UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF
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before the

SUBCOMMITTEE ON GOVERNMENT OPERATIONS
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

on

"Federal Long-Term Care Insurance Program: Examining Premium Increases"

November 30, 2016

Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee:

Thank you for the opportunity to testify today on the Federal Long Term Care Insurance Program (FLTCIP). The Office of Personnel Management's (OPM) mission is to recruit, retain and honor a world-class workforce to serve the American people. A part of that mission requires OPM to offer and administer benefits, including insurance products, such as FLTCIP, for Federal employees, annuitants and their families.

FLTCIP provides long term care insurance to help pay for the costs of care when enrollees need assistance with activities of daily living or have severe cognitive impairment, such as may occur with Alzheimer's disease. Most Federal and U.S. Postal Service employees and annuitants, active and retired members of the uniformed services, and their qualified relatives are eligible to apply for coverage. FLTCIP provides reimbursement for nursing home stays, assisted living facilities, hospice stays, respite care, caregiver services, home care, adult day care services, and both formal and informal caregiver services. The various plan options within FLTCIP allow coverage and premiums based on a combination of the daily benefit amount; the benefit period; the maximum lifetime benefit; and the degree to which the benefit will grow with inflation.

FLTCIP is the largest employer-sponsored long term care insurance program in the nation with approximately 274,000 enrollees. It is also a voluntary, 100% employee-paid benefit, meaning that enrollees' premiums cover all program costs. Premiums from enrollees are deposited in a separate, FLTCIP-only Experience Fund that is held and managed by the insurer. As the sponsor of FLTCIP, OPM has an obligation to ensure the Experience Fund is sufficiently funded. OPM knows that the premium increases can pose a financial hardship for many enrollees, but we are committed to ensuring that funds are available to pay claims decades into the future.

Background

FLTCIP was established as a result of the Long-Term Care Security Act (Public Law 106-265) (the Act), which was passed in 2000. In 2002, OPM contracted with Long Term Care Partners, LLC, which was a joint partnership of John Hancock Life Insurance Company (John Hancock) and Metropolitan Life Insurance Company, to manage the application process and the administration of claims. For the initial contract term, both John Hancock and Metropolitan Life Insurance Company provided long term care insurance for FLTCIP enrollees.

Under the terms of the Act, the long term care insurance contract is for a term of seven years, unless terminated earlier by OPM in accordance with contract terms. OPM awarded the second contract to John Hancock, bidding for itself only, in April 2009. This second contract increased premium rates by up to 25 percent for certain existing enrollees. Although the FLTCIP benefit booklet has always stated the conditions under which premiums might increase, we understand some enrollees felt that the program could have been more clear regarding potential premium increases. In response, since the 2009 premium increase, OPM has taken additional steps in print and electronic materials to emphasize the potential for rate increases in the future.

Eligible individuals can apply to FLTCIP at any time with full underwriting. In addition, new employees to the Federal Government and their spouses have 60 days to apply for coverage with abbreviated underwriting. In 2011, OPM announced the second open application period for FLTCIP. The open application period allowed eligible employees and their spouses to apply with abbreviated underwriting.

OPM continually monitors the performance of FLTCIP through standards agreed upon in the contract between OPM and John Hancock. John Hancock provides OPM with semi-annual funded status reports that include information on the Experience Fund and premium rates. In addition, John Hancock meets with OPM to review the status reports as well as investment results and strategy. Finally, OPM and John Hancock discuss the operational aspects of FLTCIP on a monthly basis.

OPM was first notified of a projected potential funding shortfall in the Experience Fund by John Hancock in June 2014. A potential funding shortfall means that the projected costs of the program over the projected lifetime of enrollees may exceed the projected resources available to cover those expenses (available assets plus future premiums plus investment returns). The primary driver of this projected shortfall was John Hancock's reassessment of the long term costs of the program based on the costs of current enrollees receiving benefits along with actuarial projections of how much those costs would be in future years when a greater percentage of enrollees begin to collect benefits. At this time, OPM began the process for determining the appropriate acquisition method for the next FLTCIP contract.

Subsequently, in accordance with the 2009 contract, in April 2015, John Hancock submitted proposed increased premium rates for current and future enrollees. The new pricing, in addition to reflecting higher anticipated claims, also adjusted for changing trends in morbidity and mortality rates as well as in investment experience. In other words, prices for long term care insurance are based on projections about future investment returns. Future investment returns are affected by economic indicators such as interest rates and other market conditions. The historically low interest rates that were experienced in the time period between the 2009 contract and John Hancock's June 2014 Experience Fund update had a very significant impact on the future investment return projections. This has been the case across the long term care insurance industry, as insurers are making changes to assumptions based on claims data and investment experience resulting in premium increases.

