

**Summary of Testimony Presented by  
Thomas Samoluk, Vice President, John Hancock Life Insurance Company  
July 24, 2008**

- 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. It is our intent to retain our leadership position in this arena by continuing to develop products that meet consumer needs, by properly underwriting the coverage before the policy is issued, and by delivering on our promises at claims time. Our commitment to protecting the interests of our more than one million in-force long-term care insurance policyholders and all future policyholders is unequivocal.
- Long-term care insurance has evolved over time to continually meet the demands of consumers. We believe the laws and regulations governing the industry at the federal and state level have kept pace for the benefit of consumers and the marketplace. Our company actively supports the current NAIC Model Long-Term Care Insurance Act and Regulation (“NAIC Models”). In fact, John Hancock has a demonstrated history of proactively meeting new NAIC consumer protection standards throughout the nation in advance of their ultimate state adoption. As an example, although it was only in December of 2006 that the NAIC adopted its new producer training requirements for long-term care insurance, John Hancock has undertaken a nationwide effort to implement the new training, in advance of states requiring us to do so. We believe that all parties benefit by our producers meeting these valuable training requirements as soon as possible.
- For over 20 years, we have made it our business to deliver on the promises we have made to our long-term care insurance policyholders. We are there for our policyholders and their families when they need us most. Our goal is to deliver the highest level of service and advice at time of claim.
- The goal of John Hancock’s claims process is to ensure a superior policyholder experience. As a result, patient advocacy is central to our claims model. Policyholders and their family members are assisted throughout the claims process by skilled, licensed health care practitioners to ensure that our policyholders are optimizing all the available services and benefits offered by the coverage.
- John Hancock is now in the process of launching an independent third party review enhancement for our currently marketed products. Under our provision, the decision of the independent third party is binding on John Hancock, but not on the claimant, and we pay the entire cost for the services performed by the independent third party. We have chosen to proactively implement this enhancement now to give our policyholders additional peace of mind.
- John Hancock has been a long-standing, strong and vocal advocate of the NAIC Model rate stabilization provisions. 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 these important consumer protections.
- Policies have evolved significantly since the early days of long-term care insurance and comprehensive, tax-qualified long-term care insurance policies are by far the vast majority of policies being sold today. Product design has also evolved to reflect the changing long-term care delivery environment and the changing needs of consumers. It is now common for plans to include stay-at-home benefits, home and community care benefits, assisted living benefits, coverage in adult day care centers, residential care facilities, and dementia facilities as well as coverage in nursing homes. John Hancock has been a leader in innovative product design.
- We believe that the federal government can expand its role to encourage more individuals to protect themselves with private long-term care insurance and to reduce the drain on federal and state Medicaid budgets. We urge Congress to provide additional funding for the Long-Term Care Awareness Campaigns. We also look forward to the enactment of the Long-Term Care Affordability and Security Act of 2007 (sponsored by Mr. Pomeroy in the House and Mr. Grassley in the Senate), which would encourage employees to take personal responsibility for their long-term care needs by including long-term care insurance premiums in cafeteria plans and through Flexible Spending Arrangements on a pre-tax basis. We also believe that consumers will ultimately be better served with an operational Interstate Compact and an Optional Federal Charter, which would provide speed-to-market efficiencies and allow for uniform policies without variations from state to state.

**Statement  
of  
John Hancock Life Insurance Company**

**Presented by**

**Thomas Samoluk  
Vice President  
Government Relations**

**before the**

**Committee on Energy and Commerce  
Subcommittee on  
Oversight and Investigations  
of the  
United States Congress**

**July 24, 2008**

Good afternoon, Mr. Chairman and members of the Committee. I am Thomas Samoluk, Vice President of Government Relations at John Hancock Life Insurance Company in Boston. As one of the largest insurers of both group and individual long-term care insurance, John Hancock welcomes the opportunity to appear before you today and address the important subject of long-term care insurance.

