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Long-Term Care Insurance Rate Increases and Reduced Benefit Options: Insights from Interviews with Financial Planners

November 202[illegible]

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Acknowledgments

The authors would like to thank the Financial Planning Association, a membership organization for CERTIFIED FINANCIAL PLANNER™ professionals and those engaged in the financial planning process. The FPA promoted the opportunity to participate in the research through its existing communications channels, which included newsletters, social channels, and chapter emails. We would also like to thank the financial planners who participated in the interviews.

Suggested Citation

Cude, B. J., Groshong, L., & Burns, B. (2022). *Long-*

Long-Term Care Insurance Rate Increases and Reduced Benefit Options: Insights from Interviews with Financial Planners

As early as the 1970s, U.S. individuals and families could purchase long-term care insurance to plan for future long-term care costs. While initially the policies primarily paid benefits for nursing home care, those sold more recently cover other long-term care services, for example, home health care. Today this type of long-term care insurance policy is frequently described as traditional and standalone to distinguish it from newer hybrid policies that combine long-term care coverage with other types of coverage, typically life insurance.

Many traditional long-term care insurance purchasers kept their policies, owning them (and paying premiums) for decades. Now, many policyholders have received notices that their premiums 6dtie]-2 (e) . -10aepie 5.1 -8-6 (a)-6easers 9 Tc o2 (t)-10bpi oie]-2 (e) .der (e)-11 (i)-14.s deoerseiioeo

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Since 2020, the National Association of Insurance Commissioners' (NAIC) Long-Term Care Insurance (EX) Task Force has examined the issues surrounding reduced benefit options and possible regulatory responses. Among its work products[1] are:

- An *RBO Principles Document* that gives guiding principles for regulators to communicate to insurers regarding filing rate increase notices.
- *Principles for Reduced Benefit Options (RBO) Associated with LTCI Rate Increases,* which offers recommendations to ensure that long-term care insurance policyholders have opportunities to make reduced benefit decisions that are in their best interest.
- *Checklist for Premium Increase Communications* for state insurance department staff to use when it reviews insurance company rate increase notices to consumers.

However, the NAIC has not attempted to directly examine consumer response to long-term care insurance rate increase notices. This report describes a study that is a first step to fill that gap. The report describes the major takeaways from interviews with 14 financial planners. Interviews with financial planners are an indirect route to examine consumer responses to rate increase notices. However, all of the financial planners had experience advising clients who had received long-term care insurance rate increase notices that included reduced benefit options.

Following established qualitative research methodology, we identified three major categories of themes from the interviews:

[1] Available on NAIC's Long-Term Care Insurance Task Force webpage.

- Financial planner perceptions of client motivations to buy and keep long-term care insurance.
- Financial planner perceptions of insurance company rate increases, reduced benefit options, and client reactions to them.
- Financial planner advice to clients about rate increase notices and reduced benefit options.

Overall, we found that financial planners described client motivations to buy and keep long-term care insurance as related to four major themes:

- Financial security, primarily related to preserving assets.
- Choice and control about the type and quality of long-term care they might receive.
- Concern for family and experience with long-term care.
- Limited options to finance long-term care if they give up or reduce the benefits of their current insurance policy.

Financial planner perceptions of insurance company rate increases and reduced benefit options and client reactions to them related to five major themes:

- Some rate increases should have been avoidable, either because insurance companies could have absorsj-0.005 0 Td(J0.14 (a)-6 (nd)]TJ[(r)4 (e)-7 4 0 TT to)12.12q2t82.12q4 clients said the notices did not include a satisfactory explanation as to why premiums were increasing.

- Notices may create false impressions or undue stress for clients. Examples given were notices that presented reduced benefit options as the client's only options rather than as examples or deadlines that created an unnecessary and false sense of urgency.
- Clients were largely unprepared to make decisions about rate increases, lacking contact with the agent who sold the policy, financial knowledge, and knowledge about their own policy. The typical emotional respons0asednf 1ees may

The report concludes with recommendations for state insurance regulators and the NAIC regarding rate increase notices and reduced benefit options. Key recommendations include:

- State insurance regulators should fully use of NAIC's *Checklist for Premium Increase Communications* when reviewing long-term care insurance rate increase notices.
- State insurance regulators should work to expand the advisors available to assist policyholders with a decision about a long-term care insurance rate increase by:
    - Requiring, by rule or regulation, that policyholders have the right to authorize insurance companies to release policy information to a professional advisor.
    - Ensure that Senior Health Insurance Programs (SHIP) counselors are prepared to advise long-term care insurance policyholders.

