STATEMENT OF
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before a joint hearing of the

SPECIAL COMMITTEE ON AGING

and the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

on

THE FEDERAL EMPLOYEES LONG TERM CARE INSURANCE PROGRAM

October 14, 2009

Chairman Kohl, Ranking Member Corker, Chairman Akaka, Ranking Member Voinovich, and Members of the Committee and Subcommittee:

Thank you for the opportunity to testify today, on behalf of OPM Director John Berry, about the Federal Long Term Care Insurance Program and changes coming this year and next. This program is designed to help protect enrollees against the high costs of long term care. Currently there are almost 225,000 enrollees. Most Federal and Postal Service employees and retirees, active and retired members of the uniformed services, and qualified relatives are eligible to apply for the insurance coverage. Enrollees pay the full premiums for insurance coverage and all applications for coverage are underwritten, with either abbreviated or full underwriting requirements. The long term care program offers flexible benefit options to meet the diverse needs of the Federal family. Covered benefits include at-home formal and informal caregiver services, adult day care, assisted living facility care, hospice care and nursing home care.

As background, the statutory framework established by Public Law 106-265 provides for a seven-year contract. The initial contract was awarded to a consortium arrangement between Metropolitan Life and John Hancock Life & Health Insurance Company. The initial contract term expired this year, and OPM has selected John Hancock as the insurer for the second contract term, which began October 1. The new contract includes new benefit options with increased home health care reimbursement, new benefit periods, higher daily benefit amounts, increased payment limits on informal care provided by family members, and new premium rates.

OPM is responsible for managing the insurance carrier and overseeing the financial health of the program. John Hancock will be responsible for program administration, managing the investment of premiums, and providing long term care benefits to enrollees. John Hancock uses an independent subsidiary, Long Term Care Partners, to manage the insurance application process and claims administration and also to provide marketing, education, and communications for enrollees and prospective enrollees.

After a careful and considered evaluation of the program, we determined premium increases would be necessary for most current enrollees, beginning January 1, 2010. The enrollees affected by the increase are those who have the Automatic Compound Inflation Option, or ACI. Long term care premiums are age-based and the amount of the premium increase will depend on the ages of the enrollees when they first purchased coverage. Premiums will increase for ACI enrollees who were under age 70 when they purchased the coverage and who choose to keep the same coverage. These enrollees will see a premium increase ranging from 5 percent up to 25 percent. There will be no premium increase for enrollees who purchased this type of coverage at age 70 or above.

Of the almost 225,000 total enrollees, about 144,000 have the ACI option and will be subject to the premium increase. Of those, about 133,000 enrollees will see the maximum 25 percent increase in premiums. The remaining enrollees will receive somewhat lower increases – between 20 percent and 5 percent – depending on their ages at purchase. While we are not pleased with these premium increases, they will be the first since the program began seven years ago, and are consistent with increases in other public sector long term care insurance programs since 2002.

For enrollees who selected the Future Purchase Option, there will be no premium increase. Under this option, increases in the cost of living are included in a rate change that occurs every other year. By contrast, enrollees with the ACI option are eligible for a 5 percent compounded increase in benefits each year. The premiums for this option were intended to be structured to pre-fund their future benefit increases. However, that means any changes in underlying assumptions about those premium levels have a direct effect on the amount of funds needed in advance to support the future benefits.

Without this adjustment, the long term care program faces a projected shortfall in funding for the enrollees with the ACI option. The actual and projected program experience differs from the assumptions used when the original premiums were established seven years ago. Projections are sensitive to certain assumptions about future program experience – mostly enrollee persistency (the number of people who enroll and continue to remain insured) and investment return – and the original estimates now appear to have been inadequate.

While we conducted our own actuarial analysis and reviewed the financial projections by John Hancock, we also obtained an independent actuarial consultant to review the proposed premium increases. The consultant confirmed the premium increases would be necessary. So that sufficient funds will be available to pay benefits to enrollees in the future, we believe it would be irresponsible not to increase premiums at this time.

We recently announced a Special Decision Period for current enrollees from October 1 to December 14, 2009. Enrollees will receive a personalized options letter that will outline their insurance choices during this period. One of the options for affected enrollees will allow them to keep their premiums approximately the same as they pay now by making an adjustment to their long term care insurance benefits. For example, they can change their current 5 percent ACI rate to 4 percent and keep their premiums about the same. Making this change would not decrease current benefit levels, but would cause the daily benefit amount to increase more slowly—by 4 percent per year rather than 5 percent. Other options open to these enrollees include moving to the plan under our new contract with John Hancock, which has new benefits, but at the new rates.

The new plan design includes enhancements to several benefits and elimination of a few less popular features. For instance, the new minimum daily benefit amount will be $100, compared to $50 under the old plan. In addition, enrollees can now elect up to $450 as their daily benefit amount; under the old plan it was capped at $300 per day. Enrollees can elect a two-year benefit period under the new plan. Previously their choices were a three-year, five-year, or unlimited benefit period. Coverage of informal home health care provided by family members will now be available up to 100 percent of the daily benefit amount for up to 500 days. Previously it was covered at 75 percent for up to 365 days. One feature under the old plan, which was not particularly popular and did not have many enrollees, was a facilities-only benefit, which will not be available in the new plan. Premiums for the new plan will be somewhat higher due to the benefit enhancements. The deadline for making elections under the Special Decision Period elections is December 14, 2009, and changes will take effect January 1, 2010.

While the Special Decision Period is for current enrollees only, we plan to hold an Open Season for all eligible employees and retirees late next year. In addition, newly eligible individuals, such as new Federal employees, are now able to apply for the new long term care plan. Beginning October 1, we are not accepting new employee applications for the old benefit plan.

Now, I would like to respond to your request for our view of the "Confidence in Long-Term Care Insurance Act" introduced by Senator Kohl earlier this year. We note it has received support from a wide variety of consumer groups and companies as well as the National Association of Insurance Commissioners (NAIC). The bill takes steps to provide additional consumer information and protection, which fits well with our own approach to ensuring consumers have the information they need to make educated choices. We would be pleased to provide the technical assistance of our staff if requested.

Thank you again for the opportunity to testify before you today. I will be glad to answer any questions.