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Prepared remarks for Genworth Chief Executive Officer Thomas J. McInerney for delivery before the Intercompany Long Term Care Conference on March 18, 2014. Actual remarks may have deviated from the prepared text.

I will touch on 3 topics in my remarks today:

- First, provide a brief summary of my background and how it shapes my view regarding long term care insurance.
- Second, discuss the new business model and regulatory framework that Genworth believes is needed for a robust private market for long term care insurance.
- And third, assuming we have a hospitable regulatory environment, explain why Genworth is committed to being the leader in the LTC insurance industry in the future.

My Background and Perspective:

- I spent my entire career – 36 years on June 5, 2014 – in the insurance industry.
- All lines of business – property casualty, life, health and retirement - in 40 countries around the world.
- I have stayed in this industry for so long because I believe the insurance industry provides two critical benefits to society:
  - Protects individuals and businesses from all types of financial risks that could have a significant negative impact on them; and
  - Invests premiums collected on long-term liabilities, such as LTC insurance, to provide long-term capital for the US and other economies
  - If you asked me, based on my experience, which insurance risk is the most difficult to predict and price, I would say it is long term care for either individuals or groups in the United States.
  - Because it is so difficult to manage these risks there are few insurance companies writing long term care insurance in the United States today.
- When I came to Genworth a year ago, I actually shared the view of our board of directors that we should consider joining Met Life, Prudential, UNUM, CNA and others in exiting the business.
- So why are the risks in long term care insurance so difficult to manage? There are many reasons.
  - For starters, duration: policies are typically issued to individuals in their mid to late 50's; but claims are typically not paid for 20-25[1] years after the policy is issued.
  - If we cannot correctly price the risks because we can't predict interest rates, lapses, morbidity and mortality over the next 30 years, we should be managing and regulating these products based on that reality.

[1] GNW sales – 57 years average; Average claim age 79 (6-2013 GNW Claim data)

- But that is not what the insurance industry and regulators tried to do since the first LTC policy was written 40 years ago.
- We tried to set the price on long term care insurance up front, and have since learned that actual experience over 30 years deviated from those initial assumptions, and those initial prices didn't hold up. So, now large rate increases on older policies are needed, and regulators are reluctant to approve them.

- There are some policy makers, actuaries and regulators who never believed in a private LTC insurance market and have further concluded that because of what has happened, maybe there shouldn't be a private long term care insurance market at all.
- Nothing could be more misguided.
- If there is no private long term care insurance market, then individuals have to have sufficient assets to cover their actual costs of LTC, or the government, that is taxpayers, will end up bearing the costs of LTC through Medicaid plans; or some other new form of government entitlement.
- I spent 15 years in the 1980's, 1990's and early 2000's working on Washington task forces trying to help solve our underfunded entitlement programs.
- Based on that work, and all the other task forces that have looked at Social Security, Medicare and Medicaid programs over the last three decades, we know that the federal and state governments already face somewhere between $40 – 70 trillion of entitlement liabilities.[2] And all three programs are "Pay-As-You-Go," which means they need to be paid for through current payroll or income taxes. If you add $40 – 70 trillion to our existing $17 trillion national debt, and considering our current federal tax revenues are $2.7[3] trillion, even a doubling of taxes, which would further slow our economy, wouldn't put much of a dent on the public sector's true liabilities of $60 - $80 trillion!
- And with a ratio of less than 3[4] workers per retiree and getting worse every day, we know that these programs already need major reforms without adding new LTC entitlements! Counseling that we should rely exclusively on a taxpayer funded solution, with no private market participation, is irresponsible.
- So back to those who believe we don't need a private market for long term care insurance. The government can't afford a 100% public solution and Americans haven't saved enough to cover their retirement needs if they also need long term care for several years.
- The private market can't cover everybody, but the more LTC insurance policies that are issued, the less pressure on Medicaid budgets and other entitlement spending in the future. To do this we need a new LTC business model and regulatory environment.

[2] A 2009 GAO Report supports a $45B number. A Heritage Foundation report supports $45 for SS and Medicare alone (http://www.heritage.org/research/reports/2013/11/the-2013-index-of-dependence-on-government)

[3] CBO Report. FY 2013 Estimate. http://www.cbo.gov/publication/44716

[4] 2.9 in 2010 according to Social Security Administration http://www.ssa.gov/history/ratios.html

New LTC Business Model and Regulatory Framework

A key requirement of the future long term care insurance market is to educate all Americans on the need for them to work with their families and advisors to plan for the significant risk that they will need to finance very large LTC expenses at some point in their life.

