

## VII. LAPSE (TERMINATION OR SURRENDER) RATES

Persons who are considering buying long-term care insurance should be aware that they may need to pay premiums for many years before ever becoming chronically ill and eligible for services under their plan. Policyholders may drop coverage before receiving benefits. It would be expected that policyholders would hold onto their policies for a number of years if marketed to suitable individuals who understand the features of the product.

### A. Lapse Rates During the Three Years After Buying a Plan<sup>80</sup>

For the purposes of this study, the 2012 lapse rate represents the percentage of persons who purchased a plan during 2009, but did not hold that plan by the end of 2012. Similarly, the 2004 and 2008 data represents the number who purchased a plan three years before and did not hold it at the end of 2004 and 2008, respectively. Although the Massachusetts and national lapse rates were very similar in 2004 and 2008, they diverged following this period.

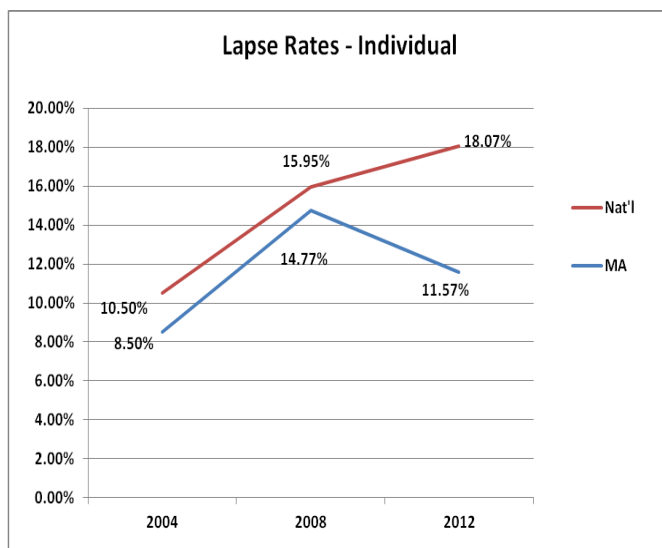


Exhibit 9-A

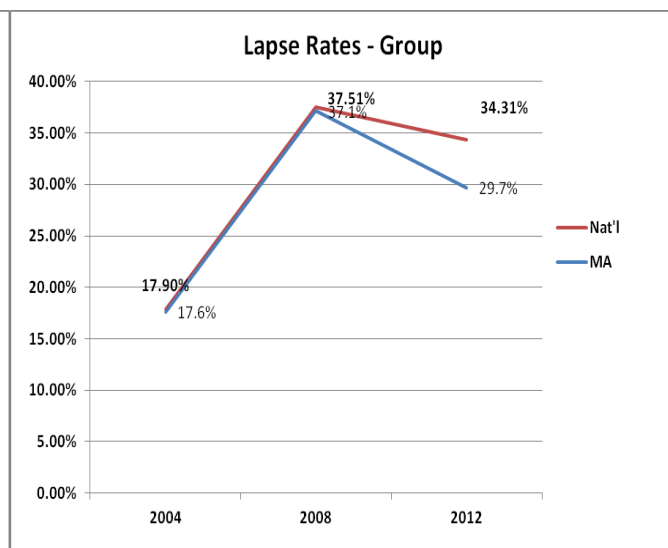


Exhibit 9-B

#### Individual Market

Three-year lapse rates increased considerably from 2004 to 2008, but in 2012 increased nationally and decreased in Massachusetts. Individuals may lapse coverage because the insured died, switched to another plan, exhausted benefits through use, or stopped paying premiums and let the plan terminate.

- In the Massachusetts<sup>81</sup> individual LTCI market, **11.6%** of plans purchased in 2009 lapsed by the end of 2012; **88.4%** were still in-force by the end of 2012.
- In the national<sup>82</sup> individual LTCI market, **18.1%** of plans purchased in 2009 had lapsed by the end of 2012; **81.9%** of the plans bought in 2009 were in-force by the end of 2012.

#### Group Market

Group plans tend to have higher lapse rates than do individual plans because employers may switch insurance companies or employees leave employers without purchasing conversion coverage.

- In the Massachusetts group LTCI market, **29.7%** of plans purchased in 2009 lapsed by the end of 2012; **70.3%** of the plans bought in 2009 were in-force by the end of 2012.