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As early as the 1970s, U.S. individuals and families could purchase long-term care insurance to plan for future long-term care costs. Initially, the policies primarily paid benefits for nursing home care if the policyholder met specific prescribed benefit triggers. With time, long-term care insurance policies have extended the types of care covered to include other long-term care services, for example, home health care. Today this type of policy is frequently described as traditional and standalone to distinguish it from newer hybrid policies that combine long-term care insurance with other types of coverage, typically life insurance.

Many traditional long-term care insurance purchasers kept their policies, now owning them (and paying premiums) for decades. In fact, the lapse rate for traditional long-term care insurance policies has been much lower than insurers anticipated when they first offered the product.

Now, years after buying the policy and paying the same premium year after year, many policyholders have received notices that the premiums for their long-term care insurance policy will increase. Some have received multiple notices over time or notices of a current as well as a future increase. Some of the premium also may have the option to reduce the maximum policy benefit to the total of past premiums paid (known as contingent nonforfeiture) and pay no future premiums. Analyzing whether to reduce policy benefits and, if so, which ones or to pay a higher premium is a very complex choice for a typical policyholder, especially without expert assistance.

In 2020, the National Association of Insurance Commissioners (NAIC) formed a Reduced Benefit Options Subgroup within the Long-Term Care Insurance (EX) Task Force to examine issues surrounding reduced benefit options and possible regulatory responses. Its charge was to: *Identify options to provide consumers with choices regarding modifications to long-term care insurance (LTCI) contract benefits where policies are no longer affordable due to rate increases.*

The Reduced Benefits Option Subgroup concluded its work in 2022. In 2020, it produced an *RBO Principles Document* that gave guiding principles for regulators to communicate to insurers regarding filing rate increase notices. The subgroup also created the document *Principles for Reduced Benefit Options (RBO) Associated with LTCI Rate Increases.* The document states that it is intended to answer this question: *What are the recommendations for ensuring long-term care insurance policyholders have maximized opportunity to make reduced benefit decisions that are in their best interest?* In 2021, in response to its charge, the subgroup

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However, the NAIC has not attempted to directly examine consumer response to long-term care insurance rate increase notices. This report describes a study that is a first step to fill that gap. The report describes the major takeaways from interviews with 14 financial planners.

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Traditional long-term care insurance policies also feature an elimination (or deductible) period, stated as a number of days. Benefits begin at the end of the elimination period, which may be counted in "calendar days" or "service days" (NAIC, 2019).

Traditional long-term care insurance policies also must offer inflation protection. With automatic inflation protection, the benefit amounts go up automatically each year, typically by a fixed percentage (often 3%) for a period of time (often 10 or 20 years). In a policy with special offer inflation protection, the policyholder can choose to increase benefits from time to time. A tax-qualified long-term care insurance policy offers certain federal income tax advantages, specifically the opportunity for a taxpayer who itemizes deductions to deduct part or all of the premium paid for the policy (NAIC, 2019).

Long-term care insurance companies medically underwrite coverage. Some companies will not sell coverage to individuals with certain preexisting conditions or may charge those individuals higher premiums (NAIC, 2019).

Cohen (2016) described the characteristics of an individual who bought long-term care insurance by purchase year from 1990 to 2010. Over that period, the average purchaser age decreased (from 68 years old in 1990 to 59 years old in 2010). The median income of a purchaser dramatically increased – from $27,000 in 1990 to $87,500 in 2010. Purchasers also were much more likely to be college educated and employed in 2010 than in 1990.

