industry levelizes the premiums, by averaging the lower cost of coverage associated with purchase at younger ages with the higher cost of coverage associated with more advanced ages.

Calculating long term care insurance premiums involves a series of assumptions which quantify the risk that certain things will happen over the course of time. The key risk assumptions used in pricing long term care insurance relate to claims (i.e. the number of people who will become physically disabled, so as to be unable to perform certain activities of daily living, or become cognitively impaired, so as to be incapable of independent living), investment results, lapse results (i.e. the number of insureds who will voluntarily lapse their coverage without making a claim), and mortality (i.e. the rate at which people will die and therefore not require benefits). To illustrate actual experience, lapse and mortality assumptions are sometimes combined as aggregate termination (or, conversely, persistency) experience.

Although the FLTCIP is not required to follow state insurance regulatory guidelines, OPM recognized the value of the NAIC rate stability provisions and required from the outset of the Program that FLTCIP premiums be set according to such provisions. While such provisions do not completely eliminate the possibility of future rate increases (i.e. they do not guarantee that experience won't be more than moderately adverse), we do believe they will be effective in reducing the likelihood of premium increases.

The original pricing of the FLTCIP in 2001 was done by John Hancock and MetLife with the services of a nationally recognized actuarial consulting firm. The pricing assumptions were validated by an independent actuarial firm and approved by OPM.

Reasons for the Premium Increase

As experience began to emerge over the first seven years of the Program, it became apparent that some of the key assumptions used in developing premium rates in the first contract period were inconsistent with actual experience. In particular, enrollee persistency has been significantly higher than expected, even though a higher persistency rate had been assumed in pricing than what was generally used throughout the industry at the time. Persistency is the combination of both lapse rates and mortality rates. This means that there will be more insureds reaching the ages where claims rapidly increase than was originally expected.

Another factor contributing to the need for a premium increase is the fact that investment experience has been worse than expected, a consequence of the low interest rate environment that evolved shortly after the Program began in 2002. Return on invested premium is a critical factor for premium rates. The fixed interest nature of the FLTCIP investment portfolio meant that assets were sensitive to interest rates. In recent years, the average return on long term bonds has been low by historic standards The overall result is that the assets in the portfolio did not increase sufficiently to meet pricing objectives.

Importantly, FLTCIP claims experience to date has been well within pricing assumptions. This is a good indication of responsible and effective underwriting. Further, expenses have been rigorously managed over the course of the contract period, and have been consistently within budget.

While it is still early in the program, it is evident that the long term experience of the program will be more than moderately adverse compared to the underlying assumptions used in the original pricing. In order to assure that there is enough money to cover the claims that are now expected to be incurred, it became necessary to revise some of the assumptions based on actual Program experience. These changes in assumptions have resulted in an adjustment in the premium rates for certain plan designs and age groups. The overall average premium rate adjustment is about 16% for the group as a whole with individual rates being adjusted from 0% to 25%. For enrollees who are subject to a rate increase, the average amount of the increase is approximately $29.00 per month.

There is no increase for enrollees who bought plans with a Future Purchase Option. For enrollees who bought plans with an automatic 5% compound inflation option, rates are being increased by 25% up through issue age 65 and then grading to no increase for issue ages 70 and above. In order to minimize the impact on insureds, John Hancock lowered the fees to the Program by about 35%.

Changes in assumptions to investment returns, mortality rates and lapse rates have the greatest effect when applied over a long period of time (due to the annual compounding effect), which is why they have a bigger impact on younger issue ages and plans with automatic inflation increases, where there is a longer period of time between when premiums start and when the majority of the benefits will be paid.

It is important to note that on a cash basis, the FLTCIP has more than adequate reserves to meet all obligations in the short term. The market value of FLTCIP assets under management exceeded $1.72 billion at the end of August 2009. The shortfall being described pertains to long term adequacy in a program designed to serve its members for decades into the future. FLTCIP liabilities are required to be funded so that assets will be in place to cover all Program liabilities whenever they occur. This is different from public programs like Medicare, Medicaid, and Social Security, which are pay-as-you-go, with current beneficiaries depending on the tax revenues generated by persons who are actively-at-work. It is also different from defined contribution benefit programs like 401(k) retirement plans, which make no guarantees as to how much they will pay out down the road. Because the FLTCIP must be funded, rates must reflect not only the actual experience that has occurred since the Program began in 2002, but also the significant amount of expected future experience that has not yet unfolded.