- You all know the facts, it's the Boomers' Perfect Storm:
  - 10,000 baby boomers will be turning 65 every day until 2030.[5]
  - Over the next 40 years, the number of people over 65 is projected to double.[6]
  - And the population over 85 is expected to triple.[7]
  - Studies show that more than a third of boomers don't think they'll need LTC.[8]
  - But in fact about 70 percent of people reaching 65 will need some form of LTC services.[9]
  - Further, many boomers believe LTC expenses are covered by health insurance, Medicare, or other sources. They need to know this is not true.[10]

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[5] Pew Foundation research 2010. http://www.pewsocialtrends.org/2010/12/20/baby-boomers-approach-65-glumly/

[6] "The nation's elderly population—people ages 65 and older—will grow to 81 million in 2050, up from 37 million in 2005." http://www.pewhispanic.org/2008/02/11/us-population-projections-2005-2050/

[7] The "oldest old" -- those aged 85 and over -- are the most rapidly growing elderly age group. Between 1960 and 1994, their numbers rose 274 percent. In contrast, the elderly population in general rose 100 percent and the entire U.S. population grew only 45 percent. The oldest old numbered 3 million in 1994, making them 10 percent of the elderly and just over 1 percent of the total population. Thanks to the arrival of the survivors of the baby boom generation, it is expected the oldest old will number 19 million in 2050. That would make them 24 percent of elderly Americans and 5 percent of all Americans. https://www.census.gov/population/socdemo/statbriefs/agebrief.html

[8] U.S. News article quoting a Bank of America Merrill Lynch and Age Wave study, "Family and Retirement: The Elephant in the Room," conducted in August 2013 http://money.usnews.com/money/personal-finance/mutual-funds/articles/2013/11/27/boomers-need-to-talk-about-long-term-care

[9] CBO June 2013 report says "more than two-thirds". The cited research paper (The Journal of Health Care Organization, Provision and Financing) says, "While an estimated 31% of people currently turning 65 will not need any LTC before they die, 20% will need care for more than five years. Indeed, those in the top 10% with respect to years of care need will account for 37% of the total years of care needed by the cohort (not shown). Women have a higher risk of ever needing LTC than men—an estimated 79% of women currently turning 65 will need LTC sometime before they die, compared with 58% of men. Women also face a greater risk of a lengthy period of LTC need—28% will need care for more than five years versus 11% of men." The 70% number, at least as it is cited in this paper, is 69% of people turning 65 in 2005 will need some LTC (an average of 3 years.)

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- Genworth has been a leader in LTC insurance since 1974.
- Over the years, we've issued more than 1.8 million policies, paid approximately $10 billion in long term care insurance claims and helped almost 200,000 families deal with the challenges of helping loved ones deal with long term care needs.
- Like our competitors, we learned that no one can predict interest rates, lapses, morbidity and mortality risks over 30 years. So, like our competitors, we have incurred heavy losses on policies issued before 2002, and our returns have been poor.
- But unlike some of our competitors who have elected to exit the market, we used our experience to develop a new LTC business model and framework that we believe can create a robust private LTC insurance market.
- The average cost of nursing home care is approximately $83,000 today[11]; and at an inflation factor of 3%, the cost will increase to between $170,000 - $200,000 per year in 25 – 30 years.
- So to cover 3 years of care today the cost would be approximately $250,000; in 25-30 years, 3 years of coverage at an inflation rate of 3% would cost between $500,000 - $600,000.
- Let's agree that because most Americans don't have pensions, and have saved far too little in 401k plans or other products, they are not prepared for these costs; and also agree that with the severe under funding of current entitlement programs without expanding coverage further, government programs cannot cover 100% of the LTC costs for all Americans; and finally let's agree that LTC insurance is a good way to protect against these costs.
- At Genworth, we believe the way we price LTC insurance and manage the risks over time needs to change significantly. Genworth also believes we need a broad array of simple, new LTC products that offer varying amounts of coverage based on affordability, and we need to leverage the current consumer demand for hybrid products with life, savings and LTC components to provide more customized solutions for LTC needs. And we need public policy and regulatory support for these changes.
- Genworth's long term care team is working on all of these issues and making exciting progress.
- For new products to be issued in 2014 and beyond, we believe we should price our LTC policies with conservative assumptions regarding interest rates, lapses, morbidity and mortality. And regulators need to approve these new products promptly to ensure that the products in the market reflect our most current experience and assumptions. For me, that means within 90 days. If regulators have questions – great – we are happy to share our expertise and experience to help further educate our regulators about how these products are priced.
- As I said at the outset, no one– not our actuaries, not actuaries who work for insurance departments or other companies, nor other market participants - - - knows what will happen to the four major LTC risks during the next 30 plus years.

