John Hancock INSURANCE

Long-Term Care Insurance

An industry in transition

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Foreword

John Hancock is committed to addressing consumer needs by continuously designing smarter, leading edge products that offer greater customer value and make a real difference in people's lives. We entered the long-term care insurance market nearly 30 years ago because we recognized that the need for extended care would grow as the population ages. And today, with longevity on the rise, this issue has become even more pressing.

The need for long-term care poses a significant unprotected financial risk that many people fail to plan for. In fact, it is not uncommon for consumers to believe that they are already covered by their health or disability insurance, when this is often not the case. Many also believe they can rely on government programs, like Medicare or Medicaid, which have stringent qualification requirements. Others assume that family members will provide their care, but this can place a potentially significant burden on sons and daughters who have careers and families of their own.

Long-term care insurance can be a cost-effective way to address the financial risks that may be created by the need for care. It may also be more practical than paying out of pocket, relying on government programs, or looking to family members who may not be available to provide day-to-day support. John Hancock's goal is to offer long-term care insurance coverage that is both valuable and sustainable, far into the future. We believe that our newest product, Performance LTC meets that criteria, representing a new paradigm for the product and most importantly, providing consumers with an innovative solution to protect them against the impact of a long-term care event.

Michael Doughty

President and General Manager, John Hancock Insurance

Background

Long-term care insurance was created in the 1980s to help pay for the costs of care most commonly associated with aging. With Americans living longer than ever, it has been an important protection product for consumers and advisors alike. However, a number of factors created challenges for the industry in the 2000s, including a higher number of claims than expected, low lapse rates, and declining interest rates.

These challenges resulted in large, unexpected pricing adjustments for consumers, which significantly slowed the industry's growth and even caused some carriers to exit the market. Understandably, many advisors became hesitant to discuss the coverage with their clients, despite the potentially serious financial consequences that can be associated with an unplanned long-term care event. However, ignoring the subject is of course not a responsible practice for advisors, given the possibility that their clients will face such an event sometime in the future.

John Hancock, a leader in long-term care insurance for decades, recognizes the important role that long-term care insurance can play in our clients' financial planning. We also appreciate the need to restore industry confidence in a product that has experienced recent setbacks. This document takes a closer look at the factors that led to current industry challenges, as well as how they influenced plan design development for our newest product, Performance LTC.

THE NUMBER OF AMERICANS NEEDING LTC IS EXPECTED TO MORE THAN DOUBLE BY 2050

2010
12 MILLION

2050
27 MILLION

Source: Bipartisan Policy Center (2014). America's Long-Term Care Crisis: Challenges in Financing and Delivery. Retrieved from http://bipartisanpolicy.org/library/americas-long-term-care-crisis/

Learning from Experience

When long-term care insurance was first introduced, there was little actual long-term care claims experience to draw from when developing pricing assumptions. Insurance carriers had to rely on the best data that was available to them at the time they set premiums. As a result, future claims experience was expected to be much lower and lapse rates were projected to be between five and seven percent. In addition, interest rates at the time averaged closer to eight or nine percent.

As it turned out, more people claimed at older ages for longer durations than carriers originally anticipated, possibly as the result of medical care that is able to extend longevity. In addition, lapse rates proved to be less than 1%, which may reflect consumer appreciation for the value of the coverage. And finally, no one was able to predict interest rates that would plummet to near zero percent in the ensuing years, preventing carriers from being able to offset unanticipated claims with higher investment returns.

In contrast, other insurance products, such as Whole Life and Universal Life, have mechanisms within the policy design that allow for an efficient sharing of experience. Traditional long-term care insurance did not have such a mechanism. Instead, it relied on a far less efficient and more challenging process: in-force rate increases.

Although all long-term care insurance policies include a clause that allows for an increase in premium rates in the event that claims experience is poor, an in-force premium increase is neither in the best interest of consumers or insurance carriers. Consumers, who were accustomed to premiums that had not increased previously, were faced with three choices: to pay a higher premium, to reduce benefits to offset the impact of the increase, or to lapse their coverage.

