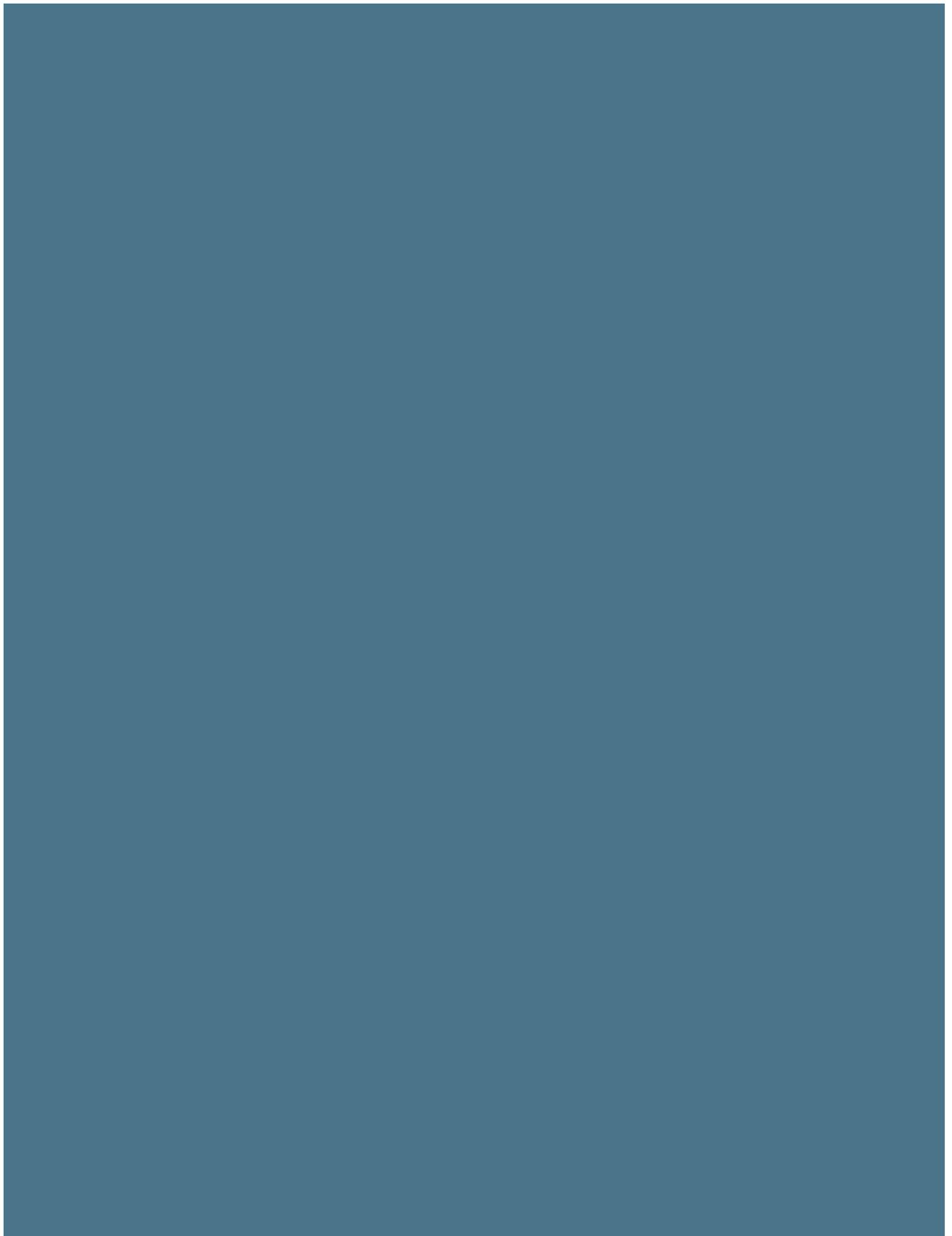




MEETING THE CHALLENGES OF MANAGING
LONG TERM CARE CLOSED BLOCKS



EXECUTIVE SUMMARY

Many insurance companies have exited the long term care insurance (LTCi) market and are left with closed blocks with huge liabilities that will take many years to pay out. New sales and improved rate-stabilized products will no longer be a positive influence on the financial performance of these closed blocks. Losses caused by increasing claims and claims with long term benefits exacerbate an already significant profitability problem.

