2016 LTC Individual Policy

Rate Action Information Guide

Long-Term Care Insurance

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Overview of the 2016 John Hancock LTC Rate Action

John Hancock has recently completed another comprehensive claims study, which we generally conduct every three years and which examines the usage trends for our insured population. Similar to our previous analysis, the new data demonstrates that claims, particularly at higher ages, continue to last longer than expected, and more policyholders are initiating claims at older ages than previously expected. Based on that data, we have determined that there is a need to increase inforce premiums on certain policy series.

Rate Action Details

- In November of 2016, John Hancock will begin filing for a new increase of premiums by an average of approximately 20%,[1] across most of our LTC insurance business. In certain states where we were not permitted to implement our prior increases in full, this new requested rate increase will also include unapproved amounts from prior rate actions.
- The majority of our inforce policyholders will be impacted by the increase, which will vary by issue age, inflation option, benefit period, and issue state.

Options to Help Mitigate the Rate Increase

Whenever possible, policyholders will be offered options to help mitigate the effects of the rate increase. For example, policyholders who originally purchased 5% automatic compound or 5% simple inflation coverage can elect a landing spot that will allow them to retain their current premium and the benefits they have accrued by reducing their future inflation rate (subject to state acceptance). Other policyholders can stay in a lower premium range by reducing their benefit period, adjusting their daily/monthly benefit amount, or extending their elimination period. They can also drop riders from their coverage.

Where Contingent Nonforfeiture is triggered and where Nonforfeiture coverage was purchased, customers will be offered paid-up policies equal to the sum of their premiums paid or Nonforfeiture benefit.

1. This new increase assumes that we were permitted to implement the full amount of the increases we have requested in the past. The filing will vary by state based on the amount and timing of any prior increases that we were permitted to implement in that state. In this way, policyholders in some states are not subsidizing policyholders in other states.

About the 2016 Inforce Rate Increases

At this time, we are planning to file for inforce rate increases on the following Individual policy series:

POLICY SERIES	ISSUE YEARS
Individual Policies with first round increases	
Custom Care III (with 2012 rates)	2012-current
Custom Care III	2011-2015
Leading Edge	2006-2014
Leading Edge 10	2010-2014
Individual Policies with prior increases	
Advantage	1991-1996
Gold Select	1996-2002
Fortis 4060-6063	1997-2002
Fortis 7000's	2000-2003
California Gold Coast Advantage	2001-2004
Custom/Essential Care I	2002-2004
Custom/Essential Care I Florida 2003+	2003-2010
Custom Care II and Essential Care II (2003 rates)	2003-2010
Custom Care I California	2003-2008
Custom Care II (2007 rates)	2007-2010
Custom Care II Enhanced – 2008 and 2010 rates	2008-2011

Exceptions and Variations:

- Increases will vary according to state, policy series, issue age and benefit options selected.
- Increases will not apply to Performance LTC

Please note: The 2016 rate action will apply to policyholders of all ages

The increase John Hancock is currently filing for is smaller in all the states where we were permitted to implement prior rate increases in full. As we have in the past, we will be offering numerous options to policyholders to help mitigate the 2016 increase.

Tentative Timeline of Approvals/Communications for Individual Policy Rate Increases

Timing	Event/Communication
November 2016	State filings of rate increases begin
Q2 2017	Estimated 1st round of state implementation announced
Q3 2017	Estimated 1st round of effective dates
Remainder of 2017+	Rate increases will be implemented on a rolling basis as states accept

- Once we are permitted to proceed with implementing an increase in a particular state, we will begin the implementation process (on a state-by state basis).
- Approximately four weeks in advance of policyholder notifications, producers with affected clients will receive a list of the names of their policyholders who will receive notices, along with the actual amounts of their increases, policy anniversary dates, and any inflation landing spot or personalized option details.
- Producer notification packages are also available online through our e-Delivery program. You will be able to view your current notification packages by visiting **www.jhltc.com** and registering for access to your online documents.
- Affected policyholders will be grouped by policy anniversary month and will be notified in waves, at least 90 days in advance of their policy anniversary.

PRODUCER TIP

We recommend that you do not contact your clients in advance of when we are permitted to implement the rate increase in a particular state, as we anticipate that there may be state variations and requirements that will need to be communicated to policyholders.

Frequently Asked Questions

1. **Why are some policies getting an additional rate increase?**
   Our most recent comprehensive review of our claims experience, completed in 2016 and which takes into account the previous three years of claims experience, shows that the amount we will have to pay out in claims in the future is higher than previously expected.

2. **What provision allows carriers to increase LTC insurance premiums?**
   All LTC insurance is written on a guaranteed renewable basis, which means that, while a company can never unilaterally change coverage or cancel it (except for nonpayment of premium), it reserves the right to change premiums, as long as the increase is applicable to all policies within the same class in a given state. Such increases must be actuarially justified and filed with (and in most cases accepted by) each state in which the product was issued.