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[10] Forbes 5/22/2013 **Why Baby Boomers Need to Ge Real About Health and Long-Term Care Costs in Retirement**. By Howard Gleckman http://www.forbes.com/sites/howardgleckman/2013/05/22/why-baby-boomers-need-to-get-real-about-health-and-long-term-care-costs-in-retirement/

[11] 2013 GNW Cost of Care – Nursing Home, Private Room, National Average $83,950

Because of this, Genworth believes that each year, companies need to evaluate actual and projected results against assumptions. Hopefully, the original assumptions hold. But if they do not, companies should be allowed to file for smaller rate increases more often to reflect actual risks and projected future risks versus assumptions. And regulators should approve these requests on a timely basis. For me, that is within 6 months.

- In our view, this will likely mean more modest single digit rate increases which we believe are much more manageable for consumers and better for regulators and insurance companies.
- Let me again refer to my experience managing all kinds of insurance products in 40 countries around the world.
- For almost all property casualty lines of business, health insurance, and many other lines of business, the regulatory framework allows for annual rate increases, if necessary.
- I remember when I was running one of the largest US health insurance companies in the mid 1990's, we asked state insurance regulators for double-digit premium increases 3 to 5 years in a row. Generally, they were approved.
- While consumers and regulators were not happy, they understood that health and medical costs were rising rapidly. And these were short tail liabilities so we were changing rates because we couldn't predict medical trend and incidence rates a year or two in advance, let alone 30 years in advance.
- But in the LTC insurance industry, companies were taking 30 year risks on four unpredictable risks. Some insurance departments, industry observers and insurance actuaries are now highly critical of LTC insurers, and companies are now being severely reprimanded because the world changed drastically over 30 years.
- It really makes no sense. And if it doesn't change, there will soon be no private LTC insurance market.
- There are several LTC blocks written in the last decade where actual and projected interest rates, lapses, morbidity and mortality are different than pricing assumptions. But by manageable amounts if corrected now!
- Under past and current regulatory and market practice, this pricing disparity would generally not be corrected now because actual loss ratio experience doesn't yet show a problem.
- Genworth's in-depth review of our LTC business had a particularly interesting conclusion. We found that for every 5 years that a price increase is not obtained, the amount of increase that is needed doubles assuming the risks stay exactly the same.
- For example, let's consider that a LTC policy needed a 5% increase in 2013 to bring pricing back to original assumptions. If the increase is not received and risks remain the same, the increase needed in 2018 would be 10% to bring pricing back to original assumptions.
- By waiting until 2023, or 10 years, the price increase would need to be 20%. Waiting another 5 years to 2028, or a total of 15 years, would require 40%. And waiting 20 years before receiving a rate increase – 2033 in this case – would require an 80% increase.
- The math is fairly straightforward and should be well recognized by most actuaries.
- Unfortunately, some regulators are explicitly telling us to wait until experience develops further, but by waiting, we will ultimately need to seek the rate increases that are currently being criticized.

- I strongly believe that waiting to raise premiums is counterproductive and not in anybody's interest. On older blocks of business, by not raising premiums early in the product lifecycle when warranted, the current rate increases required now are in the 40 – 80% range!
- According to an industry study, regulatory uncertainty related to rate actions was cited as one of the reasons why carriers have either exited the long term care insurance market or are concerned about entering the market. If we want the few remaining LTC insurance companies in the industry to remain in the market, or attract new companies, we need greater consistency, predictability and clear and reasonable regulations that allow carriers to manage in-force rate actions, where those rate actions are actuarially justified.
- We have asked for large rate increases on some old policies. Our goal is to bring these policies closer to break-even. We will still lose money on these policies, which represent almost half our in-force LTC policies.
- Most regulators have agreed with us. As of December 31, 2013, 41 states have approved these large rate increases. As a result, instead of hundreds of millions of losses, we should bring these policies closer to break-even when the rate increases are fully implemented in 2017.
- Policyholder reaction has been interesting. Of course, policyholders don't like large rate increases. No one can blame them. But the worst case fears of public officials, regulators and other LTC industry experts has not occurred.
- Genworth allows all policyholders to choose among several options including paying the full rate increase and keeping very generous benefits, reducing benefits and not accepting the rate increase or taking the non-forfeiture option.
- I think our policyholders are very smart and have generally made very good decisions.
- Recognizing the value of the generous benefits on older existing policies; and even after the large percentage rate increases, actual premiums versus the coverage provided is still a good deal; and the fact that new policies cost a lot more for less benefits, 85% of Genworth policyholders have accepted the full rate increase.
- 10% have traded a lower premium for reduced benefits and 5% have taken the non-forfeiture option.
- I would also note that recent research shows that 97% of LTC policyholders who have received benefits under a LTC policy, rate insurance companies highly in paying claims, including Genworth. So despite problems in the industry, we do the most important thing – paying claims – very well.
- And while policyholders whose rates are being increased may be initially angry when they call us, and angry with regulators who approved the rate increases, after they become aware of their options, most conclude they still have a good deal even after the increase.
- I know that the regulators representing several Insurance departments, are working on a new NAIC model. Some regulators want to preserve the old framework of making it very difficult for insurers to receive rate increases, and they want to penalize companies for what they say are mistakes of the past.
- But I think that is short-sighted, disruptive, and will force the few remaining LTC insurers to consider exiting the business. That is bad for the insurance companies, individual states, the LTC market, Medicaid solvency, consumers and all taxpayers.