It is crucial to ensure that carriers have experienced talent and clinical leadership to mitigate losses and improve performance to every extent possible. Because of process and product complexity, limited expertise, and resource constraints, claims in a closed block may not be adjudicated and managed as well as they could be. Fraudulent claims, administrative inefficiencies, and insureds' complaints may increase. Managing LTCi claims well is a challenge under the best of circumstances and with the best resources, but closed blocks pose significant additional challenges.

LTCG offers a solution. LTCG has a unique depth and breadth of experience in LTCi and is the largest third-party administrator (TPA) in this specialized market, providing underwriting, claims, and a full suite of services for over 1.3 million covered lives on behalf of 25 insurers. As the leader in LTCi management for over 20 years, LTCG has unmatched expertise and capabilities, which it applies to all aspects of a closed block, including claims and care management, administration, customer service, compliance, and fraud prevention. LTCG has helped carriers meet the needs of their insureds while also improving profitability. We currently administer 30,000 active ongoing claims, with 66% of these in closed blocks. LTCG has 15 years of conversion experience, with 700,000 lives seamlessly converted from the carrier's platform to LTCG's platform.

Here we explore the challenges of managing closed LTCi blocks. It also provides concrete examples of how LTCG applies best practices to all aspects of LTCi administration to rehabilitate and improve the experience of closed blocks. We also provide concrete examples: (1) protocols to identify methods for reducing inappropriate claim outlays, (2) more accurate assessment of cognitive impairment, (3) protocols for identifying claimants likely to recover so that claim closure can be made in a timely manner, and (4) greater business scale and selective use of offshore capabilities, resulting in administrative cost savings estimated at 30%. A comprehensive solution for one client led to \$33.6 million in annual incurred claim savings.

LTCG manages more closed blocks than anyone in the industry and is the clear leader. Insurers choose LTCG to help them meet the challenges of closed blocks because of our in-depth knowledge and unparalleled experience in the LTC industry in general and closed blocks in particular.

CLOSED BLOCK CHALLENGES

Many insurance companies have exited the LTCi market. These carriers are left with closed blocks that have huge liabilities associated with them, which will take decades to pay out. As of 2011, 77% of the covered lives and 56% of premium dollars in the group LTCi market were held in closed blocks. While the individual market has been less affected, 20% of business is held by companies no longer selling LTCi.

Closed blocks may have limited resources to devote to claims adjudication, customer service, and compliance, as resources may be redirected to more viable and growing insurance and annuity products within the company. Legacy systems and products tend to receive less attention than the product lines that are the focus of a carrier's long term business strategy, so keeping up with claim best practices and regulatory requirements may not be a priority.

Closed blocks present the following problems:

- Low profitability;
- Reputation risk if claims, complaints, and customer service functions are not adequately managed;
- Increased financial strain from inadequately managed claim losses;
- Reluctance or inability on the part of the company's leadership to invest in the personnel, training, and technology needed to serve insureds and properly manage business needs; and
- Diversion of leading-edge staff resources to other, more profitable business lines, resulting in a low priority on maintaining expertise in the product and keeping up with industry trends, best practices, and regulatory changes.

Lost profitability, often caused by increasing claims and claims with long term benefits, is perhaps one of the most serious problems of closed blocks. While to some extent these issues likely contributed to the decision to close the block, the fact that new sales and improved rate-stabilized products are not entering the block exacerbates an already significant financial problem. Closed blocks tend to have poor performance compared to open blocks. For instance, the ratio of actual-to-expected incurred claims is 92% for companies with closed blocks, compared to 81% for those still selling LTCi.

Given that closed blocks already present significantly greater challenges to profitability, it becomes more crucial to ensure that the carrier utilizes highly focused talent to mitigate losses and improve performance to the extent possible. Due to the complexity within these blocks, limited expertise, and resource constraints, claims in a closed block may not be adjudicated and managed as well as they could be. Fraudulent claims, administrative inefficiencies, and complaints may increase, creating greater losses and further declines in profitability. And because of the size of many of these blocks, a company's overall performance can be adversely affected. For instance, one major carrier no longer in the market estimates its lifetime claims liability for closed LTCi blocks at \$30 billion. A company's ability to absorb fluctuations or deviations in liabilities of this magnitude without harming other product lines and their bottom line is limited.