Carriers recognized the need to limit risk in such a way that future increases could be avoided. In some cases, this meant dropping such unsustainable options as unlimited coverage, Restoration of Benefits, and Limited Pay Options, while tightening their underwriting criteria. Although these measures were steps in the right direction, John Hancock believed there was more we could do to restore both consumer and producer confidence in the value of this important coverage.

In the next two decades, an aging population, fewer family caregivers, increasingly limited personal financial resources, and growing strains on federal, state, and family budgets will create an unsustainable demand for LTC.

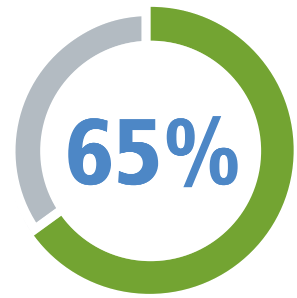
Source: Bipartisan Policy Center (2014). America's Long-Term Care Crisis: Challenges in Financing and Delivery. Retrieved from http://bipartisanpolicy.org/library/americas-long-term-care-crisis/

Evolving to meet our customers' needs

John Hancock has a tradition of innovation. Over the years, our products have evolved, and we have proudly led the industry introducing a number of plan design features that have since become standard offerings, like the SharedCare benefit for couples and the Additional Accident and Return of Premium benefits for those under age 65. We were also among the first carriers to incorporate consumer protection features, like Independent Third-Party Review and Timely Payment of Claims as part of our ongoing commitment to protect the interests of our policyholders.

In addition, we have undertaken a great deal of research to better understand consumer preferences and ensure that our products meet the needs of individuals and their loved ones, as they plan for the future. We have learned that affordability is central to a favorable purchase decision and that consumers are interested in basic coverage that they can use to support their overall financial plan.

We are also aware of the need to offer products that are not subject to the same kind of volatility experienced by the industry in the recent past. Premium rate increases are never desirable from either a carrier's or consumer's point of view. For that reason, John Hancock developed Performance LTC, a long-term care insurance policy that still delivers the valuable coverage consumers need, while structured to avoid the need for large scale rate increases in the future.



OF BABY BOOMERS EXPECT THAT THEY WILL NEED LONG-TERM CARE AT SOME POINT IN THE FUTURE.

– 2015 John Hancock Consumer Survey

> "Leaders distinguish themselves with innovative approaches that change consumer perceptions and acceptance."

Jesse Slome,
Executive Director,
American Association for Long Term Care Insurance (AALTCI)

Blueprint for an innovative LTC insurance product

Understanding the ongoing need to address issues affecting a client's successful retirement, John Hancock set out to develop a more modern Long-Term Care Insurance product that would address industry challenges while increasing producer and consumer confidence. The specific goals were to:

1. Lower costs for customers while continuing to offer robust tax-qualified LTC insurance benefits.
2. Create a transparent and timely mechanism for reflecting our actual investment and claims experience in policy performance.
3. Improve our relationship with our policyholders.

Performance LTC policies are designed to reflect company experience in a more timely manner than previous industry designs, and to greatly reduce the customer's risk of a sudden and dramatic premium change in the future.

Performance LTC is John Hancock's newest generation of Long-Term Care insurance products. With an emphasis on stability, transparency and affordability, Performance LTC represents a significant breakthrough in long-term care insurance. Performance LTC policies are designed to reflect company experience in a more timely manner than previous industry designs, and to greatly reduce the customer's risk of a sudden and dramatic premium change in the future.