According to Cohen (2016), sales of traditional standalone long-term care insurance policies peaked in 2003. In subsequent years, outpaced those of traditional policies (Bodnar, 2016). The number of insurance companies offering traditional policies has declined precipitously, from an estimated 125 in 2000 to fewer than 15 by 2014 (Cohen, 2016). The U.S. Department of Treasury (2020) reported that the

- Overestimated lapse rates, or the number of policyholders who would voluntarily drop their policies.

The recent low-interest rate environment also has been cited as a reason for rate increases, as the low interest rates reduced the income insurers earned against their assets (King, 2016).[3]

The LTCG (2021) provided evidence that rate approval levels are inconsistent by state, suggesting that policyholders in states where higher rates are approved subsidize policyholders in other states. The report also concluded that "the cost of a nursing home does not appear to be a primary predictor of state LTC experience" (Slide 3).

Rate increase notices offer policyholders options to reduce policy benefits and offset some or all of the announced premium increases. NAIC's *Model Long-Term Care Insurance Regulation 641* (NAIC, 2017) states that at least one of the reduced benefit options must be either a reduction in the maximum benefit or a reduction in the daily, weekly, or monthly benefit amount.

NAIC's (2020) *Principles for Reduced Benefit Options (RBO) Associated with LTCI Rate Increases* described the most common reduced benefit options as:

- Reduce the daily benefit.
- Decrease the benefit period/maximum benefit pool.
- Reduce inflation protection going forward while preserving accumulated inflation protection.

[3] See King (2016) for an excellent explanation of the basics of pricing long-term care insurance.

financial planning process. The FPA promoted the opportunity to participate in the research through its existing communications channels, which included newsletters, social channels, and chapter emails.

The financial planners who were interested in participating in the research were asked to complete an online survey. The questions in the survey were designed to ensure that those selected had worked with clients who had long-term care insurance policyholders. We sought financial planners who could answer yes to each of the following three screening questions:

- Have you regularly worked with long-term care insurance policyholders or people requesting information about long-term care insurance?
- Have you commonly worked with long-term care insurance policyholders who received a notice about a premium increase?
- Have you commonly worked with long-term care insurance policyholders who were offered options to avoid a premium increase?

Fourteen financial planners met the criteria, and the second author scheduled interviews. Twelve of the 14 completed an online survey that collected information about the planners and their practices. The financial planners represented a mix of geographic regions, including rural and urban locations, and males and females. Nine of the 12 planners had more than 20 years of experience in the industry. All but one used a fee-based business model, with fees typically based on Assets under Management; one financial planner's practice was designations. Six planners said they worked with fewer than 50 clients, while five worked in a firm that served 50 to 100 clients, and one worked in a firm with 500 to 1000 clients.

All but two financial planners provided their clients a range of financial planning services, typically about estate planning, investments, insurance, retirement planning, and taxes. Four focused on a specialized clientele, described as women, older adults, divorce planning, and, in one case, long-term care planning. All of the financial planners indicated that they followed a fiduciary standard.

The report’s first and second authors created a semi-structured script asking the financial planners about their clients’ experiences with rate increases and reduced benefit options. (See the appendix for the interview script.) The second author conducted the interviews via Webex in October and December 2021 and January 2022.[4] On average, the interviews were about 45 minutes to an hour. The researchers recorded each interview and created a written transcript of each.

The report’s first and second authors analyzed the transcripts independently using a themati (i[i)-T.P /<MCID 9 >BDC 12 c 0psi[iTw 9.38 0 Td[sB-1-1 (he)-7 (t)-u0 (o)2 (& (r)1 Cna)-6 alhe218 (0)r

Ltd.). The first and second authors then used the codes to develop higher-order themes (Brower & Jeong, 2008), discussing and resolving interpretive disagreements.

We grouped the emergent themes from the interviews into three overall categories:

- Financial planner perceptions of client motivations to buy and keep long-term care insurance.
- Financial planner perceptions of insurance company rate increases, reduced benefit options, and client reactions to them.
- Financial planner advice to clients about responding to rate increase notices and reduced benefit options.

The interviews with financial planners confirmed what is already known about why people bought traditional standalone long-term care insurance (Dorn et al., 2007; Grote, 2011). Four major themes emerged related to financial planners' perceptions of client motivations to buy and keep long-term care insurance:

- Financial security.
- Choice and control.
- Concern for and experience with family members.
- Limited options to finance long-term care without their current insurance policy.