Maintaining profitability or mitigating losses is clearly a major concern for all carriers but especially for those with closed blocks. This is even more urgent as it has become difficult to obtain rate increases, even if a carrier can show a need based on claims experience. The risks to a closed block are significant:

- If adequate claim and care management practices are not followed, the company's goal of paying all eligible claims in an equitable and timely manner and helping claimants obtain quality and cost-effective care may not be met.
- If claims are not carefully screened, newly devised fraudulent schemes may go undetected.
- If regulatory changes are not tracked and adhered to, or if claims are not adjudicated correctly and good business practices not followed, lawsuits and regulatory actions can occur.
- If quality customer service is not maintained, a company's reputation can be affected, adversely impacting its other products.

THE LTCG SOLUTION

As the leader in LTCi management, LTCG has unmatched experience, knowledge, and capabilities. LTCG applies industry-leading best practices to all aspects of a closed block—claims and care management, administration, customer service, compliance, and antifraud management. LTCG has shown proven results in helping carriers better meet the needs of their insureds and has demonstrated its ability to mitigate losses and improve profitability.

Carriers choose LTCG to help them meet the challenges of closed blocks because of our in-depth knowledge and unparalleled experience in the LTC industry. We can support closed blocks in a variety of ways, ranging from conducting a focused audit and analysis, to identifying and establishing best practices, to moving the entire responsibility for management of the closed block to the LTCG platform (conversion). We have been leaders and innovators in managing LTCi business for over 20 years and are headed by renowned experts who understand the product, market, and consumer needs at all levels—academic, actuarial, operational, and clinical.

What makes LTCG unique?

- Providing underwriting, claims, or administrative services for over 1.3 million covered lives on behalf of 25 insurers;
- Collecting \$1.7 billion in premiums annually;
- Paying more than \$1.2 billion in benefits annually and processing more than 960,000 benefit payment requests annually;
- Managing care for over 30,000 active LTC claimants, 66% of those from closed blocks; and
- Seamlessly transitioning over 700,000 lives from the carrier to LTCG's platform.

In addition, LTCG offers expertise in a wide range of product types and policy forms, including self-funded and commercially insured plans, group and individual plans, stand-alone and combination products, tax-qualified and non-tax-qualified policy forms, and open and closed blocks. LTCG works with all product design types including cash, indemnity, and reimbursement plans; single- and multiple-pool benefit designs; and a wide array of riders.

PROVEN SUCCESS ACROSS KEY DOMAINS

Below are some concrete examples of the ways in which LTCG applies best practices to all aspects of LTCi administration to rehabilitate and improve the experience of closed blocks. While claims and care management are important areas, there are examples of value-added servicing from compliance, administration, customer service, and others.

CLINICAL COMPETENCE

In support of its commitment to the value of the in-person assessment, LTCG's nationwide network of contracted nurses, all of whom have hands-on clinical experience with the geriatric population, ensures timely and professional assessment in any zip code in the United States. Specifically, we can place a trained nurse assessor in-home in any U.S. location within 48 hours of receiving the request. Also, LTCG care managers maintain a relationship over time with the claimant and their family, resulting in better outcomes over the life of the claim.

Often, critical claim decisions in managing a closed block rest on complex clinical issues, but many carriers lack the depth and breadth of clinical resources needed to adequately address them. Our assessment technology has been developed and refined over nearly three decades of experience. Despite the necessary focus on functional and cognitive loss to evaluate eligibility under typical LTCi triggers, many LTC claims involve complex clinical issues that must be understood in order to project potential for recovery and to understand otherwise clinically illogical portrayals of functional or cognitive loss. Rather than relying upon external sources, including claimants' physicians or care providers, LTCG maintains a deep clinical bench to support its claims and care management efforts. In addition to more than 50 full-time registered nurses and social workers on our care management teams, our staff has round-the-clock access to three LTCG physicians, all of whom are Board Certified and have over 20 years of LTCi underwriting and claims experience.