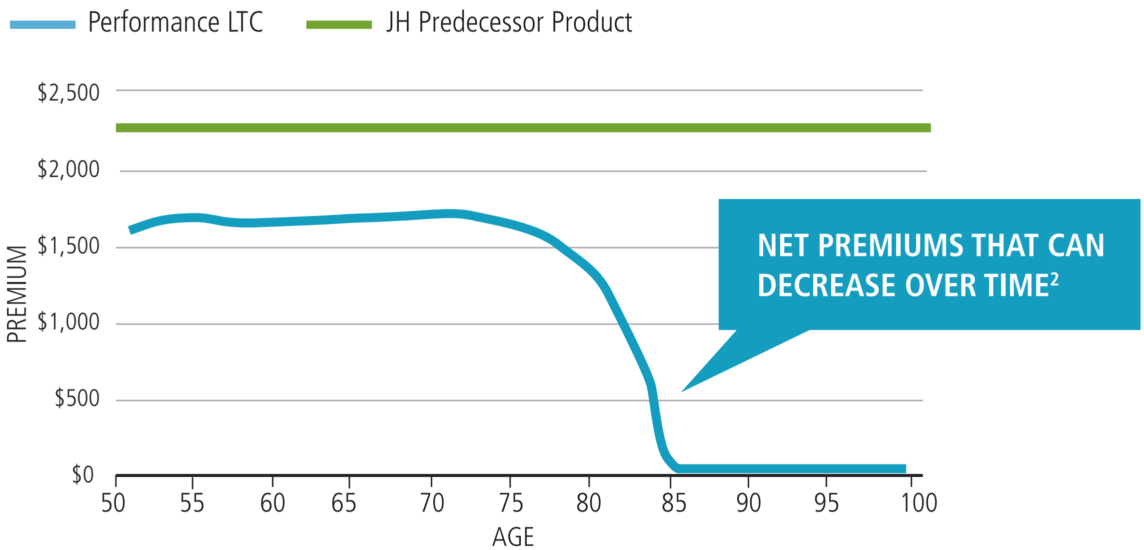
Performance LTC offers traditional benefits, including built-in 3% compound inflation, with illustrated net premiums that are lower than other products on the market.[1] Unlike other LTC policies, Performance LTC offers net premiums that vary slightly year to year. More notable is that these net premiums have the potential to decrease over time being offset by a new feature called Flex Credits. We'll take a more in-depth look at Flex Credits on page 8.

> “John Hancock's Performance LTC has a better design than traditional long-term care insurance because it spreads the risk among policyholders in a way that is more efficient and fair.”
>
> Roger Loomis,
> *ARC – Actuarial Resources Corporation*

1. Under the 3% compound inflation option, benefit amounts are automatically increased by 3% compound on an annual basis through age 90 unless a benefit increase is declined. Each time the benefits are increased, the premium is increased by an associated amount for such increase. After age 90, benefit increases will continue with no corresponding increase in premium.

Take a look at Performance LTC's net premiums under current assumptions[2]

MARRIED FEMALE, AGE 55, 3-YEAR BENEFIT PERIOD, $4,500 MONTHLY BENEFIT, 90-DAY ELIMINATION PERIOD, 3% INFLATION OPTION FOR PERFORMANCE LTC, PREDECESSOR LTC INSURANCE (WITH CPI INFLATION).



Net premiums are the result of "Policy Premiums" minus the Flex Credit. Policy Premiums are priced assuming very conservative assumptions for the company's claims experience and investment performance. The assumption for claims experience is that actual claims will be at least 65% higher than the company's current best estimates – every single year. To put that into context, typical LTC insurance policies are priced with a margin around 10%-15%, and if actual experience is worse than that margin the company would file an in-force rate increase. To the extent that experience is better than assumed for the Policy Premiums, the policy will benefit by receiving Flex Credits.

NET PREMIUMS = POLICY PREMIUMS – FLEX CREDIT

2. This example assumes Flex Credits are earned in all years based on a 6% Declared Rate and total claims paid that are 10% above expected. This example is not intended to predict actual performance as Flex Credits may be higher or lower and will not occur exactly as illustrated. Flex Credits can be negative. When a Flex Credit is negative we will not increase the premium or reduce the Flex Account. However, we will offset any such negative amount when calculating future Flex Credits. This means that there may be no Flex Credits until such time that the amount offset for all prior years has been recouped.