As previously mentioned, enrollees' premiums in FLTCIP cover all program costs, and those premiums are maintained in the Experience Fund. Under the Act, premiums must "reasonably and equitably reflect the cost of the benefits provided" and the increased premium levels were necessary to secure the stability of the Experience Fund. Without the increase, there would be an unacceptable risk that the Experience Fund would not have sufficient funds in the future to pay the claims of those who are counting on it. OPM decided to not delay or gradually increase the premiums as this most likely would require an even greater increase in premiums for enrollees in the future.

The April 2015 proposed premium rates for current and future enrollees would have taken effect at the beginning of the third contract term and operated as a contract extension which is allowed per the contract. As the second contract term was nearing its end, OPM made the decision to recompete, rather than extend, the existing contract and issued a Request for Proposals (RFP) in September 2015. OPM reached this decision in order to ensure that reasonable efforts were taken to attract the most competitive proposal for the upcoming third contract. Effective August 2015, premiums for future FLTCIP applicants were increased.

As it had in the prior FLTCIP contracts, OPM instructed that carriers must follow the National Association of Insurance Commissioners model regulation when setting premium rates. John Hancock was the sole bidder to the September 2015 RFP and proposed similar premiums to those first proposed in April 2015, with minor modifications. After conducting its procurement review and analysis of John Hancock's proposal, including obtaining an independent actuarial evaluation of the proposed premium rates, OPM awarded the third contract to John Hancock in April 2016. Under this contract, premium rates for existing FLTCIP enrollees were increased significantly as of November 1, 2016. Under the new contract, Long Term Care Partners continues to serve as administrator of FLTCIP.

2016 Premium Increase

In April 2016, OPM announced the new contract award and that premiums would increase for FLTCIP enrollees. Subsequently, in July 2016, OPM provided personalized information detailing how the premium increase would impact each FLTCIP enrollee. The amount of the increase depended on the given enrollee's age at the time of enrollment, the plan design, and the plan originally purchased (FLTCIP 1.0 or FLTCIP 2.0). For enrollees subject to a rate increase who maintained their existing coverage, the increase varied widely from no increase to an increase of 126 percent. The average monthly increase amount was $111, which represented an average increase of 83 percent. The increase did not impact the following: enrollees who purchased at 80 years or older; enrollees eligible for benefits or awaiting decision on a paid claim; enrollees that enrolled after August 2015; and enrollees in the Alternative Insurance Plan, which is a long term care insurance plan that offers some benefits for applicants with certain medical conditions.

2016 Enrollee Decision Period

In order to assist enrollees with making a decision about their coverage, OPM took a number of steps to communicate and explain the changes in premiums during the 2016 Enrollee Decision Period. The Enrollee Decision Period provided enrollees impacted by the premium increase with an opportunity to make coverage changes. Starting in July 2016, impacted enrollees received offer packages with personalized options that would allow them to reduce the impact of the rate increase, or eliminate it all together, by reducing plan coverage. In addition, there were webinar tutorials, online instructional videos, and experienced program consultants available at Long Term Care Partners to provide additional support. Enrollees had until September 30, 2016 to make a decision about their plan coverage. In mid-October, Long Term Care Partners sent a new schedule of benefits to each enrollee impacted by the premium rate increase. Enrollees had 30 days from the receipt of this new schedule of benefits to change their election, if desired.

During the 2016 Enrollee Decision Period, over 172,000 enrollees submitted their selection, with a response rate of over 65 percent. Over 96,000 enrollees chose the option to keep their premiums the same by reducing benefits. Long Term Care Partners handled approximately 86,000 calls, with an average speed to answer of 12 seconds. The FLTCIP website had over 320,000 visits. Other website tools provided to enrollees such as frequently asked questions and rate quote calculator were viewed over 49,000 and 63,000 times, respectively. It was our priority to enable enrollees to make informed choices about the costs and benefits of coverage, in light of their particular economic situation and their expectations about their future long term care needs.

Future of FLTCIP

Since the inception of FLTCIP, the long term care insurance market has seen many insurers exit the market, and those that remain no longer concentrate on group business. At the height of the market in 2002 (when the initial contract was awarded), well over 100 insurers offered standalone products. Today, only a handful of long term care insurers are actively selling long term care insurance, and those insurers are primarily issuing individual policies rather than group plans. For example, other than FLTCIP, John Hancock is no longer in the group market and recently announced it was discontinuing new sales of its stand-alone individual long term care product. As the industry continues to evolve, OPM will continue to assess plan benefit and design options to ensure FLTCIP enrollees are receiving an array of options to meet their long term care needs.

Since its establishment, FLTCIP has made an important difference in the lives of thousands of members of the Federal family. FLTCIP has paid claims in excess of $728 million, and currently pays more than $14 million per month in claims. We look forward to future discussions on ways to make this program both beneficial and cost-effective for the enrollees, while ensuring that the Experience Fund is adequately funded so that it is available to enrollees in the future, in the event that they have a need for it.

Thank you for the opportunity to testify today and I am happy to address any questions you may have.