CLAIMS AND CARE MANAGEMENT

LTCG's best practice claims and care management protocols have been shown to improve claims experience with respect to cost, legal risk, and customer service. Before moving a closed block onto its system, LTCG conducts a claims audit to illustrate potential savings through accurate eligibility decisions, clinically sound plans of care, and close monitoring of ongoing claims to ensure claim closure on recovery. One such audit showed that using LTCG protocols instead of the client's current claims handling processes could potentially reduce claim outlays for inappropriate claims by 27%, without compromising customer service and the appropriateness of claim determinations. Another claim audit identified opportunities for improved claims-handling protocols in the following

categories: financial (45% of audited claims), regulatory (15%), and procedural (15%). In other audits, improvements have been identified that could enhance recovery efforts against fraud and abuse.

The table below shows results of an actuarial-based claims study of a client considering conversion of its LTCi block to LTCG. Comparing projected claims before and after conversion shows a potential savings yield of more than 8% of total claim payments. Again, these projected savings are the result of improved claims practices focusing on correctly identifying eligible claimants, instituting appropriate plans of care, paying claims according to contract language, and actively monitoring claims for recovery, without compromising customer service or claimant care needs.

Cumulative Claims Savings Using LTCG's Protocols Instead of Client's Current Practices to Identify and Eliminate Invalid Claims (Paid Claims in Millions by Year Paid)			
CLIENT'S CURRENT PRACTICES	LTCG PRACTICES	DIFFERENCE	PERCENT REDUCTION IN PAID CLAIMS*
\$941	\$865	\$76	8%

**Projected savings based on five years' experience under LTCG best practices*

In another client audit, LTCG's claims and care management protocols were estimated to have the potential to reduce the insurer's claim payments by approximately \$63,000 per audited claim. It is important to stress that LTCG achieved improvements not by denying eligible claims but by ensuring that only benefit eligible claimants were paid under clinically appropriate plans of care and by closing claims upon recovery on a timely basis. Claims used in LTCG audits are selected randomly.

For one leading carrier, a LTCG claim audit found that the company could:

- Reduce claim incidence rates by 5%;
- Reduce premature claim payments (claims paid before a qualifying level of deficit is met) by an average of six months, for an additional 5% of claims;
- Increase claim termination rates through more effective recertifications; and
- Reduce paid claims over the next five years by \$109 million (6% of expected claim payments).

LTCG analyzed claims savings for administered blocks of business by comparing pre-conversion claim metrics to experience after conversion. A carrier had an overall reduction in inappropriate claim payments of \$37 million (4% of claim payments during the study period), achieved by:

- Limiting claim approvals to those claims that meet contract benefit eligibility criteria;
- Directing a higher proportion of claimants to lower-cost home health care; and
- Refining protocols for use of alternate plan of care benefits.

INDEPENDENT PROVIDERS

The use of independent providers can be an important value-add for the insured, enhancing access to and affordability of in-home care. But this type of benefit is vulnerable to misuse, fraud, and abuse. LTCG has pioneered the development of protocols and strategies to ensure the appropriate use of this benefit, so that positive outcomes for families are maximized and the integrity of the claim process is maintained.