Lowering the cost to encourage consumer interest

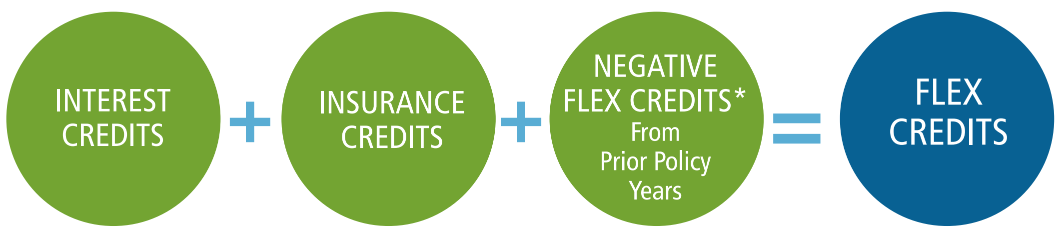
Performance LTC's lower illustrated net premiums are derived from a more efficient plan design as well as a diversified investment strategy.

More efficient plan design – The Flex Credit

Performance LTC introduces a new mechanism, called the Flex Credit[3], that is central to our new plan design of improving the way we share experience with our policyholders.

Here is how it works.

Flex Credits are earned on each policy anniversary and are calculated according to a formula that takes into consideration insurance and investment experience. Insurance Credits are affected by variations in mortality, morbidity and lapse experience. Interest Credits vary based on the Company's Declared Rate. This formula is summarized below[4].



* if applicable

3. Flex Credits are calculated according to a formula that takes into consideration the Company's insurance and investment experience. John Hancock's calculation method is described in the Performance LTC policy and is on file with the applicable regulator. Negative Flex Credits will not decrease the Flex Account, but will be carried forward until they are offset by positive Flex Credits.
4. Policy Premiums are the contractual premiums which increase annually through age 90. Insureds have the option to pay up to their Policy Premiums each year. Net Premiums are what insureds pay out of pocket for coverage, once their Flex Credits are applied. Flex Credits are not guaranteed.

Flex Credits can be deferred and stored in a "Flex Account" which can grow with interest and be used in future years to:

✔ Reduce premiums

✔ Pay for services like home modifications or emergency medical response systems [5]

✔ Offset expenses during the elimination period to reduce out of pocket expenses

✔ Reimburse long-term care expenses in excess of policy benefit amounts

✔ Provide a return of premium upon death or lapse[6]

OTHER FLEX CREDIT ADVANTAGES OVER TRADITIONAL POLICIES:

- They allow the customer to participate in any "upside" in claims experience, instead of just the downside, as with traditional policies.
- In the event that actual experience is worse than expected, Flex Credits allow the policy to have smoother changes in net premiums than could otherwise be experienced with a traditional policy.

Streamlined benefits that can still provide value

In addition to the new policy design, two additional policy changes also contributed to the lower net premiums.

- The Waiver of Premium benefit was replaced with the Lapse Prevention Safeguard Benefit. Lapse Prevention Safeguard ensures that the policy will not lapse while the policyholder is on claim.
- The Additional Stay at Home benefit is now part of the Flex Account, rather than the base policy.

> "The long-term care industry is not in decline, but in transition."
>
> Harley S. Gordon, Esq
>
> *Elder Law Attorney and Long-Term Care Industry Expert*

5. Eligible services are limited to Home Modifications, Emergency Medical Response Systems, Durable Medical Equipment, Caregiver Training, Home Safety Check, and Provider Care Check.

6. The Flex Account payable upon death or lapse is capped at total premiums paid in order to meet the requirements of a tax qualified long-term care contract.

A more diversified investment strategy

As we looked at reinventing the LTC Insurance policy design, we also looked at modernizing the product's underlying investment strategy. Many traditional long-term care insurance products are supported by an investment mix weighted heavily toward fixed income (i.e., corporate and government bonds). Given that Performance LTC is an insurance policy with no cash value and long-term liabilities that can span 30-40 years or more, John Hancock sought a more diversified strategy with an underlying mix that includes a broad array of fixed income and alternative long-duration assets, such as real estate, power and infrastructure, private equity and timberland.