- A few more points on this. The NAIC process, which includes multiple subgroups, has taken too long to change the NAIC model.
- 80% -- 41 states – have already approved our rate increases on old policies. They weighed all the issues and made a decision. And we can now show these states and the other 9 states, that while policyholders are initially angry, after they review all the options over 8 out of 10 take the rate increase because they realize that they still have a great deal.
- We are also making progress on the smaller, more proactive rate increases we filed in September. As of the end of last year, 4 states had already approved the rate increases. I expect minimal policyholder complaints for these increases.
- So to the NAIC, state insurance regulators, and others in the market, we need to work together to preserve a vibrant LTC insurance industry. We all need to recognize that pricing a long tail product is difficult, and assumptions will be wrong despite best efforts to get them right. Accordingly, the LTC premium rate increase process needs to be simpler, more efficient, and more timely.
- I would change the LTC business model and regulatory framework as follows:
  - Require new LTC products to be conservatively structured and priced. Approve them in 90 days.
  - Recognize no one can predict interest rates, lapse rates, morbidity and mortality over the next 30 plus years. So LTC policies should be frequently re-rated, where appropriate, to reflect changes in actual or projected losses versus pricing assumptions.
  - Allow modest rate increases as often as required to bring premiums in line with original pricing.
  - Approve rate increases within 6 months and be consistent. It is not fair for states that approve rate increases to subsidize those states that do not approve rate increases.
  - Don't punish insurance companies because everybody got it wrong and no one can predict these risks over 25-30 years.
  - Allow insurance companies to raise premiums on pre-2000 policies to bring them closer to break-even. Because that will lock-in modest losses or 0% returns, policyholders are still receiving a good value. And our actual policyholder experience proves this.
- If something like this new framework is not adopted, it is likely that the remaining companies would consider exiting new business in those states that place unreasonable requirements on our ability to appropriately manage the long duration risk of long term care insurance.
- While Genworth remains committed to the private long term care insurance market, we can only do so in states where the regulatory framework allows us to appropriately manage our business.
- Let's not disrupt this significant progress by instituting a new NAIC LTC model that moves us backwards.

Conclusion

We should all be focused on how to dramatically expand the number of Americans who purchase private long term care insurance.

- There are 115 million Americans aged 40 – 75.[12] For those who are lucky enough to live to 65, and there are 10,000 Americans turning 65 every day until 2030, 70%[13] will need some form of long term care services during their life.
- Dr. Cohen showed you that only about 7.4 million Americans are covered by long term care insurance. The 115 million Americans between the ages of 40 – 75 without coverage need to buy a policy, save enough to cover the huge LTC risk they face, or they will absolutely swamp state Medicaid budgets.
- There is a big opportunity to expand private market options for individuals to protect against the risks of long term care if we have the right business model and regulatory framework going forward.
- We invite Governors, State Medicaid Directors, state insurance regulators and all tax payers to join us in the discussion. We should work for a robust LTC insurance market because without a private market, state Medicaid LTC costs will explode and taxpayers will be on the hook to fund these costs.
- A large, robust, and innovative private LTC insurance industry, working with states and other government agencies, will relieve an enormous future LTC financing burden and help protect older Americans and their families. Genworth cannot accomplish this on its own. We invite you to join us.

[12] http://www.census.gov/prod/cen2010/briefs/c2010br-03.pdf 2010 Census – M+F Ages 40 – 69= 114,815,672

[13] U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, www.longtermcare.gov/the-basics.