John Hancock was chartered in 1862. The company's parent, Manulife Financial Corporation, ranks as the 6<sup>th</sup> largest public life insurer in the world and the 2<sup>nd</sup> largest in North America, based on market capitalization as of June 30, 2008. We have been writing long-term care insurance 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 both the group and individual long-term care insurance markets. Based on long-term care insurance in-force premium, John Hancock ranks first in the employer group market and second in the individual market and ranked first for total sales in 2007.<sup>1</sup> We are one of two companies insuring and administering the Federal Long Term Care Insurance Program. We currently have more than one million long-term care insurance policyholders. To date, John Hancock has paid more than \$1.8 billion in long-term care insurance claims for over 40,000 policyholders and we hold more than \$8.1 billion in reserves to support our current and future long-term care insurance claimants.<sup>2</sup> 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

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<sup>1</sup> LIMRA, Individual and Group LTCI Sales Surveys for 2007.

<sup>2</sup> Based on John Hancock internal data as of 12/31/2007. Includes individual and group LTC insurance, and 50% of the Federal Long Term Care Insurance Program.

a market differentiator. John Hancock has some of the highest ratings for financial strength and stability.

The following are our current financial ratings.

<b>John Hancock Life Insurance Company<sup>3</sup></b>	
Standard & Poor's	AAA (Extremely Strong*)
Moody's	Aa2 (Excellent)
A.M. Best	A++ (Superior*)
Fitch Ratings	AA+ (Very Strong)
Comdex <sup>4</sup>	99 out of 100

\*Denotes the highest rating given to any company.

The importance of the role of private long-term care insurance was recently cited by one of our trade associations, the American Council of Life Insurers, in a July 18, 2008 letter to you, Mr. Chairman, and members of the Committee, from its President & CEO, Mr. Frank Keating. I'd like to take the opportunity to quote from that letter.

“Long-term care insurance is a crucial component of retirement planning, particularly in this era when long-term care needs and costs continue to rise as America's baby boom generation begins to retire. Long-term care insurance helps the average American avoid excessive strains on family and finances while also providing policyholders with the dignity of choice by covering a wide range of services in a variety of settings. . .

Long-term care can also present a future financial crisis for the government. Increasing costs spell greater burdens on Medicaid, which provides financial coverage when older adults and people with disabilities exhaust their assets and qualify for Medicaid benefits. Long-term care insurance can cover the

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<sup>3</sup> Ratings as of 6/30/2008.

<sup>4</sup> Comdex is a composite of financial strength ratings as judged by S&P, Moody's, AM Best and Fitch. It gives the average percentile ranking in relation to all other companies that have been rated by the rating services. For more information, go to [www.lifelinkpro.com](http://www.lifelinkpro.com) (VitalSigns).

costs of services, protecting retirement savings and lessening the burden placed on families.

The need for long-term care affects most families and a sound financial plan should include a way to pay for these expenses. Today, the purchase of long-term care insurance is the best way for families to prepare for and manage these costs. . .”

### **Long-Term Care Insurance: Are Consumers Protected for the Long Term?**

At John Hancock it is our mission to ensure that our long-term care insurance policyholders are, in fact, protected for the long term. Along with our regulators, we are committed to maintaining and justifying consumer confidence in this increasingly important retirement protection product. Long-term care insurance has evolved over time to continually meet the demands of consumers. We believe the laws and regulations governing the industry at the federal and state level have kept pace for the benefit of consumers and the marketplace. Our company actively supports the current NAIC Model Long-Term Care Insurance Act and Regulation (“NAIC Models”). In fact, John Hancock has a demonstrated history of proactively meeting new NAIC consumer protection standards throughout the nation in advance of their ultimate state adoption. As an example, although it was only in December of 2006 that the NAIC adopted its new producer training requirements for long-term care insurance, John Hancock has undertaken a nationwide effort to implement the new training, in advance of states requiring us to do so. We believe that all parties benefit by our producers meeting these valuable training requirements as soon as possible.