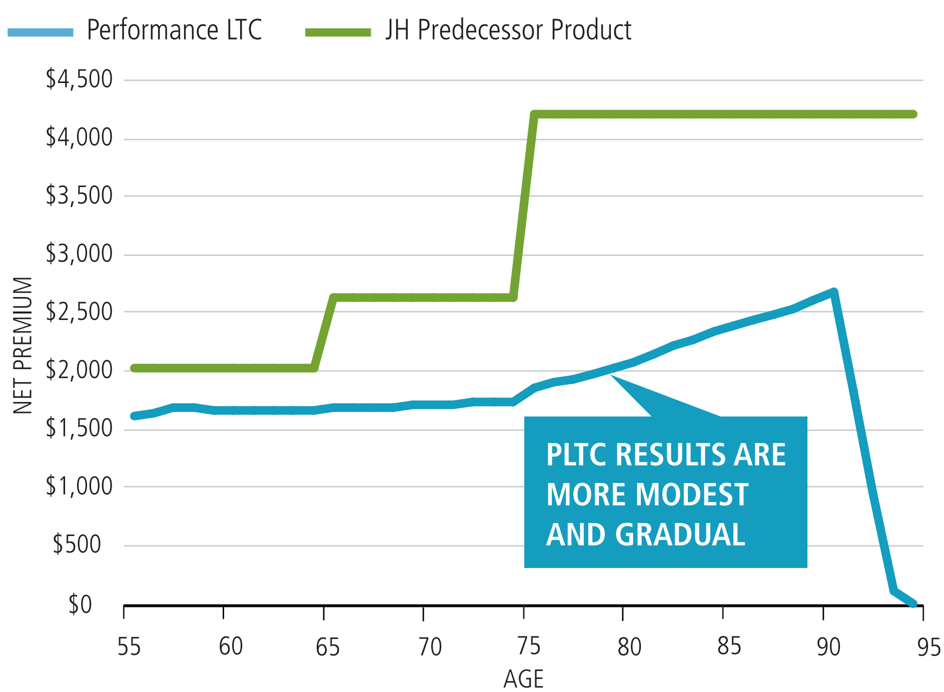
This approach has two benefits: it is intended to increase the expected yield, which is reflected in the Declared Rate, and it also provides the risk-reducing benefits of diversification. However, as with any investment strategy, it is not without risk. If investment results are worse than originally illustrated, the net premiums could increase. The LTC illustration system is designed to show both current and adverse scenarios.

An effective way to handle adversity

Performance LTC's greatest advantage may be how it handles adversity. This is important because worsening claims experience and accompanying inforce rate increases have been a top industry concern for years. Take a look at how Performance LTC compares to a traditional product in a hypothetical scenario where future claims experience is significantly worse than expected.

Avoiding Steep and Sudden Increases with Performance LTC

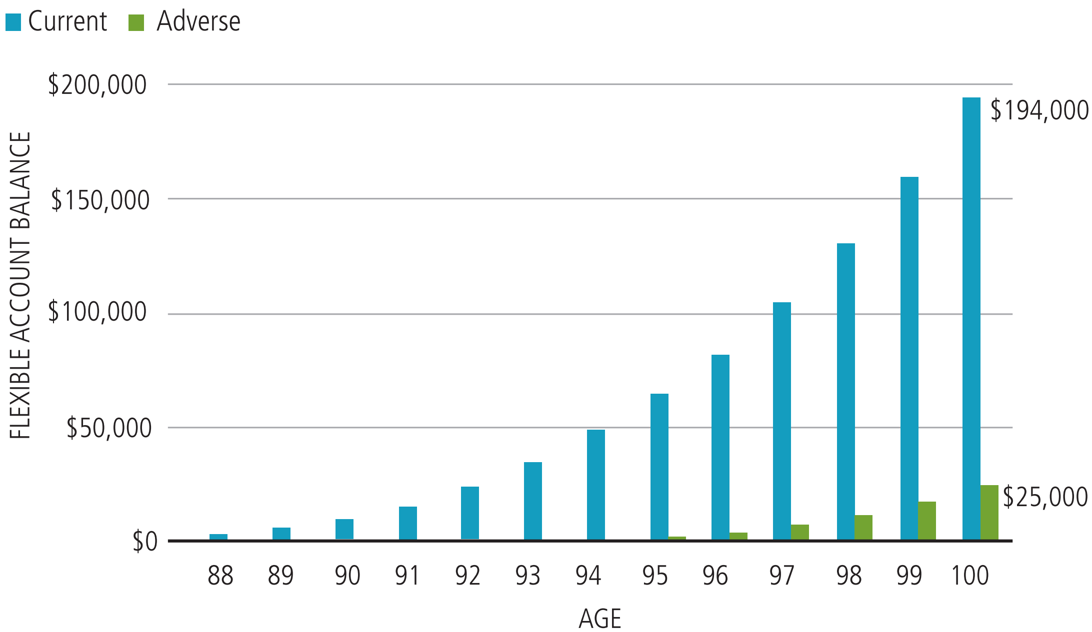
MARRIED FEMALE, AGE 55, 3-YEAR BENEFIT PERIOD, $4,500 MONTHLY BENEFIT, 90-DAY ELIMINATION PERIOD, 3% INFLATION OPTION FOR PERFORMANCE LTC, PREDECESSOR LTC INSURANCE (WITH CPI INFLATION). CLAIMS ASSUMPTION: 20% HIGHER THAN CURRENT EXPECTATIONS IN YEARS 11-20; 40% HIGHER THAN CURRENT IN YEARS 21+