Enrollees Can Avoid a Premium Increase

In recognition of the fact that some enrollees may find this increase in premium unmanageable, we developed an option that allows every affected enrollee to

avoid an increase in premium altogether by switching from a 5% annual benefit increase to a 4% annual benefit increase. This alternative is unique among rate increases undertaken thus far in the industry, in that it allows every enrollee to retain the core value of his/her current plan design, while still avoiding the rate increase. Making this change would not decrease current benefit levels, nor would it affect such key provisions as covered services, levels of reimbursement, waiting periods, exclusions, care coordination, or other important provisions. Going forward, the Daily Benefit Amount (DBA) and corresponding lifetime maximum benefit would increase at 4% compounded annually, rather than the current 5%. Most enrollees who make this change will actually see a small increase in their DBA, as a starting point, while still paying substantially the same premium as they do currently.

We recognize that the impact of this change on the value of enrollees' coverage in the future is a legitimate concern. Inflation protection is a key component of any long term care insurance plan, and the ability of the plan to keep pace with the cost of care – while remaining affordable – is critical to the Program's overall value. While the past is not necessarily a predictor of the future, the John Hancock 2008 Cost of Care Survey reports the six-year compound average annual growth rate in the cost of various types of long term care services, ranging from 1.4% to 4.0%. Similar and more recent results can be derived from the 2005 through 2008 annual surveys of long term care costs conducted by MetLife's Mature Market Institute, with derived three-year compound average annual growth rates ranging from 1.4% to 2.8%. The data from these surveys suggests that the 4% annual benefit increase provides meaningful protection from increases in the cost of long term care services over time.

ENROLLEE DECISION PROCESS

Communication Campaign

John Hancock, Long Term Care Partners and OPM have developed a communication strategy for current enrollees to help them evaluate their options and choices going into the second contract period. The 224,000 current enrollees were sent a General Notification letter in August 2009, that contained information about the new contract and what they could expect over the upcoming weeks and months. The messaging of the mailing indicated that: (1) the new FLTCIP contract was awarded to John Hancock, (2) all existing coverage will continue, (3) there will be a premium increase for certain enrollee classes, but there will be premium-neutral options available, (4) new benefit options will be introduced, (5) Frequently Asked Questions (FAQs) with additional information are posted on www.LTCFEDS.com, and (6) contact information for the Long Term Care Partners Customer Support Center. Enrollees were advised that a personalized options package would be mailed to their homes in the Fall.

Key factors in an effective communications and enrollment campaign include clear and explicit descriptions of the choices and options, sufficient time to digest them, and a firm deadline for making the decision. A deadline creates the necessary urgency to encourage action on the part of enrollees, and an end to the process. Our extensive experience in the group long term care insurance market has taught us that: (1) it is important to allow at least 30 days for the decision process, to enable enrollees to consider their options, and (2) regardless of the amount of time that is allowed, activity tends to be concentrated around the deadline.

LTCP will begin mailing options packages to enrollees on Tuesday, October 13th, and the mailing will continue through October 30th. The Decision Period begins on October 30th, and officially concludes at the end of the Federal Benefits Open Season on December 14th. This date was selected to minimize confusion among eligible federal employees by having the same deadline for all annual benefit decisions. It allows at least five full weeks for each enrollee to make a decision. Further, there will be an unpublished grace period that will extend well past the deadline. The grace period will enable enrollees who missed or ignored the mailings (and, consequently, whose first indication of the rate increase is a higher deduction in the first January pay period or a higher direct bill) the opportunity to take action and change their coverage. LTCP will assure that extenuating circumstances are considered and that every affected enrollee has an opportunity, within a reasonable timeframe, to avoid the rate increase.

Personalized options packages will contain:

- Specific premium increase amounts for enrollees in affected classes
- Personalized options for each enrollee
    - all options are available with no underwriting required
    - enrollees receiving a premium increase can:
        - accept the increase and keep their current plan as is, or
        - stay in their current plan at substantially the same premium by changing from 5% automatic inflation to 4%, or
        - move to the new plan at the new cost basis.

Enrollees not subject to a premium increase can also move to the new plan, and all participants will be provided with instructions about how to make other plan increases or decreases.