APPROPRIATE ASSESSMENT OF COGNITIVE IMPAIRMENT

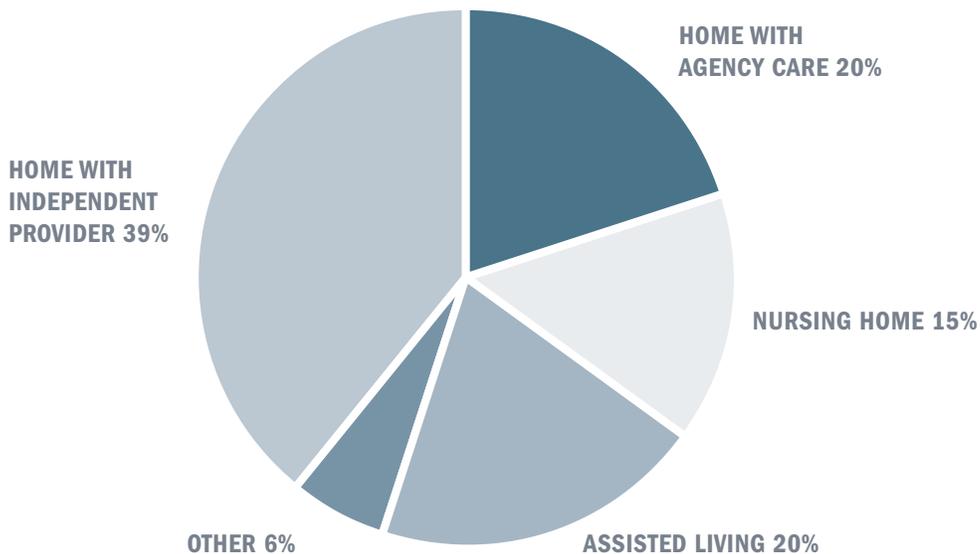
Cognitive impairment can be difficult to identify. Inaccurately assessing the degree of impairment is a leading cause of premature benefit eligibility approvals. While proprietary and public domain screening measures are available, LTCG developed its own cognitive assessment tool specifically for LTCi—the Minnesota Cognitive Acuity Screen (MCAS)—which has become the leading test in the field. The MCAS can be administered telephonically or in-person. It is highly sensitive to early or mild cognitive impairment and highly specific to moderate-to-severe dementia. LTCG has administered the MCAS over 1 million times since 1999 and uses it on behalf of many of the leading LTCi. It has also been consistently and repeatedly revalidated in university-based blinded trials. Use of the MCAS has produced a significant reduction in premature approvals for cognitive impairment.

DOMAIN	MINNESOTA COGNITIVE ACUITY SCREEN (MCAS)	ENHANCED MENTAL SKILLS TEST (EMST)	MINI-MENTAL STATE EXAMINATION (MMSE)
Sensitivity – Alzheimer’s Dementia	98.8%	94%	59-92%
Sensitivity – Mild Cognitive Impairment	94%	95%	61%
Specificity – Alzheimer’s Dementia	100%	89%	62-92%
Specificity – Mild Cognitive Impairment	92.7%	88%	80%
Distribution	Telephone or in-person	Telephone or in-person	In-person
Industry	Insurance	Insurance	Health care
Validation	Three independent studies	One publication reporting diagnostic performance	Validated and used extensively in clinical practice and research

ADDRESSING RECOVERY

LTCG has found that significant recovery in functional ability occurs in as many as one-third of claims, sometimes as late as two years after claim initiation. Even with some forms of cognitive loss, recovery (while less frequent) can occur, especially when an acute illness has exacerbated a mild or marginal cognitive condition or has caused delirium in an otherwise healthy older person. Recovery can reduce the level of care needed or even end claim eligibility. Our data shows that 31% of approved claims have recovered, with half of these recovering after claim payments have begun. Only about half of those who recover subsequently reclaim. By actively monitoring claimants' health status and conducting thorough and frequent reassessments, LTCG ensures timely closure of claims for persons who recover to non-qualifying levels of need.

PERCENTAGE OF CLAIMS WITH RECOVERY BY LOCATION OF BENEFIT



ADMINISTRATIVE EFFICIENCIES

Due to efficient processing, greater business scale, and selective use of offshore capabilities, LTCG provides administrative cost savings. A “before and after” analysis of one closed block converted to LTCG showed a one-third reduction in operating expenses. While we have full onshore administrative capability for government, union, and other sponsors who require this, LTCG experiences 30% to 40% cost reductions on behalf of our clients supported by our offshore administrative partner who we have rigorously managed over the past 13 years. Our proven model supports selective functions offshore for greater cost-effectiveness. Consumer-sensitive functions such as customer service, complaints, and care management are never supported offshore.

A “before and after” analysis of a particular closed block revealed the following administrative improvements six years after conversion:

DOMAIN	BEFORE	AFTER
Timeliness of Claims Paid	< 50% of standard	99% of standard
Complaints	500 - 600/month	< 50/month

CONVERSION

LTCG has a team focused exclusively on seamless conversions of business from the carrier to the LTCG platform. Our team of technical and operational experts is deployed prior to conversion to oversee the business requirements and specifications, establish timeframes, and ensure a non-disruptive conversion. We work to the timeframe and parameters that best meet carrier needs. We have converted just under 700,000 covered lives across five carriers in a variety of markets, with the largest single conversion having 300,000 lives. We are also able to bring our full-scale best practice administration, including claims and care management, to either open or closed blocks that wish to remain on the carrier’s administrative platform rather than convert but still desire LTCG management of the block.

