THE CAPITOL FORUM
Vol. 6 No. 98 March 20, 2018

Manulife: Insurer Faces Barriers to Selling Unprofitable John Hancock Long-Term Care Insurance Business

Company Update

Manulife Financial's John Hancock unit has found long-term care insurance a tough business to sustain. Now John Hancock could find it a tough business to leave.

Manulife executives have said they are considering a sale of the business, which had $40 billion in liabilities for its 1.2 million long-term care policies in 2015, the last year for which public figures are available. But few companies with insurance experience would be interested in assuming the responsibility of paying out benefits on unprofitable policies for nursing-home and other assisted care, insurance and financial experts said.

"It's a bad business," said James Shanahan, a senior equity research analyst at Edward Jones. "Can they sell it? Possibly, but I would say probably not."

Even if a buyer is found, John Hancock, which provides long-term care policies to 270,000 government workers and retirees, must get approval for the sale from the U.S. Office of Personnel Management, which could take several months.

Manulife, Canada's largest insurer, could have concluded, though, that it has little alternative but to sell. In 2016, John Hancock took a charge of $452 million related to its long-term care business. Manulife executives told participants at a June 2017 Investor Day meeting that they were entertaining the idea of selling off unprofitable businesses, including long-term care.

"All options will be considered, including divestitures," Roy Gori, Manulife's president and CEO, said at the Hong Kong meeting.

Most of John Hancock's biggest long-term care insurance rivals are also saddled with substantial financial burdens because of faulty assumptions the industry made in the early 1990s that overestimated how many people would drop the coverage while underestimating how popular the coverage would be and how long policyholders would live.

Penn Treaty Network America Insurance collapsed last year, and General Electric took a $6.2 billion charge related to its long-term care liabilities. After suffering years of losses in its long-term care business, Genworth Financial, which GE spun off in 2004, is seeking to sell itself to China Oceanwide Holding Group.

In 2016, John Hancock stopped offering individual long-term care policies but still sells long-term care insurance as part of its life insurance coverage.

While the long-term care insurance industry's spiraling finances shortens the list of potential buyers of John Hancock's businesses, that hasn't stopped some companies from sounding out Manulife about a possible sale, a Manulife executive said.

"We're starting to see some interest from counterparties potentially in transacting on particular blocks of the long-term care portfolio," Steve Roder, Manlulife's chief financial officer, said at the Hong Kong meeting.

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A Manulife spokesperson declined to comment on whether the company is actively trying to sell the business.

If it does proceed with a sale, Manulife will have to be prepared to find a buyer that is acceptable to the federal government, industry experts said.

John Hancock's long-term care insurance in the government. Since 2002, John Hancock has provided long-term care benefits to U.S. government workers and retirees through its subsidiary, Long-Term Care Partners. The policies' monthly premiums generated $2.9 billion in revenue as of December 2017.

Manulife also is considering a sale of other federal benefits Long-Term Care Partners provides as part of Benefeds program. They include the Federal Employees Dental and Vision Insurance Program and the Federal Flexible Spending Account Program.

With most insurers trying to unload their long-term care liabilities, the most likely company to take over administering the policies is "a private equity fund or leverage buyout fund or hedge fund that looks at the [John Hancock] book of business and thinks there is leverage there, there is value there," said Gregory Olsen, a partner at New York-based financial planner Lenox Advisors.

Whether this buyer is acceptable to the federal government will depend on if it is a "qualified carrier" as defined by the Federal Long Term Care Insurance Program, which Congress established in 2000.

A spokesperson for the Office of Personnel Management (OPM) declined to comment on a potential sale but cited a federal law under which government contracts can't be transferred unless certain requirements are met and government approval is secured.

As part of the approval process, a U.S. government contracting officer will look at the assets, resources and experience of the potential buyer, according to Jackson Moore, a partner at Smith Anderson, a Raleigh, North Carolina-based firm where he specializes in government contracts. Manulife and a potential buyer would need to sign what is known as a "novation agreement," a transfer of the government contract from John Hancock to a potential buyer.

"Typically, in mergers and acquisitions the parties want to move with greater speed than the federal government would permit them under the novation process," Moore said. It could take several months to get government approval of the buyer and transfer the contract to the buyer, Moore said.

Meanwhile, both companies would need to enter in an arrangement to ensure that the contract with the federal government is being honored. John Hancock may need to agree to continue performing the contract while its transfer to another company is under review, Moore said.

Premium increases likely. The government also has to approve any rate increases on long-term care policies for federal workers and retirees, and its willingness to do so could determine how many potential buyers will bid on the business.

"If you are a buyer of that block of business, you are not buying it for charitable purposes," Olsen said.

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OPM has approved two increases in recent years: the first in 2009, when it let premiums rise 25 percent, and the second in 2016, when premiums increased 83 percent, or $111 a month on average. The increases mirror steep rate hikes state insurance regulators have granted long-term care insurers in the past five years. The federal government probably will permit future steep premium increases to help stabilize the troubled industry, Olsen said.

Potential buyers of the John Hancock long-term care business, though, shouldn't assume the government's tolerance of rate increases is limitless. In August 2016, lawmakers on the House Oversight and Government Reform Committee sent a letter to John Hancock President Craig Bromley asking for financial documents "to better understand these significant" premium increases.

At a committee on November 30, 2016, lawmakers questioned both government and John Hancock representatives about the premium increases but took no further action. A committee spokesperson did not respond to requests for comment.

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