The Decision-Making Process

A multi-media approach to communications and decision-making support has been designed to provide information in a form that meets the needs of each enrollee. Print information will be provided in the options package, including an Outline of Coverage, inflation charts and statistics, and a comparison of the current and new plans. Online resources will be available at www.LTCFEDS.com and includes new plan information and other reference materials, FAQs, and inflation option comparison tools. And a dedicated team of experienced customer service representatives will be available at the toll-free number, 800-LTCFEDS.

Enrollees will be able to make their decisions in the medium in which they are most comfortable. Choices can be submitted by mail or fax, using a response form that is included in the options package. Selections can also be made online, by registering on www.LTCFEDS.com and making an option selection. Enrollees can also model other decreases online. Finally, enrollees can speak with a customer service representative for assistance in completing forms, and can make FLTCIP 1.0 premium-neutral decisions over the telephone.

During the Decision Period, special underwriting rules apply for employees and their spouses, allowing them to increase their coverage using an abbreviated application. Annuitants and qualified relatives can increase their coverage using a full application. All enrollees can model other decreases in coverage.

Customer Service Support

Customer service is provided by an experienced team at Long Term Care Partners, supplemented by an established, outsourced call center vendor to handle high call volume. This vendor has previously supported three Federal Dental and Vision Program (FEDVIP) Open Seasons since 2006. Additional Long Term Care Partners staff has also been hired to provide escalation support. Staffing assumptions include 90% of calls answered within 90 seconds and an average call length of 12 minutes. Current staffing of 362 full-time representatives can support 160,000 calls, available from 8:00 am to 7:00 pm, Monday through Friday.

Customer service representatives undergo a comprehensive training program, beginning with 10 days of training when first hired, and continuing with ongoing training as needed, interactive role playing and testing, web-based training tools and live service monitoring.

Confirmation of Benefit Decisions

At the end of the Decision Period in December 2009, all 224,000 enrollees will receive a confirmation package. Enrollees who make a plan change, either moving to the new plan or changing benefits within the current plan, will receive an updated benefit booklet and schedule of benefits. If they so choose, they will have 30 days during which they can change their minds and revert back to their previous coverage or choose another available option. Enrollees who do not make a change during the Decision Period will receive a confirmation package that includes an updated benefit booklet and schedule of benefits. Confirmation packages provide required documentation as to choices that were made during the Decision Period, and, for those who overlooked the opportunity to avoid rate increase, serve as an additional vehicle for reiterating the results and consequences of failing to take action.

JOHN HANCOCK'S COMMITMENT

Long term care poses the largest unfunded liability facing the American family today. The high cost of long term care services is becoming better known than it was 20 years ago, but it is still not universally recognized. The vast majority of the nation's long term care bill is assumed by Medicare and Medicaid, with the second largest portion paid for out-of-pocket by families. Fewer than 10 million people have private long term care insurance coverage, and the enormous baby boom generation – over 78 million – is nearing retirement. With the wave of aging baby boomers heading into retirement, long term care insurance will undoubtedly play a significant role in their financial plans for the future. The demand for long term care services will grow as people age, but we know that baby boomers have not saved enough to cover their long term care costs. In fact, we know that many people are not saving enough to cover their normal costs in retirement without a long term care event. Perhaps that is why more and more financial planners are beginning to discuss long term care insurance with their clients and integrate it into their financial plans.

When Congress passed the Long Term Care Security Act of 2000 (public law 106-2650) establishing the FLTCIP for the Federal Family, it was hoped that such a program would not only help federal employees and annuitants to finance the cost of their long term care, but also send a signal to all Americans to consider carefully the risks of long term care in their retirement planning process.

John Hancock believes that private insurance will play an increasingly important role as a source of funding for long term care needs in the coming years and that the reasons for which the Federal Long Term Care Insurance Program was established are more valid than ever. It is our intent to retain our leadership position in this arena by continuing to develop products that meet consumer needs and by delivering on our promises at time of claim. Our commitment to protecting the interests of our more than 1.2 million in-force long term care insurance policyholders, including those of the Federal Family, and all future policyholders is unequivocal.

Thank you, Chairman Kohl and Chairman Akaka, and members of the Committees, for the opportunity to speak to you today and to offer this testimony. I will be happy to answer any questions you may have.