

U.S. Senate
Special Committee on Aging Hearing
June 3, 2009 at 2:00pm
216 Hart Senate Office Building

INTRODUCTION

- Chairman Kohl and Committee members, thank you for the opportunity to speak with you today on behalf of Genworth Financial.
- My name is Buck Stinson. I am the President of Insurance Products for Genworth Financial, which includes the Long Term Care insurance business.
- We believe that long term care insurance can be a valuable tool to help protect families from the rising costs of long term care, while at the same time, relieving some of the pressure on an already overburdened Medicaid system.
- Genworth Financial provides retirement income, life, long term care, and mortgage insurance products to more than 15 million customers in 25 countries. As one of the pioneers in long term care insurance, we have become a leader in the industry providing services to over 1.3 million policyholders nationwide.
- Over the last 34 years Genworth has paid a combined total of \$6.6 billion in long term care claims benefits. Today, we pay approximately \$3 million per day in long term care benefits. We are committed to our clients and to the value and importance of comprehensive long term care coverage.
- Today, I would like to speak about four topics that are of interest to both your committee and the public. First, I want to discuss what we offer our policyholders and provide our insights into the success of the State Long Term Care Partnership Program. Next, I would like to briefly discuss the regulatory framework that currently exists to ensure policyholders receive the benefits of their policies when needed, and also provide an overview of the significant consumer protections that are provided for under the National Association of Insurance Commissioners Model Act and Model Regulation. I would then like to discuss Genworth's thoughts on the intersection of healthcare reform and long term care financing, and close with a brief discussion on the legislation proposed by Chairman Kohl.

GENWORTH LONG TERM CARE INSURANCE OFFERINGS

- Before I go into what our company offers, I want to quickly cover the origin of this product and how it has evolved. This product is relatively young when compared to life insurance, which has been around for over 150 years. Long term care insurance was first introduced a little more than thirty years ago. In this short span it has gone through rapid evolution in terms of pricing, design and product features. Policies that were sold in the 70's and 80's provided coverage in nursing homes, which was the primary care at that time. As consumers' needs and the availability of care have changed, so have insurance benefits. Today, our long term care insurance covers care in the home, assisted living facilities, nursing homes, hospice and a variety of other options including adult day care.

Overview of Coverage

- Long term care insurance is important for four reasons: First, it generally provides peace of mind to policyholders and their family in a time of shifting and uncertain economic burdens. Second, it represents a critical part of a sound retirement plan – protecting assets and preserving funding sources for future family needs. In certain cases on the more severe claims, it can also prevent the need to access Medicaid funds. Third, it can serve to increase the number of care options available to policyholders and their families. Finally, care coordination, ongoing care management and other informational resources provide value well beyond the payment of financial benefits.
- Long term care insurance covers expenses for home health care, nursing homes, and assisted living facilities when a policyholder is chronically ill, as defined by the federal HIPAA (Health Insurance Portability and Accountability Act) statute.
- Specifically, a policyholder is chronically ill when they either need assistance with two of six activities of daily living (such as bathing, dressing, and feeding themselves) or they need assistance because of severe cognitive impairment, such as dementia or Alzheimer's disease.

- Forty-eight percent of our claim dollars pay for cognitive impairment and dementia, the majority associated with Alzheimer's disease.
- Today's long term care insurance products also offer care coordination services to develop a plan of care for policyholders, ongoing care management and help in supporting caregivers. For our customers, the policy is not just about avoiding the devastating expense of long term care needs, but also about having access to quality care and informational resources.
- Long term care insurance covers services for chronic conditions that are not generally covered by health insurance or Medicare and may be provided by state Medicaid programs, on a more limited basis, once an individual spends all of their assets and becomes destitute. And unlike Medicaid, which typically only covers Medicaid-eligible institutional care, long term care insurance covers home health care, including the use of informal caregivers.
- Today, the average age of our individual insurance buyer is 57. The average age has rapidly declined over the last decade as more consumers realize the benefit of purchasing coverage at a younger age. With more people interested in long term care at a younger age, we have expanded our product offerings to help provide greater flexibility and affordability.

Group Policies

- Genworth is dedicated to both the individual and group LTCi markets. Between 2005 and 2008, we issued 229,956 individual long term care policies. During this same period we issued 43 group policies with employee sizes ranging from 150 employees/members to over 650,000.
- About 40 percent of people receiving long term care services are under the age of 65. This is one of the reasons why long term care insurance has become a frequently requested employee benefit. Through our group policy, we work with employers to provide their employees with a secure way to help them protect their savings and assets, shield their family and friends from the burden of caregiving, and give them the flexibility to choose where their care will be received.