3. **Will commissions be paid on the increase in premium?**
   No. Commissions will not be paid on the amount of the premium increase.

4. **Some of my clients have already received a partial increase due to a state-imposed cap. Does the new increase apply to them?**
   Yes, our request will apply to all policyholders insured under the affected policy series, with the exception of current claimants.

5. **Will policyholders who are currently on claim be impacted?**
   Policyholders who are currently on claim will be notified, but not subject to the premium rate increase until their claim status changes.

6. **How will producers get information about their affected clients?**
   We will continue our practice of providing producers with lists of affected clients in each state and sample policyholder letters. Producer notification packages are also now available online through our e-Delivery program. You will be able to view your current notification packages by visiting **www.jhltc.com** and registering for access to your online documents. As always, producers can contact their John Hancock representatives directly for more information.

7. **What happens if a policyholder pays premiums with a John Hancock single premium fixed annuity (LTC EasyPay) and the payment amount no longer matches the new premium?**
   Once the annuity payment is received, there will be a shortfall due to the rate action unless the policyholder elects to reduce coverage. We will mail the policyholders a balance due bill for the shortfall amount. The single premium immediate fixed annuity cannot be modified to increase the annuity payment.

8. **Why will John Hancock be sending letters regarding the Time/Union (formally Fortis) LTCI policies?**
   In 2000, John Hancock signed an agreement to reinsure and service/administer a block of Time/Union Security (formally Fortis) LTCI policies.

9. **What happens if the policyholder does not pay the increased premium?**
   As stated in the contract, the policy will lapse for nonpayment of premium unless the policyholder purchased the Nonforfeiture Benefit or the contingent Nonforfeiture provision is triggered. See definition of Contingent Nonforfeiture below. However, policyholders will be offered options to adjust their coverage to keep premiums near their current level. A letter to policyholders will outline these options and provide them with a toll-free number to call for more information.

   Definition of Contingent Nonforfeiture Benefit: The NAIC Contingent Nonforfeiture Benefit provides that in the event the company increases rates by more than a specified percentage (not to exceed 100%) based upon the original issue age of the policyholder, the company will provide the policyholder with the opportunity to: pay the increased premium, decrease their benefits to a level supported by their current premium, or elect the Contingent Nonforfeiture Benefit. Under the Contingent Nonforfeiture Benefit, their policy will remain in force with a reduced policy limit equal to the sum of the premiums paid. This means that a reduced benefit will be payable instead of the full policy limit. Also, in the event the policy was issued at least 20 years prior to the effective date of the increase, a contingent nonforfeiture benefit shall be available to the individual without regard to any threshold.

10. **Will the premium increase apply to riders?**
    Yes. The increase is a percentage based on total policy premium, including riders.

11. **Will the agent of record be notified of the benefit changes that are selected by the policyholder, if any?**
    Copies of customer correspondence are now available online through our e-Delivery program. Visit **www.jhltc.com** and register for access to your online documents.

12. **Will lowering the policy coverage affect the tax-qualified status?**
    No. The tax-qualified or grandfathered status of these policies will not be affected.

13. **If a policyholder purchased a DRA Partnership-qualified policy, will changing their inflation option have an effect on their Partnership status? If so, how does John Hancock plan to compensate my client for the loss of this important protection?**
For the most part, those who choose to reduce their inflation coverage benefit will still qualify for Partnership-status, with some state exceptions. We will confirm with all DRA Partnership states that our proposed inflation reduction meets all state and DRA Partnership requirements and will let you know of any exceptions as the filing process progresses.

14. **Will grandfathered Partnership policyholders be allowed to reduce inflation coverage?**
Generally, no. Due to the inflation regulatory requirements for the grandfathered Partnerships, in most instances a reduced inflation option will not be available. However, we will work with all grandfathered Partnership offices to create options which will help policyholders mitigate the impact of the increase.

15. **If a policyholder purchased an LTCI policy in a state in which we are permitted to implement the rate increase, but has since moved to another state in which we are not yet permitted to implement the rate increase, will his or her premiums still increase?**
Yes. The premium increase is based on the policy form and the state in which the contract was issued, not where the policyholder currently resides.

16. **Will the premium increase be applied in its entirety or will it be "phased in?"**
We will be filing with the states to apply the increase in its entirety. As we have already seen, some states may require a phase-in period – but we won't know that until later in the filing process.

Recommended Strategies for Client Discussions

Putting the Rate Action in Context

It may be helpful to offer the following points, to help put it in context:

- Remind them that, although these policies allow for premium increases, the cost of this type of protection is still relatively low compared to the out-of-pocket expenses that can be incurred without insurance
- You may want to tell your clients that over 96% of all policyholders have chosen to keep their policies in force after prior rate increases, which demonstrates the value of this particular type of protection

Helping Your Clients Understand Their Options

Based on your client's personal situation and the type of benefit options they selected when they purchased their coverage, they will have several different options to consider so that they can make the decision that works best for their situation.