One theme was financial security. Financial security refers to clients' desire to use insurance to pay for long-term care if they nee

clients saw insurance as a way to avoid becoming a burden on family. A financial planner described one client who could self-insure but chose to buy insurance: "*His statement to me was 'I don't ever want to become a burden on any of my family members. I want to know that there's an 800 number that I can have my niece or nephew or sibling contact and start coordinating my care.' He almost had a phobia about being burdensome, and yet he had so much money.*"

The financial planners also reported that experience with family members who needed long-term care, especially for extended periods, as with Alzheimer's disease and dementia,[5] motivated clients to buy and keep insurance. As one financial planner said, "*It's not because they saw a commercial and thought, oh, that's a good idea. I need some of that. It's because they lived it.*"

A motivation to keep an existing long-term care insurance policy was the lack of other options to finance long-term care. Financial planners described it as "too late'" for policyholders to apply for a new policy. The financial planners said clients who expressed an interest in buying long-term care insurance at retirement age or later found it difficult to qualify for coverage. "*What we're finding,*" one financial planner said, "*is that, particularly with my clientele, they're now above the optimal age to buy long-term care or have preexisting conditions that would preclude them. You don't buy long-term care with people in their*

[5] Coe et al.'s (2015) research confirms that family experience with long-term care influences the decision to purchase insurance.

seventies, it's not viable." Even if one could buy a new policy, it is doubtful that the premiums would be less for coverage comparable to an existing policy.

One option that traditional long-term care insurance policyholders might consider is replacing that policy with a hybrid policy. All of the financial planners we interviewed mentioned hybrid policies. The financial planners were sharply divided in their opinions about standalone policies versus hybrid policies.

Those who recommended hybrid policies to their clients typically mentioned three reasons for their recommendations:

- Clients who want to purchase long-term care insurance could qualify for a hybrid policy but not a traditional policy because of health conditions or age.[6]
- Clients do not want to "waste" premiums if they never need to use the policy for long-term care. A policyholder will get some value from a hybrid policy if only from the non-long-term care aspect, typically life insurance. In this sense, hybrid policies also appeal to clients with low risk tolerance. One financial planner described his response to clients who did not want to "waste" premiums on a traditional standalone policy because they might never use the coverage. He told them, "*I would argue you would **want** to waste your long-term care insurance premiums, because that means you had a long, healthy life and you went quickly versus getting it dragged out.*"

[6] Braun et al. (2019) proposed that rejections are the main reason long-term care insurance take-up rates are less than 10% among U.S. adults over age 62. Their model estimated that insurers would reject between 36% and 56% of applicants for long-term care insurance between ages 55 and 66, the most common ages for application.

- Unlike a traditional long-

Five major themes emerged related to financial planner perceptions of rate increases, reduced benefit options, and client reactions to them:

- Some rate increases should have been avoidable.
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said, “*No one disputes rate hikes are a way of life, no matter what you’re buying, but this is way, way outta control.*”

Some financial planners thought state regulators should have done more to limit rate increases. One financial planner said regulators justified allowing rate increases to keep insurers on the market, “*but they left a 93jTT1 1 u0T12 Tw60.4a-i22 0 (h( )TjEMC P KMCID 1 >2C 0.001 T1Td(.30d(.471 rg 1* nonforfeiture benefit for a paid-up policy. One financial planner said, “*The first thing they (the insurance companies) want to do is buy you out.”*

Some financial planners questioned whether the options offered were in the company’s best interest or the policyholder’s best interest and suggested that the two might not be the same. One said that “*the carrier has a vested interest in the policyholder’s decision regarding lowering benefits*.” Darnell (2021) supported this view, noting that policies may have large built-in contract reserves to pay future benefits. Darnell suggests carriers have a vested interest in policyholders reducing benefits because the carrier collects the decrease in the contract reserve.

Several financial planners discussed the number of reduced benefit options mentioned in the rate increase notice, asking questions such as “*How many options are enough? How many are too many*?” They also commented that some notices list a limited number of options and incorrectly imply those are the only options available to the policyholder.