“SHIP’s closed block of LTC policies is very complex due to its many variations of policy forms issued from the 1980s through the 2000s. In administering claims, we recognized that as claim volume increased, the need for a robust LTC system coupled with best practices was necessary to pay claims accurately and on time. By partnering with LTCG, SHIP was able to retain close oversight of processes while improving accuracy. In addition, being a closed block of business, our volumes will decline as policies terminate. The value of a variable price model in which expenses decline as the business volumes decline is better accomplished through a TPA solution than through internal systems that have higher fixed costs. The LTCG partnership has worked very well for SHIP.”

**- Brian C. Wegner, President and CEO
Senior Health Insurance Company of Pennsylvania (SHIP)**

SYSTEMS AND INFORMATION TECHNOLOGY (IT)

LTCG offers professional IT services, with over 150 LTC specialists who can customize LTCG's platform to support a wide array of client-specific functionalities. We also provide customized data and reporting services. Our proprietary LTC administration system was designed from the ground up specifically to administer LTC business based on industry best practices and has the ability to accommodate the vast array and ever-changing functionalities and product designs of today's LTCi products. We provide efficient processing and accurate administration, consistently meeting or exceeding customer performance standards.

LTCG's platforms enable efficient, effective, and timely management and execution of all aspects of LTCi. LTCG's Insurance Administrative Services business focuses solely on LTC administration and therefore invests heavily in LTC-specific technology to bring continual improvements to our clients. We offer an array of contemporary IT interface options for carriers and insureds, including phone or web-based access, electronic plans of care, and an automated provider credentialing system to expedite provider eligibility determinations consistent with policy language. Carriers will benefit from LTCG's more-efficient processing, greater business scale, and LTC industry focus, all of which result in cost savings for carriers and enhanced capabilities for insureds.

COMPLIANCE

Another concern in managing closed blocks is the risk of inadvertent violations of laws and regulations, possibly leading to lawsuits or regulatory action. LTCi carriers must adhere to an array of ever-changing state insurance regulations, laws, and bulletins, as well as certain provisions of HIPAA (such as benefit eligibility for tax-qualified policies and privacy of personal health information). Regulatory and compliance issues surrounding closed block legacy systems are often neglected, resulting in a lack of current knowledge and a failure to remain compliant. LTCG monitors thousands of pieces of newly enacted federal and state laws, regulations, and bulletins every year. Our team is skilled in efficiently determining which of those are applicable to closed blocks, while helping carriers avoid unnecessary efforts to comply with non-applicable laws.

For example, in 2012 LTCG tracked and reviewed over 11,000 pieces of newly enacted legislation with potential impact on our clients. Careful analysis narrowed the scope to under 100 pieces of legislation that may have affected closed block administration in the areas of prompt payment, unfair trade practices, HIPAA privacy and security, fraud, independent claim review, complaint handling, partnership reporting, rate stabilization, termination protection in case of storms, and other topics. Proficient compliance also decreases the likelihood of excessive market conduct scrutiny. LTCG has seen closed blocks with insufficient compliance failing to meet minimum requirements of the policy or applicable laws. LTCG has also encountered carriers that unnecessarily apply excessive rigor associated with health care laws that are not applicable to LTC. In both scenarios, we can recommend approaches that decrease costs and risks while improving the compliance posture of the closed block.