- In the national group LTCI market, **34.3%** of plans purchased in 2009 had lapsed by the end of 2012. This means that **65.7%** of the plans bought in 2009 were still in-force by the end of 2012.

## B. Lapse Rates Due to Mortality<sup>83</sup>

The lapse rates due to mortality tend to be higher in the individual market because the average age of the covered persons is much higher in the individual market when compared with the group market.

In the individual market, within two years of purchase of a 2009 policy, the lapse rate due to mortality (death) in Massachusetts<sup>84</sup> ranged from between **0.00%** and **0.45%** and in the national<sup>85</sup> market from between **0.00%** and **0.38%**.

In the group market, within two years of purchase of a 2009 policy, the lapse rate due to mortality (death) in Massachusetts ranged from between **0.00%** and **0.58%** and in the national market from between **0.00%** and **0.61%**.

## C. Designating Third Party for Non-Payment Notice of Lapse (Required Offer in Massachusetts)

In the individual<sup>86</sup> market, among Massachusetts applicants purchasing LTCI plans during calendar years 2008, 2010, and 2012, **51.26%**, **56.75%**, and **63.26%**, respectively, elected the right to designate a person other than the insured to receive a notice of lapse or termination.

In the group<sup>87</sup> market, among applicants purchasing LTCI coverage in Massachusetts during calendar years 2008, 2010, and 2012, **15.61%**, **22.02%**, and **37.32%**, respectively, elected the right to designate a person other than the insured to receive a notice of lapse or termination.

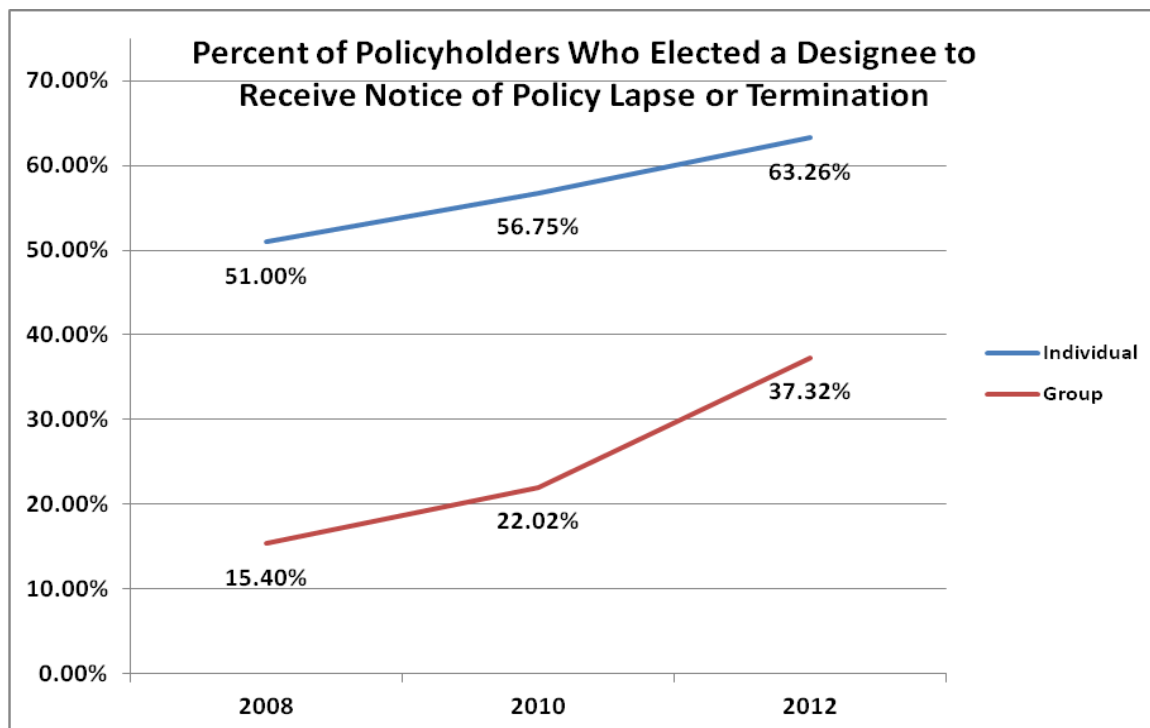


Exhibit 10