- Since 2007, we have been the AARP's exclusive provider of long term care insurance, offering our long term care insurance solutions to their more than 40 million members.

Partnership Program

- As way of background, the public-private State Partnerships for Long Term Care program was developed in partnership with the Robert Wood Johnson Foundation and state governments. The program – which allows individuals to purchase a long term care policy and qualify for Medicaid benefits without depleting all of their assets – is helping states achieve cost-savings solutions to alleviate the already strained Medicaid system. The model was first tested in California, New York, Connecticut and Indiana. The success in the original four states helped the program spread to 30 states. Of the 30 states that have filed state Medicaid plan amendments with the Department of Health and Human Services, 28 have been approved and two are pending approval.
- Through the State Partnerships for Long Term Care Program, Genworth is working with states to ensure Americans have the coverage they need should the need arise at some point in life. This program is a true win-win, as consumers are afforded a first layer of protection through a private insurance policy with the flexibility and choice it offers; backed by the state Medicaid program should they exhaust the benefits of their private policy and otherwise qualify for Medicaid benefits.
- As evidenced by the initial four states that have been participating since the program's inception 12 years ago, this program is very effective. For example, as one of the pilot states Connecticut, found that as many as 30 percent of all Partnership participants would have transferred assets to qualify for Medicaid in the absence of the Partnership Program. These individuals represent significant cost savings to the Medicaid program. Conceivably, most dollars paid by a Partnership policy could have been a dollar paid by already-overextended government programs. Therefore, through the Partnership Program, we are delaying or eliminating the need for individuals to access Medicaid early-on for long term care services.
- Genworth played a leading role in implementing the Partnership Programs in the initial four pilot states (New York, Connecticut, Indiana, and California). The Partnerships in

these initial states have taken the form of two models. The dollar-for-dollar model allows people to buy a policy that protects a specified amount of assets, up to the total of benefits received under the policy. The total asset model provides protection for 100 percent of insured's assets in the event that they exhaust their private insurance coverage.

- This beneficial program has helped states and policyholders alike. A 2005 study by the Government Accountability Office (GAO) on the initial Partnership Program states concluded that Medicaid was able to reduce costs because very few policyholders actually exhaust their benefits and become eligible for Medicaid due to the fact that their policies covered most of their long term care needs. In fact, with over 300,555 partnerships qualified policies to date in the original four partnership states, only 315 individuals – less than 1% of individuals – have exhausted benefits and had to use Medicaid.
- Policyholder research conducted for Genworth Financial in 2005 revealed that consumers found the Partnership Program particularly appealing because it combines the benefits and flexibility of private insurance with the backing and safety net of the government. Policy holders are satisfied because they are given payments that reflect the current costs of long term care and are not forced to deplete their own assets. Today, our policies provide individuals with an average daily benefit payment of \$152.00. To put it into perspective, the 2009 daily rate for a semi-private room at a nursing home is \$183.00, the average daily rate for a private bedroom in an assisted living facility is \$93.00 and the average hourly rate for Home Health Aide services is \$18.50.
- In the event an individual does exhaust his or her benefits under their Partnership policy, Genworth has a secure system to notify the individual and the state Medicaid offices. If an insured is nearing the end of his or her policy benefits, they are sent a letter about three to six months prior, notifying him or her that the benefits are nearing exhaustion and providing an estimated date of when the benefits will end, based on prior utilization. Starting in August of this year, state Medicaid agencies, in the second phase of the Partnerships Program, will have access to detailed partnership policyholder information which includes information about policies that are close to exhausting benefits. By maintaining open communication with both the policy holder and the state Medicaid

offices, we are attempting to help individuals gain the best access to long term care and help states save money.

- As these partnership programs develop in more states, the industry has learned that most purchasers are from middle-income families. This portion of the population is unlikely to have the considerable assets necessary to self-finance their long term care needs, but want to maintain a modest level of assets while receiving quality services. In addition, coverage of this nature provides these families with the peace of mind that in the unlikely event that they exhaust their benefits, they could access Medicaid and still maintain assets equal to the long term care insurance benefits they received under their policy. The Partnership program is an excellent example of a public-private approach to America's long term care financing problem that works.

