

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 946

(Delegate Kramer, *et al.*)

Health and Government Operations

Finance

Long-Term Care Insurance - Contingent Benefit Upon Lapse

This bill requires a long-term care insurance carrier to provide to an insured a contingent benefit upon lapse if (1) the carrier increases the premium rate for the insured; (2) the insured has maintained the policy or contract for at least 20 years; and (3) the insured terminates the policy or contract within 120 days after the premium increase becomes effective. The contingent benefit upon lapse must be a paid-up coverage with no additional premiums due and with a reduced lifetime maximum benefit equal to the sum of all premiums paid minus any claims paid. All other benefits of the policy or contract in effect on the date of the lapse must remain unchanged and may not be increased after the date of the lapse. The bill applies to all policies, contracts, or certificates of long-term care insurance issued or delivered in the State and rate increase filings approved by the Insurance Commissioner on or after October 1, 2018.

Fiscal Summary

State Effect: Minimal increase in special fund revenues for the Maryland Insurance Administration (MIA) in FY 2019 from the \$125 rate and form filing fee. Review of filings can likely be handled with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Under Maryland regulations, an insurer may not deliver or issue a long-term care insurance policy in Maryland unless the option of purchasing a

nonforfeiture benefit has been offered. A nonforfeiture benefit allows a consumer to retain some value of the policy should the policy lapse due to nonpayment of premiums. If an applicant rejects the offer of a nonforfeiture benefit at time of application or if, for specified products, the applicant accepts the nonforfeiture benefit on a policy with a fixed or limited premium paying period, the carrier must provide for a contingent benefit upon lapse.

A contingent benefit on lapse must be triggered each time (1) an insurer increases the premium rates to a level that results in a cumulative increase of the annual premium equal to or exceeding a specified percentage of the insured's initial annual premium based on the insured's issue age and (2) the policy or certificate lapses within 120 days of the due date of the premium increase. Maryland regulations specify the percentage increase over the initial premium that triggers a substantial premium increase. The amount is based on age: for example, a 200% increase for an individual age 29 and younger; a 70% increase for an individual age 60; a 40% increase for an individual age 70; and a 20% increase for an individual age 80.

A contingent benefit on lapse must also be triggered for policies with a fixed or limited premium paying period each time (1) an insurer increases the premium rates to a level that results in a cumulative increase of the annual premium equal to or exceeding a specified percentage of the insured's initial annual premium, based on the insured's age; (2) the policy or certificate lapses within 120 days of the due date of the premium that was increased; and (3) a specified ratio is 40% or greater.

Each long-term care policy must also include a provision that allows the policyholder to reduce coverage and lower the premium by reducing the maximum benefit or reducing the daily, weekly, or monthly benefit amount. A carrier may offer additional reduction options (such as adjustment to a product's elimination period or inflation benefits) if the options are consistent with the policy or certificate design or the carrier's administrative processes.

Background: MIA advises that the bill codifies a National Association of Insurance Commissioners' bulletin regarding contingent benefit upon lapse, which carriers already offer in Maryland.

According to MIA, as of December 2017, approximately 134,000 Marylanders are covered by long-term care insurance. While 19 carriers have approved long-term care insurance policies in Maryland, only a few remain open for business.

Additional Information

Prior Introductions: None.

Cross File: None.

HB 946/ Page 2

Information Source(s): Maryland Insurance Administration; Department of Legislative Services

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