

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 Plan⁸⁷

For the purposes of this study, the 2008 lapse rate represents the percentage of persons who purchased a plan during 2005, but did not hold that plan by the end of 2008. Similarly, the 2004 and 2001 data represents the number who purchased a plan three years before and did not hold it at the end of 2001 and 2004. Although the Massachusetts and national lapse rates are very similar, there are differences between the lapse rates for individual and group coverage.

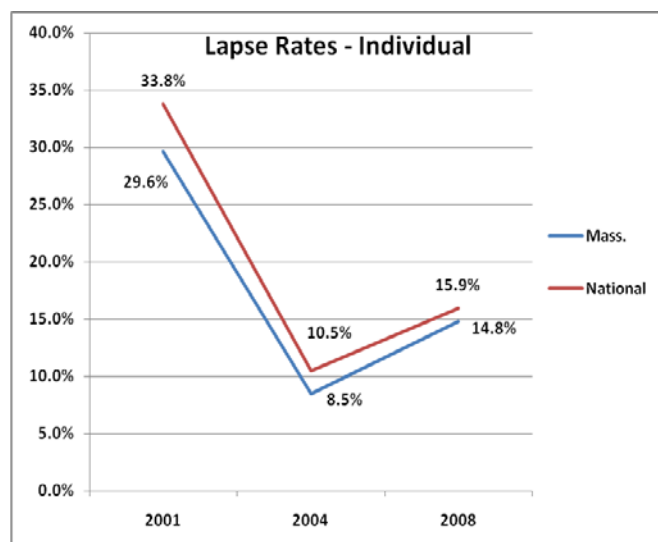


Exhibit 9-A

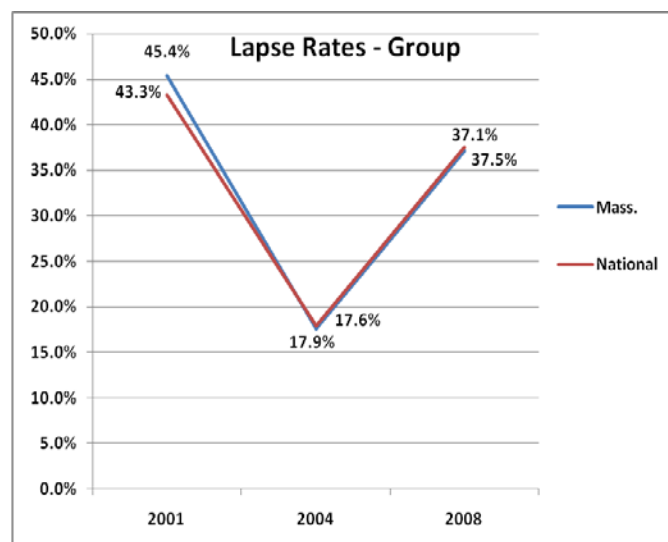


Exhibit 9-B

Individual Market

Three-year lapse rates declined considerably from 2001 to 2004, but increased in 2008. 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 Massachusetts⁸⁸ individual LTCI market, **14.8%** of plans purchased in 2005 lapsed by the end of 2008; **85.2%** were still in-force by the end of 2008.
- In the national⁸⁹ individual LTCI market, **15.9%** of plans purchased in 2005 had lapsed by the end of 2008; **84.1%** of the plans bought in 2005 were in-force by the end of 2008.

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, **37.1%** of plans purchased in 2005 lapsed by the end of 2008; **62.9%** of the plans bought in 2005 were in-force by the end of 2008.
- In the national group LTCI market, **37.5%** of plans purchased in 2005 had lapsed by the end of 2008. This means **62.5%** of the plans bought in 2005 were still in-force by the end of 2008.

B. Lapse Rates Due to Mortality⁹⁰

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, the 2008 lapse rate due to mortality (death) in Massachusetts⁹¹ ranged from between **0.00%** and **5.13%** and in the national⁹² market from between **0.00%** and **12.17%**.

In the group market, the 2008 lapse rate due to mortality (death) in Massachusetts ranged from between **0.00%** and **0.7%** and in the national market from between **0.00%** and **0.54%**.