Long Term Care Information Clearing House - Own Your Future

- In addition to the State Partnership Programs, we are happy to participate in the "Own Your Future" public awareness campaign. The campaign helps to educate millions of Americans about the importance of planning for their own long term care needs in advance. We strongly encourage this committee to continue their support for this very important public education and awareness campaign, including support of H.R. 519 that expands and extends future funding for this program.
- The campaign, spearheaded by the U.S. Department of Health and Human Services and funded through the Long Term Care Information Clearing House, works with Governors in states participating in the program to develop a series of mailings to mature Americans explaining long term care events and the government's role in providing funding for long term care.
- The campaign was created by a joint federal-state initiative in 2005 and piloted in five states; Arkansas, Idaho, New Jersey, Nevada and Virginia. The positive consumer response has allowed the program to grow to 19 states across the United States, and additional states have plans to participate in the program in 2009.
- Today, the mailing campaign includes an introductory letter from the Governor, a complimentary Long Term Care Planning Kit which contains state-specific information and

resources. In addition, the Deficit Reduction Act of 2005 provided \$3 million per year over the last five years to fund the National Clearinghouse for Long-Term Care Information (www.longtermcare.gov) which provides comprehensive information about long term care planning, services and financing options, and tools to help people begin the planning process.

- To date, the campaign has received an average response rate of over 9 percent, with Ohio and Pennsylvania having the highest response rates at 21 and 23 percent respectively. More importantly, the campaign has been successful in motivating planning behavior by those who receive the Planning Kit, who are twice as likely to take some planning action such as talking to an agent or financial planner or buying long-term care insurance as those who do not order the Planning Kit.
- Programs like these, which with the support of the state and federal government encourage Americans to more seriously plan for their later years, are very effective because more people take the initiative to plan for a long term care event thereby reducing the reliance on already burdened government programs. This is particularly important when you consider the results of national public opinion research that we commissioned during the last few years that found a majority of Americans incorrectly believe Medicare or private health insurance cover long term care needs. As a result, three out of four consumers indicated they had made no plans to protect themselves or any of their family members.

GENWORTH'S RISK MANAGEMENT FRAMEWORK

- Genworth has developed an innovative product portfolio designed to anticipate the needs of the long term care market, which includes individual, group and combination long term care insurance solutions that are both affordable and provide flexible features and benefits to help satisfy a wide range of customer needs.
- In 2006, Genworth introduced two combination products that combine the features of our comprehensive LTC benefits with traditional life and annuity products to more broadly serve the planning needs of our consumers.

- We have developed these products and services within a strategic framework designed to create a holistic approach to finding the best planning solutions to the long term care issues facing Americans.
- As the largest provider of this important insurance, we appreciate our responsibility in remaining strong financially and in the way we manage our company. There are four primary drivers of economics in a long term care insurance product: Morbidity, Mortality, Investment Yield and Voluntary Lapses. Our experience over the last 34 years has enabled us to price our products with a focus on long term pricing stability, as represented by the fact that we have only had to seek one rate increase, ranging from 8 to 12 percent, on the policies we have issued over the past 34 years.
- Our experience provides unique insights into the costs of long term care and Morbidity trends. In addition, our experience with this line of business and that of the general insurance industry also provides a good basis for predicting Mortality patterns. As a result, we utilize a comprehensive set of underwriting guidelines designed to manage our new business and continue to evolve our underwriting practices to reflect new experience as it emerges.
- Investment Risk Management is an integral part of Genworth's philosophy and we seek to manage multiple types of risk including exposure risk, duration risk, and correlation risk, among others. Dedicated Risk Management professionals ensure that we have the knowledge and expertise to evaluate and manage Genworth's investment portfolio in all market conditions.

NAIC MODEL AND CONSUMER PROTECTIONS

- Genworth's long term care insurance business has grown because we believe in providing our policyholders value, backed by strong consumer protection.
- Long term care insurance is a highly regulated insurance product, which includes extensive requirements designed to address consumer protection. The National Association of Insurance Commissioners (NAIC) has developed a comprehensive Long Term Care Insurance Model Law and Model Regulation. These models are regularly reviewed and updated to ensure consumer protections evolve to keep pace with changes in the market.