Now, here is a comparison of the Flex Account in these scenarios. Under current assumptions, the Flex Account balance is approximately $194,000 at age 100. In the adverse scenario, there is still a Flex Account Balance at age 100 of about $25,000.

Take a look at the Flex Account Balance Under Current and Adverse Scenarios

MARRIED FEMALE, AGE 55, 3-YEAR BENEFIT PERIOD, $4,500 MONTHLY BENEFIT, 90-DAY ELIMINATION PERIOD, 3% INFLATION OPTION.



The data shown is taken from illustrations. Not all values are guaranteed. Actual results may be more or less favorable.

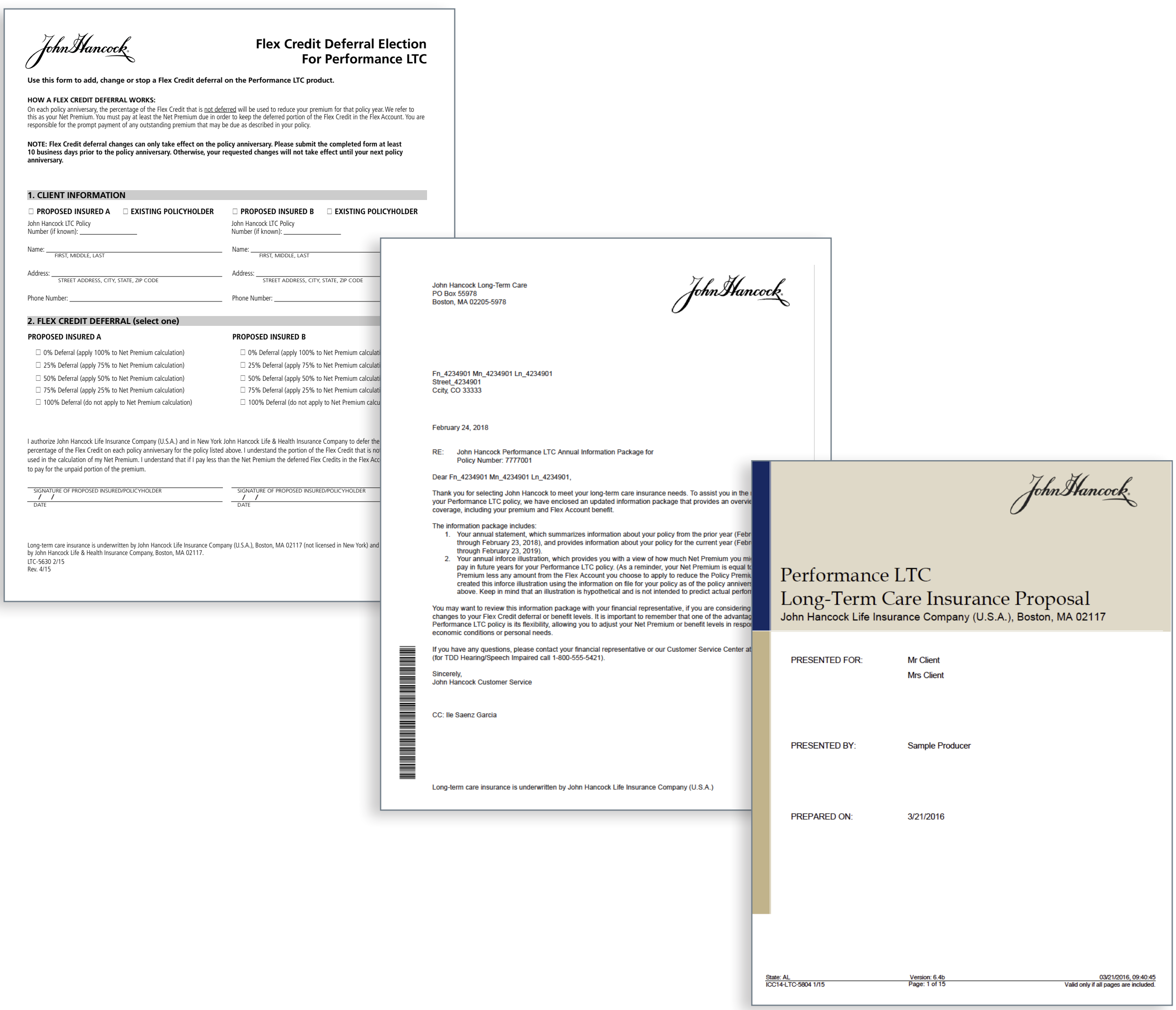
John Hancock's Investment Strategy Behind Performance LTC