We are strongly in favor of responsible regulation of long-term care insurance. The NAIC Models, in our view, provide consumers with necessary protection while

ensuring a healthy marketplace in which insurers may participate. Specifically, the NAIC Models:

- allow for flexible and high quality products to be offered to consumers which can then be tailored to an individual's unique personal, family and financial needs;
- set clear and uniform benefit trigger standards;
- provide for consumers to receive necessary and clear disclosure information regarding benefits provided under the coverage, suitability and rating practices;
- allow carriers to price their long-term care insurance products in an appropriate manner today so that premiums can be kept stable;
- require extensive producer training to assure that consumers are advised and served by a highly professional and educated sales force; and
- allow for innovation and adaptability within an evolving industry.

Regulators, consumer groups and the long-term care insurance industry have continuously worked toward the goal of developing legislative and regulatory templates that encourage a stable and innovative private long-term care insurance market, accompanied by essential consumer protections and disclosures. We believe that the NAIC Models strike such a balance. In fact, many of the key NAIC consumer protections have been endorsed on a federal level as well, first in the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and most recently through Partnership Program expansion provisions of the Deficit Reduction Act of 2005.

The NAIC Models are in essence “living” documents which continually evolve and advance to meet consumer and marketplace needs. For example, the NAIC Senior Issues Working Group has begun the process of setting standards for the independent review of benefit eligibility decisions for long-term care insurance, similar to the standards recently enacted in the State of Iowa. Under this process, if a claimant exhausts the appeals process under his or her policy, the claimant may request that the benefit eligibility denial be reviewed by a qualified independent third party. While the issue is still being considered in our industry, John Hancock has already begun the process of launching an independent third party review enhancement for our currently marketed products. Under our provision, the decision of the independent third party is binding on John Hancock but not on the claimant, and we pay the entire cost for the services performed by the independent third party. We have chosen to proactively implement this enhancement now to give our policyholders additional peace of mind.

As a company, John Hancock has long taken a leadership role nationally in the development and implementation of sound regulatory policy. We are, as we have always been, dedicated to working with our federal and state regulators, consumer representatives, the insurance industry, and other interested parties in order to provide consumers with innovative and affordable long-term care products that will meet their individualized needs.

The federal and state governments have played a significant role in encouraging consumers to think about their potential need for long-term care services. Social Security Statements now include the following advisory: “Medicare does not pay for long-term care, so you may want to consider options for private insurance.” We believe that the

federal government can expand its role to encourage more individuals to protect themselves with private long-term care insurance and to reduce the drain on federal and state Medicaid budgets. We urge Congress to provide additional funding for the Long-Term Care Awareness Campaigns. We also look forward to the enactment of the Long-Term Care Affordability and Security Act of 2007 (sponsored by Mr. Pomeroy in the House and Mr. Grassley in the Senate), which would encourage employees to take personal responsibility for their long-term care needs by including long-term care insurance premiums in cafeteria plans and through Flexible Spending Arrangements on a pre-tax basis. We also believe that consumers will ultimately be better served with an operational Interstate Compact and an Optional Federal Charter, that provide speed-to-market efficiencies and allow for uniform policies without variations from state to state.

### **Honoring the Promise**

For over 20-years, we have made it our business to deliver on the promises we have made to our long-term care insurance policyholders. We are there for our policyholders and their families when they need us most. Our goal is to deliver the highest level of service and advice at time of claim. The following facts tell our claims paying story – <sup>5</sup>

- We have paid more than \$1.8 billion in long-term care insurance claims to over 40,000 policyholders since 1987.
- More than 17,000 policyholders received benefits in 2007.
- We paid more than \$375 million in long-term care insurance claims in 2007 alone.

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<sup>5</sup> Based on John Hancock internal data as of 12/31/2007. Includes individual and group LTC insurance, and 50% of the Federal Long Term Care Insurance Program.