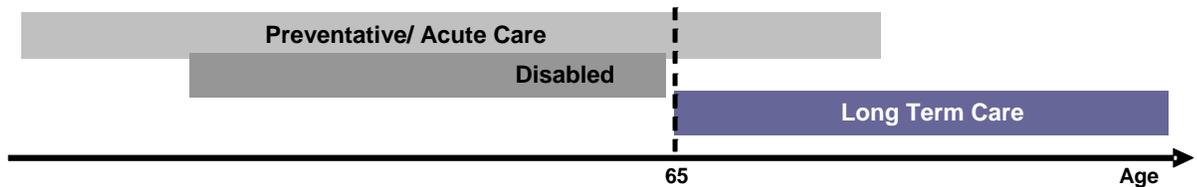
- Genworth supports the adoption NAIC Model Law and Regulation by all states. We believe that this provides consistency and clarity for both consumers and insurance carriers.
- Long term care insurers have historically worked closely with the NAIC to develop these Models, including, for example, enactment of rate stability standards, enhanced disclosure requirements and flexibility for consumers to adjust their policy benefits to meet future needs and reduce costs. In addition, we continue to work towards developing additional laws to protect consumers, including third party review of benefit eligibility denials.
- Our products are sold by dedicated specialists, independent individual and group brokers and financial planners, and through affinity relationships like AARP. All individuals who market our products are subject to state requirements for Life and Health insurance licensing and, in certain states, training requirements. These requirements also require additional continuing education credits for state partnership policies.
- We ensure that individuals thinking about purchasing both our Partnership Program policies and Non-Partnership Program policies receive the necessary information that enables them to understand the features and benefits of the product they intend to purchase. We provide the consumer an outline of coverage that helps the individual understand the benefits and exclusions of the long term care insurance coverage they are purchasing. This information includes, among other things, a statement and personal worksheet which discloses whether the insurer has previously raised rates on its long term care insurance policies, and an inflation protection option. Additionally, agents provide the applicant with a NAIC Shoppers Guide, which helps provide additional information regarding long term care funding and long term care insurance. Once approved, policyholders are issued a policy that details the features, benefits and exclusions of their insurance coverage. In addition, all consumers are given 30 days after receipt to return the policy with a full refund of any premiums paid. We believe the fact that almost all of the policyholders who purchase this valuable coverage retain their policies demonstrates that they both understand and value the protection these policies provide.

LONG TERM CARE FINANCING

- Our company recognizes that the long term care needs of Americans have a significant economic impact on our nation. Generally, long term care financing occurs in one of three ways: through individuals planning for their care needs out of pocket (18 percent), the utilization of private insurance (seven percent) or through accessing Medicaid services (69 percent).
- The Medicaid program only pays after the care recipient has exhausted all of his or her own resources and is financially destitute. Medicare generally does not pay for long term care services, though it does pay for some services at certified healthcare facilities. This coverage, however, typically does not exceed 100 days.
- In 2008, long term care accounted for more than 35 percent of Medicaid expenditures totaling approximately \$100 billion in care costs. If nothing changes, the costs will only increase and put further strain on Medicaid. Reports estimate the costs on Medicaid will increase almost 400% by 2040 costing more than \$380 billion each year. The Congressional Budget Office estimates that the U.S. spends more than \$200 billion annually on long term care, which does not include unpaid services provided by friends and family members. With one in three elderly individuals quickly spending-down to Medicaid, the onset of 77 million baby boomers will only further compound the problem.
- Since 2004, Genworth has surveyed the cost of long term care across the U.S. to provide Americans with a clear understanding of the cost of care in their part of the country. With this knowledge, families can begin to plan prudently for these potential costs. Our 2009 survey covers more than 14,000 nursing homes, assisted living facilities, and home health and adult day health care providers in 331 regions across America. Genworth's Cost of Care Survey found that the average annual rate for a private room at a nursing home grew from \$62,415 in 2005 to \$74,208 in 2009. At this rate, the cost of care for a private room is expected to exceed \$270,000 a year by 2050 when the nation's youngest baby boomers will reach their mid-70s.
- I reference these numbers as the elderly population is increasing at an unprecedented rate and Medicare and Medicaid are emerging as unsustainable mechanisms in terms of paying for the cost of long term care. As the Baby Boomers reach their older years,

few are prepared, or aware of the increasing costs of long term care. However, coupling long term care with acute health care reform will not solve the problem.

- As an alternative approach, we would recommend more efficient solutions to sustaining Medicaid that do not attempt to solve the long term care financing needs for 300 million Americans who do not have a long term care solution today. Our recommendation is taking a more targeted approach that is intended to focus on the true size and scope of the problem. This approach includes identifying the targeted group that can best benefit from a private-public partnership thereby more efficiently and effectively resolving the strain long term care has on publically funded programs.
- To understand the scope of the problem and how to target this select group, we must first understand the differences between long term care, acute care and disability care and the primary issues in each of these areas.