Financial planners typically characterized their clients as lacking the knowledge to process the information about their options to reduce or avoid premium increases. The general lack of financial literacy in the United States compounds the problem. For example, in 2022 the FINRA Foundation reported empirical data that indicated that respondents with more financial knowledge were more likely to exhibit positive financial behaviors, such as establishing an emergency fund (Lin et al., 2022). However, only 36% demonstrated knowledge, indicating they understood probabilities. On average, the respondents only correctly answered 2.58 of the five financial knowledge questions (Urban & Valdes, 2022). In addition, the terminology and policy benefits in long-term care insurance differ from those used in other insurance products, making it more difficult for policyholders to understand their coverage.

Another financial planner reaction to rate increase notices referred to policies purchased many years earlier. While a few financial planners said their clients expected rate increases, most said their clients were resentful about the increases: "*No one told me there could be rate increases.*" Even if the policyholder initially understood that rate increases were possible, they likely have forgotten that information along with most of what

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respond to possible future rate increases is another consideration. If a policyholder reduces a daily benefit or maximum benefit period to the bare minimums to offset a rate increase, that action likely limits or eliminates their options to respond to a future rate increase.

All of the financial planners described their clients' emotional responses to a rate increase notice. Often the emotional reaction was so strong it overwhelmed the client's ability to respond rationally. Financial planners said policyholders are often confused and angry, which keeps them from focusing rationally on the issue. One financial planner said of their clients, "*They are just beside themselves with frustration*." Another described clients as "*despairing*."

Another financial planner observation was about the emotional response to a rate increase fueled by the perception of it as "sudden" after many years of paying the same premium. The policyholders' experience paying a "level" premium has reinforced their perceptions that their premium would not increase. Policyholders contrasted the

helpful to tell a policyholder that they “should” have been paying a higher premium earlier.

- If the policy has an inflation rider, the daily benefits have increased with time, and the policy is worth much more now than it was initially.
- Most policyholders have limited options to replace the policy with another policy or another approach to finance long-term care. Thus, keeping their existing coverage may be their only option to use long-term care insurance to pay for care.
- The premium increase is likely small relative to the benefit, considering that some policyholders are nearing the age where a claim is more likely. However true this may be, it does not matter to a policyholder who cannot pay the higher premium or would have to reduce their standard of living to pay it.

If a policyholder must choose a reduced benefit option rather than paying a higher premium, financial planners typically recommended one of the following (depending on the policy and the client’s situation):

- Drop the inflation rider or change the method from compound to simple. Financial planners most often offered this advice if the client was older. The rationale was that clients typically had held the policy for many years, and thus the daily benefit is now generous due to annual inflation adjustments.
- Reduce the benefit period, especially if the daily benefit has increased due to an inflation rider. A few financial planners described the benefit of this approach when

benefits are pooled. For example, suppose one client has a $100 daily benefit for four years – that is access to $146,000 in benefits. Another client has a $200 daily benefit for two years – also access to $146,000 in benefits. But, the second client would not have to pay any of the covered costs out of pocket for the first two years on claim after the

In addition, there are two important caveats related to learning about long-term care insurance policyholders' experiences by interviewing financial planners:

- Financial planners' clients likely have more assets than some other long-term care insurance policyholders. Thus, they likely have more options to not only pay a rate increase but also to finance long-term care using other financial resources.
- It seems likely that clients of financial planners would assume their financial planner could advise them about their response to the rate increase. Other long-term care insurance policyholders may not have a relationship with a professional from whom they could seek advice about this decision. For example, if their personal insurance agent (for homeowners and auto insurance, perhaps) does not sell long-term care insurance, it is unlikely they are qualified to offer advice. Thus, policyholders who do not work with a professional advisor may approach the decision differently than those who do, and some may ignore the rate increase notice.

In a September 21, 2020, letter to the NAIC's Long-Term Care Insurance Reduced Benefits Options Subgroup, Bonnie Burns, a nationally-known expert on long-term care insurance and a co-author of this study, highlighted several ways in which the reactions of a policyholder who does not consult a professional will likely be similar to and differ from those the financial planners described. She wrote:

- Policyholders of advanced age have difficulty processing complex choices and often fail to act. Notices that run to multiple pages with dense text and boxes are difficult for many older and sometimes even younger readers to interpret.