- We currently hold more than \$8.1 billion in long-term care insurance reserves to pay for current and future claims.
- In 2007 we received 9,326 new claims and denied 219. That is a claim denial rate of 2.3%. The #1 reason for claim denials is that the policyholder is not yet benefit eligible.
- In 2007, 78 claim related complaints were received --- less than 1%.
- Our current cycle time from initial claim notification to approval is 25 days and 95% of bills are processed within 15 days.
- We survey 100% of our claimants following benefit eligibility determination and year-to-date in 2008, 95% of those who responded rated their overall level of satisfaction as very satisfied, satisfied or neutral.

### **Our Claims Model**

Our statistics tell only part of the story. We are also very proud of the valuable assistance we provide to our policyholders in their time of need, when they are particularly vulnerable. We developed our consumer-friendly claims process with the goal of ensuring a superior policyholder experience. As a result, patient advocacy is central to our claims model. Policyholders and their family members are assisted throughout the claims process by skilled, licensed health care practitioners to ensure that policyholders are optimizing all the available services and benefits offered by the coverage. When policyholders need care, John Hancock acts quickly and thoroughly to help them get the support and benefits they need.

- *Claims Initiation*

Our claims initiation process is designed to take the place of the traditional claims form. We believe this is a superior approach because in addition to information gathering, it also allows John Hancock to explain the process, set expectations, and answer any questions the policyholder may have.

The process begins with a call, via the toll-free number provided in the policy, from the policyholder or family member. A John Hancock Care Coordinator will spend approximately 30 minutes educating the policyholder on his or her policy benefits, as well as explaining the claims process. All of our Care Coordinators are either licensed nurses or social workers. They are trained to gain an understanding of the policyholder's needs, in addition to obtaining the information necessary to start the claim. They act as patient advocates in their approach to understanding and assisting families unfamiliar with the many issues surrounding the need for long-term care. Additionally, they possess expert policy knowledge, as well as experience in working with individuals in long-term care situations. Supervisors are also available as needed.

As part of the initial evaluation, we review the policyholder's current situation and policy provisions. If the policyholder's condition meets policy provisions, the claim process is initiated the same day and an acknowledgement letter with a brochure explaining the claims process is forwarded to the policyholder. The claims assessment process begins immediately thereafter.

- Claims Assessment Process

For claimants in a skilled nursing home or who are receiving hospice services, our initial assessment is based on clinical information retrieved from the provider. For claimants in a home care setting or residing in an assisted living facility, John Hancock contacts an External Care Coordinator to conduct an onsite assessment and develop a plan of care. All of the External Care Coordinators we work with are also licensed health care practitioners, such as registered nurses.

The onsite assessment evaluates the policyholder's health, medications, behavior, support systems, environment, functional, and cognitive status. Once the assessment is completed, a Plan of Care is developed that includes a listing of community resource referrals (Meals on Wheels, personal response system, elder services, Alzheimer's Association). As part of this process, the policyholder, power of attorney, or responsible party is asked to sign a HIPAA authorization, as required by the Health Insurance Portability and Accountability Act of 1996.

The assessment package (onsite assessment, Plan of Care, community resource referral listing, and HIPAA authorization) is forwarded to John Hancock's claims department for review.

- Provider Discount Program

For those individuals who do not have a provider already in place or would like to change providers, we offer a provider discount program. This program furnishes the policyholder with reports listing qualified providers, including provider/facility rating, fire safety rating, bed availability, quality of

care data, bed types, specialty units, resident population profiles, among other information.

John Hancock considers this service to be one of the most valuable aspects of our long-term care insurance policies because it gives each policyholder valuable information to consider when choosing a provider that best fits his or her situation. The available discounts can also help a policyholder conserve his or her benefit dollars.

- *Benefit Eligibility Determination*

A John Hancock Care Coordinator reviews the assessment package for accuracy, consistency, and completeness, and determines benefit eligibility within two business days. Contacting the physician is typically not necessary unless we need to clarify information contained in the onsite assessment.

Claimants are eligible to receive benefits when they become either functionally dependent or cognitively impaired, within the terms of their policy. Examples of functional impairment are the inability to bathe or get dressed without substantial assistance from another person. Severe cognitive impairment might apply to an individual with Alzheimer's disease, who requires continual supervision to protect himself or herself from threats to health and safety.