Types Of Care	Acute Care	Disabled & Chronic Care	Long Term Care
What It Is	Short-term medical treatment, for having an acute illness or injury	Ongoing care due to Physical/ Mental illness or injury	Care required as a function of aging
% of Population With Need	100% will use during their lifetime	6-9% of the working age population	~50-60% will need during their lifetime
Key Payers	<ul style="list-style-type: none"> • Pvt. Insurance 52% • Public Programs 17% 	<ul style="list-style-type: none"> • Pvt. Insurance 49% • Public Programs 38% 	<ul style="list-style-type: none"> • Pvt. Insurance 7% • Public Programs 69%
Key Issues	<ul style="list-style-type: none"> • Large % of Uninsureds • Rising Cost 	<ul style="list-style-type: none"> • Number of Uninsureds • Burden On Families 	<ul style="list-style-type: none"> • Strain On Medicaid • Aging Demographic
Reform Focus	<ul style="list-style-type: none"> • Cost • Access 	<ul style="list-style-type: none"> • Cost • Access 	<ul style="list-style-type: none"> • Strain on Medicaid

- First, we must differentiate acute care from long term care. Studies show that every American will need acute care during their lifetime, while only half of Americans will need some form of long term care. The wealthy and middle-class Americans that require long term care will not rely on government funding; rather they will either self-finance or purchase private long term care insurance. Meanwhile the truly

vulnerable or indigent are Medicaid eligible. This leaves a fourth or “tip-over” portion of the population. They are the segment of the population that rest on the cusp of Medicaid eligibility, yet have limited income and thus generally do not include long term care planning in their overall retirement strategy. Moreover, this “tip-over” portion of the population is much more likely to become Medicaid eligible if it suffers a long term care event.

- Second, we must retain a safety net to provide long term care funding for this target group or the “tip-over” population. By developing solutions similar to the state Partnership Programs, we can prevent this precarious population from spending-down into Medicaid. Moreover, meaningful benefits; including comprehensive in-home benefits and daily benefits that reflect actual utilization should be available to consumers who truly need assistance, strengthening existing eligibility controls.
- We believe that this targeted approach works best when the government and private industry work together for the benefit of consumers. As such, we would recommend a program, similar to the Partnership Programs that exist today, that incent individuals to prepare and plan for a future long term event. Under this proposal, individuals would be incented to purchase private long term care insurance protection, with the understanding that in the unlikely event that they exhaust their private insurance benefits, the government programs that exist today would be available as a catastrophic “backstop” should they continue to need care.
- This targeted population represents 29 million: 13 million over the age of 50 in the \$20,000-\$30,000 income bracket plus 16 million in the \$30,000-\$50,000 bracket. We estimate that this targeted approach will save the Medicaid program \$19 billion by 2030 freeing up Medicaid to focus on the intended recipients and reduce its financial burden. This safety net should address both the cost and access barriers, thus a means-tested premium should be considered and simplified underwriting take place.
- Lastly, we recognize continued education and awareness among those able to self fund their long term care needs should be revitalized. With the first wave of the 77 million Baby Boomers beginning to retire, is essential that we provide an alternative to the already stressed Medicare and Medicaid system. Other proposals provide questionable sustainability and insufficient benefit levels to cover the increasing costs

of long term care. However, by changing the equation and encouraging proactive planning for long term care needs through private insurance, we can empower Americans to reduce both their and the nation's dependence on entitlement programs.

PROPOSED LEGISLATION

- Before I conclude, I would like to comment on the Confidence in Long Term Care Insurance Act of 2009. Genworth Financial wholeheartedly appreciates the intent of this legislation, which suggests to us a profound recognition of the important role of private long term care insurance. In addition, we support the Chairman's efforts to ensure adequate oversight and monitoring of the private market and its state regulators to continue to promote consumer confidence as the market fulfills its obligation to protect consumers when they purchase a policy and at the moment of truth, when they need to access their policy benefits.
- Let me assure you that Genworth Financial became the market leader in this business because we share the Committee's interest in the consumer. As evidenced by our strong claims paying record, we feel that we are in business for one reason - to provide quality care options to our policyholders if and when they need them.
- Monitoring the continued success of the State Partnerships Program, expanding the National Clearinghouse for Long Term Care, and working closely with the NAIC are all activities that Genworth supports.
- As the Chairman advances this legislation, please allow me to extend an offer to provide data or other assistance and expertise if you find it helpful.

CONCLUSION

- Thank you Chairman Kohl and members of the Senate Special Committee on Aging for the opportunity to testify on this very important and relevant issue.