COMBATING FRAUD

Appropriate and effective antifraud efforts can result in substantial savings to improve closed block performance. LTCG's best practices and protocols mitigate the risk of fraud and victimization and help detect possible cases before benefits are paid. LTCG also provides a full range of claim fraud investigative services in support of clients' special investigative units (SIUs). Due to its wide-ranging experience across all product types, localities, and provider categories, LTCG has unique insight and effective anti-fraud protocols to address both prevailing and newly emerging types of claim fraud. Here are some actual cases from LTCG's investigative files:

- **CASE 1** – Recoverable Amount: \$30,000. A claimant's caregiver secured the deed to his home, moved him to a small apartment, and provided substandard care. LTCG intervened, a guardian was appointed, the claimant's home returned to him, and the provider prosecuted. The claimant remained in his home with LTCi-paid care until his death.
- **CASE 2** – Recoverable Amount: \$112,000. A claimant and an independent provider (his spouse) submitted fraudulent timesheets. On investigation, it was found that the claimant and spouse operated a business outside of their home, and the claimant was found to have no ADL losses.
- **CASE 3** – Recoverable Amount: \$140,000. A provider billed for services delivered after a claimant's death, defrauding the LTCi carrier, Social Security, and the claimant's pension program. LTCG recovered all overpaid amounts on behalf of its client and turned the provider over to law enforcement.

CAREGIVER SUPPORT

LTCG recognizes the significant emotional and financial strain on family caregivers, and our unique web-based resources help meet a wide range of their needs. Our customizable web- and smart-phone-based caregiver support system, offers carriers the opportunity to provide an important value-added service to insureds and their families, which can also help maintain informal caregiver support and thus contribute to reduced claims costs. The website provides valuable educational content in multiple formats. Unlike other caregiver support websites, we offer comprehensive, reliable, and objective databases of both care-related and non-care-related providers, and LTCG does not have any financial arrangement with these providers. We also provide a way to connect families, friends, and caregivers as well as a simple means of connecting users with qualified, local support.

User feedback has shown:

- A majority of users worry about their or their loved one's ability to remain independent.
- About three-quarters of users need help identifying needs and understanding care options.
- Almost half have difficulty staying in touch with friends, family, and caregivers.

One satisfied user calls the website a "marvelous and wonderful tool to use." Another user wrote, "I do not need services now but am trying to be proactive for when I do, so either I or my family can then access what is needed for my care."

ACTUARIAL

LTCG has an actuarial team to help monitor policy and claims experience. Monitoring can encompass analyzing historical experience and comparing it to LTCG benchmarks, creating financial projections, tracking emerging experience against expectations, and creating mitigation strategies to improve future financial performance. One mitigation strategy includes filing and implementing corrective rate actions, and LTCG's consulting team has significant experience in obtaining rate increase approvals. Since 2005, the team has obtained approval of 383 rate increase filings, of which 62% were approved at 100% of the requested rate. In aggregate, the approved rate increase was 83% of the requested amount of the filing.

In addition, LTCG's actuaries and clinicians have access to one of the richest and largest data sets in the industry, including over 15 million life-years of data and more than 300,000 claims. The data is rich, as LTCG's administrative system captures robust claim data regarding diagnoses, care setting, and functional and cognitive status.