Concurrently, if a provider is already in place, a Claims Specialist reviews the provider's information to determine whether the provider meets policy definitions. When the benefit eligibility or provider eligibility determination is made, we communicate the decision in writing to the policyholder.

Once the claim is approved, we forward an authorization to the External Care Coordinator to assist the policyholder with implementation of the Plan of Care and community resources. Our Care Coordinator is charged with ensuring that policyholder needs are being met throughout the life of the claim and that the Plan of Care is adjusted, as necessary, to meet those needs.

- *Claims Payment*

Once itemized invoices are received, the Claims Specialist authorizes benefit payments for the long-term care services rendered and issues an Explanation of Benefits to the policyholder. Our goal is always to pay 100% of all claims accurately and in a timely fashion. We reimburse 95% of invoices within 15 business days of receipt, which is our performance standard.

- *Ongoing Benefit Eligibility*

Once a claim is approved, John Hancock will establish a monitoring frequency based on the claimant's condition and needs. Ongoing monitoring ensures that we remain connected to policyholders, so that we can provide assistance in updating their Plans of Care and identifying their ongoing needs.

- *Claims Denial Process*

There are also times when denying a claim is warranted. John Hancock takes the decision to decline a claim very seriously and has instituted rigorous protocols surrounding the denial process. Before any claim is denied, the clinical information, the decision, and written communications are reviewed by our internal quality assurance team. These individuals have extensive clinical and

long-term care claims experience and are licensed health care practitioners. This additional review ensures that an independent, objective determination is made.

After the quality assurance review is completed and confirmation of an appropriate decision is rendered, we notify the policyholder orally of our determination. This telephone call helps ensure that we have the most appropriate and up-to-date information about the policyholder's status and gives the individual the opportunity to provide additional information or to ask questions. In some cases, the decision to deny the claim can be reversed based on our discussion with the policyholder or his or her representative.

In the event that the claim denial is not reversed after discussion with the policyholder, a written communication is forwarded which includes specific policy text on which the denial is based. Additionally, the process for appealing a denial is explained during the initial telephone discussion and is restated in the denial letter.

- Appeals

Policyholders who are not satisfied with our claim decision may appeal in writing. All appeals are handled with the highest priority. When John Hancock receives a claims appeal, we immediately acknowledge its receipt in writing and may supplement the written communication with a telephone call. Based on the nature of the appeal, additional information may be requested. An internal appeals committee is in place to ensure that final determinations are made quickly, appropriately, and consistently. The committee is comprised of senior

managers representing multiple disciplines within the department. Committee members cannot have been directly involved with the claim in question.

As described earlier, we are in the process of launching our new independent third party review process which will further enhance our existing claims process and give added consumer protection and peace of mind to our policyholders.

#### Quality Assurance Program

We have a rigorous Quality Assurance Program with comprehensive audit standards. Employee compensation is not based on any performance incentives related to the approval or denial of claims nor do any approval or denial targets exist.

Elements of the Quality Assurance Program include:

- Incoming and outgoing calls in our intake unit and call center are recorded and monitored on a daily basis for professionalism, accuracy of data, and attitude.
- Benefit eligibility determinations are audited for accuracy, appropriateness, and timeliness and 100% of denials are audited prior to contact with the policyholder.
- Benefit reimbursement checks are audited for accuracy and timeliness.

- Every policyholder who initiates a claim receives a written survey following the benefit eligibility determination process for feedback about his or her experience with John Hancock and the external care coordinator. Survey results enable us to make refinements to our claims model in order to improve the claimant experience.
- We have an internal audit process where we review the on-site assessment, Plan of Care, and HIPAA authorization for accuracy and appropriateness.

### **Rate Stabilization**

John Hancock has been a long-standing, strong and vocal advocate of the NAIC Model rate stabilization provisions. 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 these important consumer protections.