The general account investments in the segment funding Performance LTC policies are managed by the investment division of Manulife Financial, the parent company of John Hancock, and represent the unique access and experience Manulife has as an institutional investor. Although the assets in our portfolio may change over the life of the policy, our commitment to disciplined investing and maximizing opportunities for our policyholders will not waiver.

Greater transparency and improved customer communications

We also recognized that it was important to enhance our communication to our insureds. We made the following changes to help ensure that our policyholders have the information they need and a number of options to choose from to effectively manage their long-term care:

- The option to defer Flex Credits for later use allows policyholders to use their Flex Credits immediately to pay lower net premiums or they can defer them to enhance their benefits or reduce future net premiums later on
- Annual Statements provide policyholders with the most current expected performance
- Sales Illustrations provide customers with multiple hypothetical scenarios so they can have a better idea of how their policy premiums would be impacted by Flex Credits.
- Policyholders can levelize their benefits which allows them to reduce their net premiums if they decide to stop the 3% compound benefit increases



Conclusion

As more Americans are living into their eighties, nineties, and beyond, the possibility of needing care and how best to address the potential financial consequences is a conversation that every advisor may want to have with their clients. A long-term care insurance policy has several advantages to help fund the cost of care. It offers robust benefits that can grow over time for a cost that may be considerably less than paying for care out of pocket.

Performance LTC is a revolutionary product that continues John Hancock's tradition of adapting the coverage we sell to meet the changing needs of consumers. It offers the protection, affordability, and versatility that savvy consumers are seeking and its inherent stability makes it a product that producers can recommend with confidence. We expect that Performance LTC's innovative approach will reenergize the industry and transform the way that long-term care insurance is sold in the future.

> "Performance LTC is a revolutionary product that continues John Hancock's tradition of adapting the coverage we sell to meet the changing needs of consumers."
>
> Scott Williams
> *Vice President, Long-Term Care Insurance*
> *Sales and Distribution, John Hancock*

OUR MISSION

John Hancock Insurance helps to empower people to feel confident about the future by helping them protect their loved ones, grow their savings, and preserve their wealth.

It's why we're committed to offering innovative products and services that meet real customer needs and reinforce the trust in John Hancock that our clients have valued for more than 150 years.

John Hancock

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