- Policyholders, and sometimes family members, react in frustration by stating they will just cancel the policy. This fairly frequent reaction is often in response to a very large rate increase, and an individual being overwhelmed by the density of the language and the mysterious choices in a multipage notice.
- Policyholders who did not respond to a notice will sometimes ask for help after premiums have increased for several months and have had a noticeable effect on their budget. People who pay quarterly or semi

- Family members often ask for help after a policyholder has made a decision that is not

This research also did not attempt to assess the impact of any of the work of the NAIC's Reduced Benefit Options Subgroup. Research with that goal in mind likely would require an experimental approach. For example, researchers could give long-term care insurance policyholders a rate increase notice at two points in time: before a state insurance regulator has reviewed it using the *Checklist for Premium Increase Communications* and after. Researchers could then compare policyholder understanding of the information in the two notices.

We recommend the following actions for state insurance regulators regarding long-term care insurance rate increase notices and reduced benefit options:

- Make full use of NAIC's *Checklist for Premium Increase Communications* (NAIC, 2021) when reviewing rate increase notices. The checklist offers many criteria that, if followed, would lead to improved communication with policyholders. For example, one item in the checklist states specifically that communications should "present options fairly and without subtle coercion." Another item is, "Are the options represented fairly? Options are **not** presented fairly if one option is emphasized, mentioned multiple times, placed in a more prominent position, or bolded when the other options are not." A third reads, "Are the number of options presented reasonable? If there are more than 5, engage with insurer to understand 10 (90 (a)-10 (hM/TTw 0.22 0 n.7(7 (r)4 (t)-10 ())Tj0.42 0)2 (ne))-14- nrstplef

How reduced benefit options are presented also influences policyholder understanding of the information. For example, it may be unclear when the policyholder can change *any* of the terms of their policy, not just the terms presented in the notice. Wording such as the following illustrates a way to emphasize when reduced benefit options in the notice are merely examples:

You have options to reduce your new premium. Here is one example.

If you're comfortable changing your benefits from lifetime coverage to six years of benefits, your new premium will be lower. The rest of your benefits will stay the same.	
Your premium today for unlimited benefits	*Your premium for 6 years of benefits*

In this study, we interviewed 14 financial planners who had worked with clients who had received at least one notice of a rate increase on their long-term care insurance policies. Overall, we found that financial planners believed policyholders were largely unprepared to make decisions about rate increases. While the insurance company notices may have presented basic information about the rate increase, they did not, and perhaps cannot, present all of the information needed to decide whether to retain the policy as is or choose a reduced benefit option to offset at least some of a premium increase. The decision requires a thorough evaluation of the policyholder's age and health; financial assets, income, and net worth; and family medical and support history.

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Please tell us about your experience with clients who have long-term care insurance.

- What are the primary reasons they bought the insurance?
- Could you describe the characteristics of clients for whom you think LTCI is important?
- Have many of your clients who have long-term care insurance received notices of rate increases? To the best of your memory, what was the largest increase any of your clients received? What are typical rate increases?
- What LTCI companies do you have the most experience with?

Rate increase/ RBO notices

Now let's talk about your experiences with clients who have received notices of LTCI rate increases and have been offered reduced benefit options

- In the survey, we asked you about your client's reactions to rate increases. You said they were typically [FILL IN THE BLANK].
- What reduced benefit options were your clients typically offered?
- How well do you think your clients understood the insurance company communications about rate increases?
- How well do you think your clients understood the insurance company communications about RBOs?
- Which types of reduced benefit options (e.g., shorten duration, reduce daily benefits, or other strategies) do you typically advise policyholders to consider?
- Does your advice vary much based on the clients' characteristics?
- Are there reduced benefit options that you think most clients should ignore?
- Are there reduced benefit options that you think most clients should consider?

What information about RBOs do insurance companies provide to your clients?

- How useful do you think that information is?
- Do you think there are ways that information and/or the way it is delivered could be improved to be more useful