

# PRESS RELEASE

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### **New Consumer Protections in Long Term Care Insurance Take Effect**

Protections for Arizona consumers of long term care insurance have significantly improved with passage of 2003 legislation introduced by the Department of Insurance that took effect in September. The new law also increased the Department's authority to make rules regarding LTC insurance, which are under development.

A consumer will often buy LTC insurance well in advance of the time that the policyholder expects to make claims under the policy. Buying at a younger age can help lower the cost of the insurance coverage but means that the policyholder may pay premiums for many years before reaping the benefits.

In recent years, some insurers have implemented significant rate increases on existing policies. The increases have been of such magnitude as to render the coverage unaffordable to some policyholders, causing them to allow their policies to lapse after they have paid premiums toward them for years. The Department successfully sought changes in Arizona's LTC law to prevent this kind of situation and to reduce the negative impact of large rate increases on policyholders. Protections included in the new law or to be included in the rules under development, include the following:

#### **Increased Rate Stability**

The bill gives the Department express authority to disapprove a rate filing that does not meet the requirements of the LTC laws. The bill also gives the Department the authority to adopt rules to promote premium adequacy and protect policyholders in the event of a substantial rate increase. The proposed rules will require LTC insurers to certify that rates filed with the ADOI will remain stable over the life of the policy. If an insurer later seeks an exceptional rate increase, the insurer must provide extensive justification for the increase. The rules will require the insurer to return much of the added premium to policyholders in the form of benefits. If the insurer's projections do not match experience, the Director will be able to require rate schedule adjustments. The Director will be able to closely monitor lapse frequency under the policy subject to the increase, and, in cases of excessive lapses, require the insurer to offer policyholders the right to switch to a

comparable product. Under the proposed rules, insurers with a pattern of filing inadequate initial premium rates can be banned from the LTC market.

### **Non-forfeiture Benefits**

The new law requires insurers to offer LTC insurance applicants the right to buy a “non-forfeiture” benefit. This provision allows the policyholder to get payment akin to “cash value” if the policyholder has to terminate the policy due to a premium rate increase or a change in financial situation that makes the policy premium unaffordable.

### **Contingent benefit**

The bill requires insurers to provide a “contingent benefit” upon lapse of coverage to any policyholder who declines the option to buy the non-forfeiture benefit and is later subject to a substantial premium rate increase. The proposed rules will specify the policyholder’s right to convert to a policy with lesser benefits but similar rates, without additional underwriting.

### **Unintentional Lapse**

The rules will include safeguards designed to prevent policyholders from unintentionally lapsing a policy, by designating a person who can also receive notice of nonpayment of premium.

### **Enhanced Disclosure**

The rules will improve required policyholder disclosures and clarify that an Outline of Coverage must be delivered to applicants at the time of the initial solicitation. The Outline of Coverage must include a description of the terms under which the policy or certificate can be returned and the premium refunded. Once approved, insurers must ensure that LTC policies are delivered within 30 days. Insurers are also required to include information about the insurer’s history of taking rate increases.

### **Other improvements**

The rules will have provisions designed to help both agents and applicants assess the suitability of a LTC policy for the applicant by requiring preparation of a “personal worksheet.”

In September the Department issued Regulatory Bulletin 2003-11 which encourages insurers to comply with model rule standards pending adoption of rules by the Department. For further details on the new law and pending rules, visit the Department’s website at [www.id.state.az.us/ltc.html](http://www.id.state.az.us/ltc.html) .

For more information about LTC insurance, consumers can contact the Department to obtain a free copy of the *Long Term Care Shopper’s Guide*. Consumers with questions or concerns about LTC insurance can call the Department’s Consumer Affairs Division in Phoenix at (602) 912-8444 or toll free at (800)325-2548. Written complaints about LTC insurance can be submitted to 2910 N. 44<sup>th</sup> Street, 2<sup>nd</sup> Floor, Phoenix, AZ 85018.

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