Why have we seen rate increases in the long-term care insurance industry? The long-term care insurance industry is still a relatively new line of business. Generally, the policies that are experiencing rate increases today were priced at a time when actuarial assumptions were based upon best estimates of future experience, without the benefit of sufficient years of actual experience. As actual experience has emerged, assumptions have been updated and some of the older blocks of business have needed rate increases to ensure that the benefits could be funded by the premiums. These updated assumptions

also result in higher prices for new business. But, as a result, today's new business rates should be much less likely to need such corrections in the future.

John Hancock is proud of the fact that we have not had to raise rates on John Hancock issued policies in the more than 20 years that we have been writing long-term care insurance products.<sup>6</sup> For the first time, we are in the process of implementing a moderate 13% rate increase on certain older policies that we underwrote. As a responsible leader in the long-term care insurance industry with a commitment to this business for the long term, we have concluded that this action is necessary to ensure that all our policies, including the older blocks, are priced properly and according to actual experience in order to be in line with future claims expectations. Consistent with the NAIC rate stabilization provision, we offer policyholders the ability to adjust benefits in order to maintain their current premium.

### **Quality Products and Innovation**

We believe that long-term care insurance products offered to any consumer should provide both valuable benefits and meaningful consumer protections. Current laws and regulations provide a responsible regulatory framework for long-term care insurance, and when effectively implemented and enforced, provide essential consumer protections while allowing product evolution and innovation.

For the benefit of consumers, such product evolution and innovation must be encouraged. And without question, there should be high standards for all products to ensure quality, utility, affordability and attractiveness of products. These goals would be stifled by standardizing product offerings.

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<sup>6</sup> We had previously needed to take rating actions on a block of business that we acquired in 2000 from a company that was exiting the business.

Policies have evolved significantly since the early days of long-term care insurance and comprehensive, tax-qualified long-term care insurance policies are by far the vast majority of policies being sold today. Product design has evolved to reflect the changing long-term care delivery environment and the changing needs of consumers. It is now common for plans to include stay-at-home benefits, home and community care benefits, assisted living benefits, coverage in adult day care centers, residential care facilities, dementia facilities as well as coverage in nursing homes. John Hancock has been a leader in innovative product design, including such benefits as Shared Care and Family Care, which allow spouses and/or family members to access a combined pool of benefits. We have also been a leader in offering a new, more affordable and more relevant approach to inflation, a built-in, annually compounded inflation provision that tracks the Consumer Price Index. Many of our products also include an alternate plan of care, whereby benefits not expressly contained in the contract can be paid. For example: modifications to a claimant's home, such as redoing a bathroom so that it has a walk-in shower and accommodates a walking device or wheelchair; installation of ramps; widening of doors; installation of grip bars. Many products also contain benefits for informal care so that claimants can get necessary help without having to use a formal home health agency.

### **Consumer Education and Awareness**

We applaud the mission and the efforts of the Health and Human Services Long-Term Care Awareness Campaign. It is essential for consumers to have objective information about the possibility of needing long-term care. The changing demographics

in our country make this need for awareness all the more important. As a company, we have, over the years, conducted surveys and focus groups to help educate consumers and to ask them about the benefits and features that they would like to see in a long-term care insurance policy. Recently, we sponsored an educational video on long-term care insurance which was written by Kiplinger's. The video has been very well received and is viewable on the Kiplinger's website at: [www.kiplinger.com/yourretirement/longterm/](http://www.kiplinger.com/yourretirement/longterm/)

This is one example of the many ways John Hancock helps consumers learn more about their long-term care needs, and as we look to the future, we will continue to do all that we can to help Americans learn more about this important issue.

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. It is our intent to retain our leadership position in this arena by continuing to develop products that meet consumer needs, by properly underwriting the coverage before the policy is issued, and by delivering on our promises at claims time. Our commitment to protecting the interests of our more than one million in-force long-term care insurance policyholders and all future policyholders is unequivocal.

Thank you, Mr. Chairman and members of the Committee, for the opportunity to speak to you today and to offer this testimony. I will be happy to answer any questions you may have at this time.