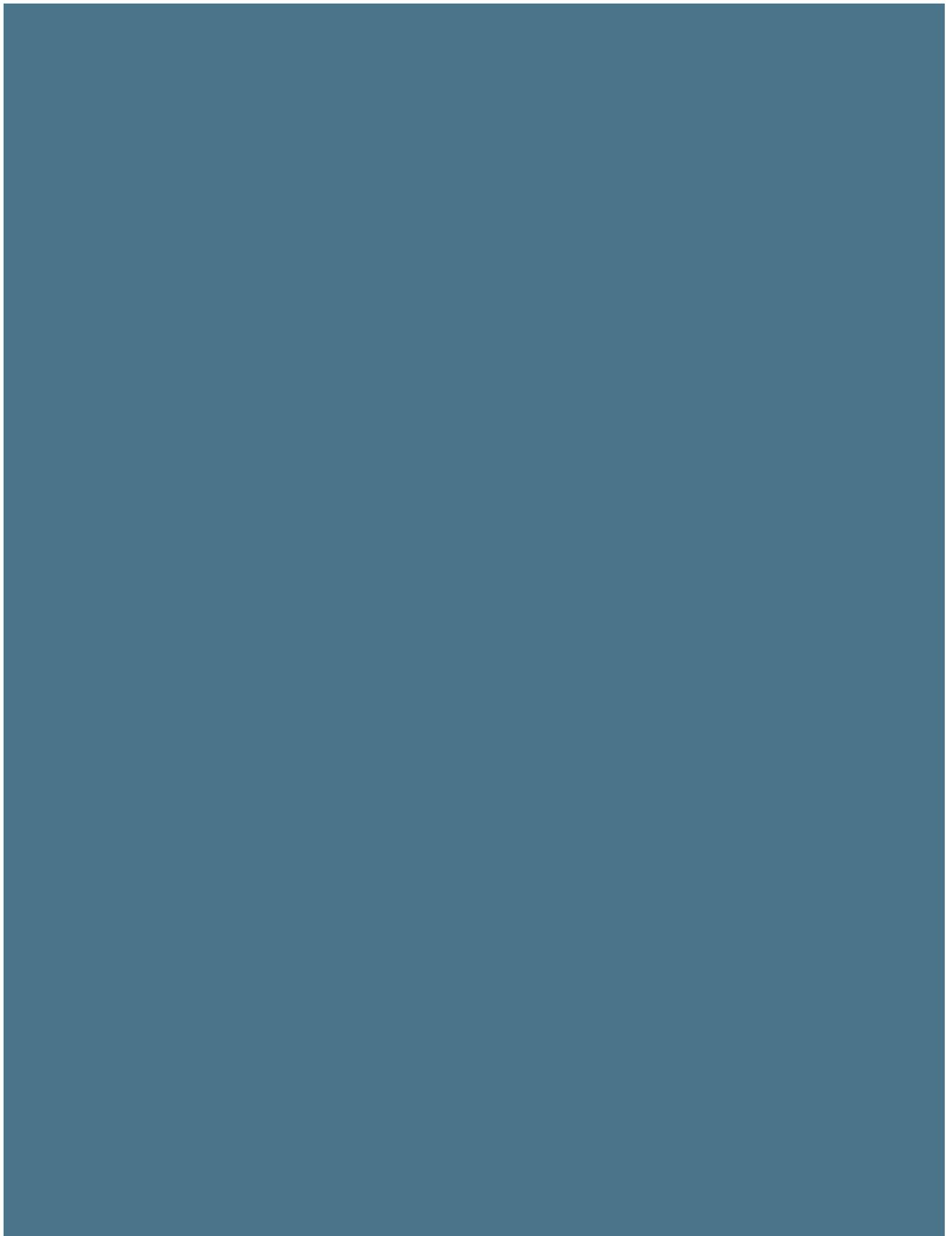
CONCLUSION

LTCG offers unparalleled depth and breadth of expertise as a leader in all aspects of LTCi administration. We specialize in handling closed blocks and seamlessly manage conversion to LTCG's platform. LTCG's broader health programming also provides a critical resource for managing chronic and complex care needs within an LTCi closed block. Through contractual arrangements with geographically and demographically diverse health plans, we offer proven care models and experience in managing the transition from hospital to home and maintaining care at home on a cost-effective basis. Since many LTC claimants begin their care needs in a hospital setting, these "stay-at-home" care models are important to reducing costs within closed blocks.

LTCG is a leader in the closed block market segment, serving many of the leading insurers who have outsourced responsibility for their closed block. Insurers choose LTCG to help them meet the challenges of closed blocks because of our in-depth knowledge and unparalleled experience in the LTC industry. We have been leaders and innovators in managing LTCi business for over 28 years and are headed by renowned experts who understand the product, market, and consumer needs at all levels—academic, actuarial, operational and clinical.

Most importantly, LTCG has proven success in helping carriers meet their goals. As we have shown, LTCG has demonstrated that we can improve profitability while appropriately meeting the needs of insureds. For many of the leading companies in the industry, we have reduced outlays for inappropriate claims, realized substantial administrative efficiencies, combatted fraud, and avoided compliance problems—all while ensuring that the companies' customers obtain the care they need and the service they deserve.

For more information on how LTCG can help you transition to an improved closed block experience, contact: Adam Hoffman, Vice President Business Development, at ahoffman@LTCG.com or 317-706-8118.



The logo consists of the letters 'LTCG' in a bold, sans-serif font. The letters are dark blue. A small trademark symbol (TM) is located at the top right of the letter 'G'. The background of the entire page is a geometric composition of overlapping triangles in various shades of blue and white. A large white triangle is the central focus, with other triangles in dark blue, medium blue, and light blue surrounding it.

LTCGTM