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NAIC group pondering run-off facility proposal for LTC business

By Elizabeth Festa

State insurance regulators are considering a plan to create two long-term care insurance facilities, one solvent and one impaired, as part of an attempt to restructure the nation's formidable LTC liabilities, which outstrip available capital.

The proposal calls for a solvent facility consisting of a new, licensed insurer that assumes as-yet-untroubled LTC portfolios through a mechanism called an insurance business transfer, and another facility that assumes impaired portfolios. Run-off industry experts formally presented the concept to the National Association of Insurance Commissioners' Long-Term Care Insurance Task Force during a July 19 conference call.

A third-party administrator would administer the run-off for both the solvent and the impaired facilities. The plan also includes an investor group for the solvent facility to increase liquidity, and the use of capital markets, reinsurers, hedge and swap deals and assessments to support the run-off risk.

The goal is to provide a better outcome for LTC policyholders with one uniform, standard valuation of reserves for all LTC business taken into the facility. The end result would see policyholders experience only modest rate increases over time, according to the run-off consultants: Luann Petrellis, a PricewaterhouseCoopers managing director; Richard Newton, CEO and owner of International Solutions LLC; and Jose Montemayor, a former Texas insurance commissioner. Rate increases are a "thorny issue," Newton said, and the proposal is designed to ensure rates do not spike and force policyholders to abandon their plans.

The LTC business is facing major problems due to a lack of funding across the industry, and the size of liabilities, which have soared alongside rising healthcare costs and life expectancy.

"We can't agree on the amount but we all agree [that it is significant], and the entire industry is exposed," Newton said.

About 175 companies have closed blocks of business, but only a fraction of LTC-involved companies are writing policies today, said Texas Department of Insurance Deputy Commissioner Doug Slape, who chairs the NAIC's Financial Analysis Working Group. The working group will "drill down" into the largest LTC blocks in the industry and examine reserves, lapse assumptions and a host of factors that could impact those books of business, he said.

Discussion during the conference call revealed that the run-off experts had been speaking with regulators, the NAIC and the industry for some time on their new proposal. There is "increasing interest by regulators" to consider the mechanism, one run-off expert said on the call. The mechanism under consideration is modeled on Rhode Island regulation that allows for commercial P&C run-off liabilities to be transferred to other facilities.

Long-Term Care Insurance Task Force Vice Chair Mike Kreidler called the proposal "an intriguing approach" and one that the group should "very seriously" consider.

Regulators from California and consumer advocates on the call, however, expressed concern about the fate of policyholders under the run-off proposal and sought to get answers on whether their outcomes would be improved. The "litmus test" will be the cost of resolution from a policyholder protection standpoint, one life insurance industry executive said in an email.

The executive also argued that, although the run-off facility outline touts the importance of policyholder protection, its primary goal seems to be giving insurers the ability to rid themselves of unprofitable business.

"This poses a significant risk that other solvent insurers and the guaranty association system will ultimately end up with the liability," the executive said. For companies already in distress, however, the run-off facility could be less costly than guaranty association funding, the person added.