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

In the individual⁹³ market, among Massachusetts applicants purchasing LTCI plans during calendar years 2004, 2006, and 2008, **65.7%**, **61.5%**, and **51.0%**, respectively elected the right to designate a person other than the insured to receive a notice of lapse or termination.

In the group⁹⁴ market, among Massachusetts applicants purchasing LTCI coverage, in Massachusetts during calendar years 2004, 2006, and 2008, **49.4%**, **7.9%**, and **15.4%**, respectively, elected the right to designate a person other than the insured to receive a notice of lapse or termination.

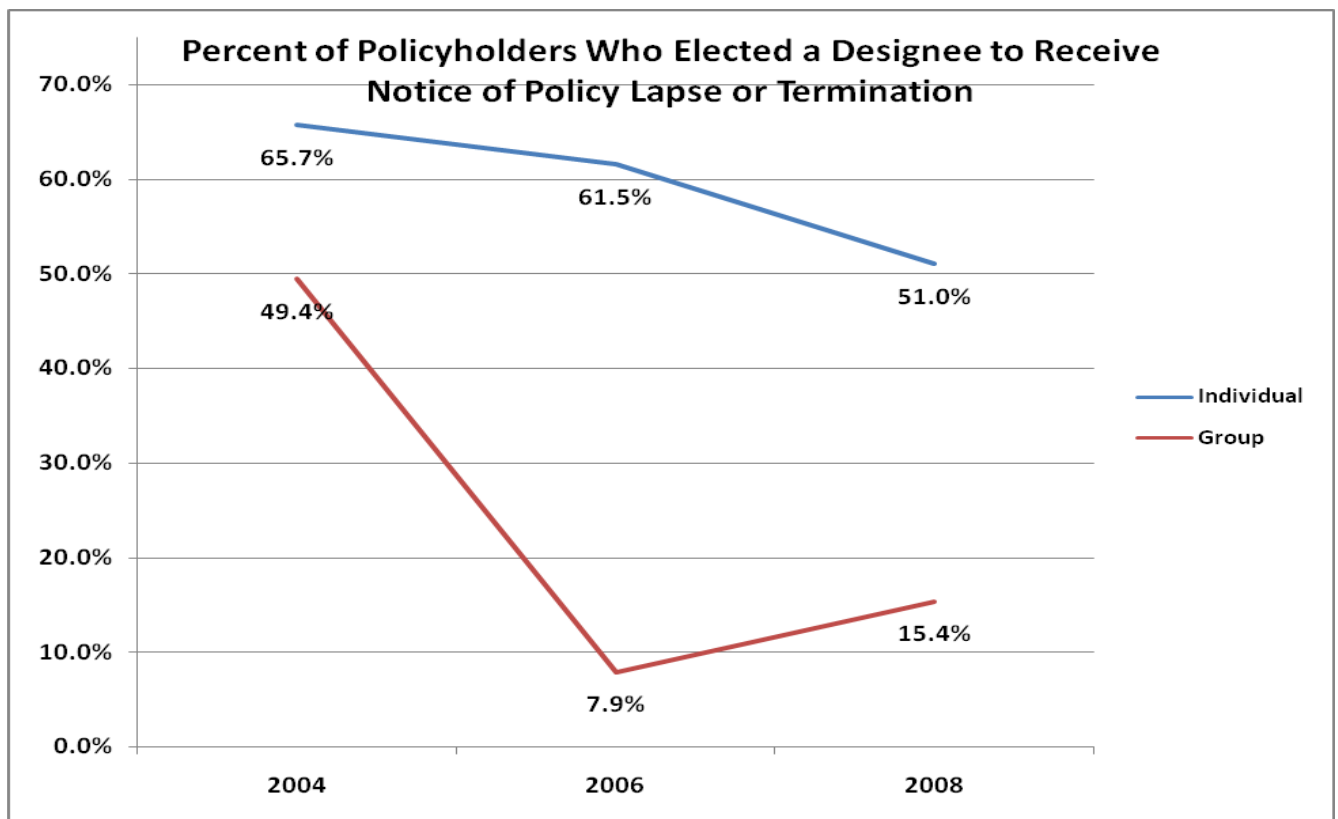


Exhibit 10