OPTION 1 - Keep the policy and continue paying premiums

Assuming your clients' reasons for buying the policy are still true today, and they can afford the new premium, this should be the preferred option. You will have clients who receive the increase notice and simply pay their premium as they always have – no other action is required. Others may eventually decide not to make any changes, but only after they have spoken with you.

OPTION 2 - Consider the inflation landing spot, if one is available

The inflation landing spot is an offer designed to mitigate the effects of the rate increase by allowing policyholders who originally purchased 5% Compound or 5% Simple inflation to move to a lower annual percentage inflation rate on future benefit increases. Clients who select the landing spot will retain all of the benefits they have accrued to date.

Please note: If a state does not accept the full amount of the increase filed, policyholders of that policy series may not receive the option of an inflation landing spot due to administrative and actuarial complications involved with offering varying inflation landing spots.

There are certain DRA and traditional Partnership states with minimum inflation and benefit requirements, where the election of an inflation landing spot or a benefit reduction option below such minimums may result in a loss of Partnership status. Policyholders may be offered alternative options which will allow them to mitigate the increase and retain Partnership status.

OPTION 3 - For those without an inflation landing spot option - Determine which personalized option is most appropriate

If your client has a GPO-style indexed inflation option (one that offers increases every three years or annually), he/she will be offered a personalized option to reduce the Daily/Monthly Benefit (DMB) or Benefit Period, which for most policyholders will help keep their premiums approximately level with what they are currently paying.

Each client letter will show available options, the level of benefit reduction, and the final calculation of the client's new premium. Your client can select one option or the other. Those clients wishing to receive more benefits upfront, may decide to decrease their Benefit Period, while those clients who want their benefits to last as long as possible, may decide to decrease their Daily/Monthly Benefit.

CLIENT RESOURCE

If your clients have questions about landing spots or personalized options, please have them call **888-654-6582**

Please note: Grandfathered Partnership programs (CA, CT, IN and NY) have annual state-set minimum daily benefit levels, where benefit levels that fall below such minimums will result in a loss of Partnership status.

For example, if a Daily Benefit reduction is made in 2017, the lowest a policyholder can reduce it and still maintain Partnership status is the state-set annual minimum for 2017 —not the minimum in effect when the policy was originally issued.

Other points to consider when reviewing inflation landing spots and other personalized options

Clients with Daily or Monthly Benefits that are already at state-required minimums will not receive a personalized option that will permit them to further reduce their coverage levels. Nor will we reduce a client's Daily or Monthly Benefit below policy design minimums. As a result, clients will need to seek alternate options to reduce their premiums.

Clients with Limited Pay policies will be offered either a personalized option or an inflation landing spot. Please take the time to talk through these options with your client. If the policy is in its first few years of issue, then it may make sense to elect a benefit reduction. However, if the policy is close to becoming paid-up, it would be to your client's advantage to pay the increased premiums and maintain the higher level of benefit. Please be sure to clarify and explain the ramifications and results of each option.

OPTION 4 - Consider other benefit reductions

Some clients may not be happy with the inflation landing spot or personalized options presented to them in their notification package. For those clients, be mindful of the other options they have to reduce their premiums:

- Consider dropping a rider
- Increase their Elimination Period, if appropriate. For example, an increase from 20 days to 100 days, or 30 to 90 days might make sense, but clients need to understand the effect such a change would have on their out-of-pocket expenses

Policyholders who are interested in any of these options will be directed to call John Hancock's dedicated Rate Action Customer Service Center for more information. Policyholders who decide to change their coverage must complete a Coverage Change Request Form (enclosed in their options package).

OPTION 5 - Lapse or cancel the policy

It may be that some clients simply cannot afford the increase in premium, or that their financial goals have changed and they no longer want their coverage. If this is the case, be sure you fully review the consequences of lapsing coverage and be sure to specifically note this decision in their client file.

If the optional Nonforfeiture Rider has not been chosen (or does not meet election criteria), the Contingent Nonforfeiture Benefit will be offered if your client experiences a rate increase that exceeds a certain percentage (which varies by issue age). In this event, they will have the right to convert their coverage to a paid-up status, under which no further premiums are due. The policy will remain in-force with a reduced Total Pool of Money equal to the greater of:

- The sum of the total premiums they have paid, or
- 30 times the Daily Benefit amount.

This means a reduced benefit will be payable instead of the Total Pool of Money.

Please note: For those policies with multiple increases, the cumulative percentage of increase will be taken into account when determining eligibility for the Contingent Nonforfeiture Benefit.

PRODUCER TIP

We strongly suggest you recommend that your clients review their options with family members or trusted advisors before making any decisions to reduce benefits, alter, or cancel coverage.