



**UNITED STATES OFFICE OF PERSONNEL MANAGEMENT**

**STATEMENT OF  
JOHN O'BRIEN  
DIRECTOR OF HEALTHCARE AND INSURANCE  
U.S. OFFICE OF PERSONNEL MANAGEMENT**

**before the**

**UNITED STATES SENATE SPECIAL COMMITTEE ON AGING**

**on**

**"The Future of Long-Term Care: Saving Money by Serving Seniors"**

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**April 18, 2012**

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

Thank you for the opportunity to testify today on long-term care insurance. As the Federal agency responsible for recruiting, retaining and honoring a world-class workforce, the Office of Personnel Management (OPM) oversees numerous benefit programs, including long-term care insurance for Federal employees, annuitants and their family members.

Long-term care is personal care and other related services provided on an extended basis to people who need help with activities of daily living or who need supervision due to a severe cognitive impairment, such as Alzheimer's disease. It can be provided at home, in an adult day care center, assisted living facility, or nursing home. Most health insurance plans, including those in the Federal Employees Health Benefits Program, do not provide coverage for long-term care services. This unmet need led to the creation of the Federal Long Term Care Insurance Program (FLTCIP).

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Long-term care insurance is an important benefit because individuals are living longer, and the likelihood of needing long-term care services increases with age. After age 65, Americans have a 70% chance of needing some form of long-term care during their lives.<sup>1</sup> Long-term care is also provided to people under age 65 who need help taking care of themselves due to diseases, disabling chronic conditions, injury, developmental disabilities, and severe mental illness. In addition, long-term care insurance is important because long-term care services can be very expensive for the average American family. In 2011, the national average cost of a semi-private room in a nursing home was \$75,555 and \$39,240 for care in an assisted living facility. The average cost of home care was roughly \$31,000 per year or about \$20 per hour.<sup>2</sup>

History of the FLTCIP

In 2000, Congress passed the Long-Term Care Security Act (Public Law 106-265), which authorized OPM to contract with qualified carriers to provide long-term care coverage to Federal employees, including U.S. Postal Service employees, members of the uniformed services, annuitants, and their qualified family members. In March 2002, OPM introduced the FLTCIP to the Federal workforce. This is the tenth year for the FLTCIP, which is the largest employer-sponsored long-term care insurance program in the nation. As a voluntary, 100% employee-paid benefit, coverage is provided for long-term care services for Federal employees to protect

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<sup>1</sup>U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information.  
[www.longtermcare.gov/LTC/main\\_Site/index.aspx](http://www.longtermcare.gov/LTC/main_Site/index.aspx)

<sup>2</sup> John Hancock 2011 Cost of Care Survey  
[www.jhltc.com/uploadedFiles/Marketing\\_Materials/Education\\_Awareness/ltc\\_1167.pdf](http://www.jhltc.com/uploadedFiles/Marketing_Materials/Education_Awareness/ltc_1167.pdf)

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against having inadequate assets to cover the substantial costs needed to pay for long-term care.

Through the FLTCIP, the Federal Government utilizes its leverage in the marketplace to offer private long-term care insurance to Federal employees and their qualified family members.

Initially, 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 claims administration. Both John Hancock and Metropolitan Life Insurance Company provided long-term care insurance for the initial contract term. In February 2003, 187,000 individuals were enrolled and by the end of the initial seven year contract term in April 2009, enrollment had increased to approximately 224,000 enrollees.

The Long-Term Care Security Act requires that the long-term care insurance contract be for a term of seven years, unless terminated earlier by OPM in accordance with the terms of the contract. In 2009, the initial contract term ended and, effective May 1, 2009, OPM awarded the second contract to John Hancock. As part of the new contract, John Hancock added new benefit options with increased home health care reimbursement, new benefit periods, higher daily benefit amounts, and increased payment limits on informal care provided by family members. Long Term Care Partners continues to administer the program on behalf of John Hancock.

Features and Benefits

The FLTCIP provides coverage not only for nursing home stays but for assisted living facilities, hospice stays, respite care, caregiver services, home care, and adult day care services. In addition to Federal civilian and uniformed services employees, other qualified family members who are eligible to apply for coverage include spouses of Federal employees or annuitants, same-sex domestic partners of Federal employees, surviving spouses of active or retired members of the

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uniformed services, parents, parents-in-law and stepparents of living Federal employees and adult children of living Federal employees or annuitants.

Enrollees have the option of four pre-packaged plans (i.e., Plan A, B, C, and D) or can customize the benefits that meet their needs. The four pre-packaged plans offer a variation to the daily benefit amount (the maximum amount the insurance will pay for a single day), the benefit period (the length of time the insurance will last), the maximum lifetime benefit amount, waiting periods and inflation protection options. All four pre-packaged plans have a 90 calendar day waiting period. In addition, there are two methods of inflation protection. The first inflation protection option is the automatic compound inflation option, which increases benefit levels by either 4 or 5 percent each year without a corresponding rise in premiums. The second inflation protection option is the future purchase option, which allows enrollees to obtain benefit increases based on the Medical-Consumer Price Index every two years.

Other benefits of the FLTCIP include the flexibility for enrollees to change coverage as their needs change, various payment options for premiums such as payroll/annuity deduction, comprehensive care coordination, portable coverage, international benefits with no war exclusions, and insurance coverage that is guaranteed renewable.

2011 Open Season

In 2011, OPM announced the program's second open season for FLTCIP. The FLTCIP is medically underwritten and individuals can apply throughout the year. However, open season allows employees and their spouses to apply with abbreviated underwriting, which means the applicant answers fewer questions about their medical history. In addition, newly hired

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employees to the Federal Government and their spouses have 60 days to apply for long-term care coverage with abbreviated underwriting standards. Employees, retirees, and qualified family members who apply outside of an open season, the full underwriting standards apply.

Also, during the 2011 open season, same-sex domestic partners of Federal employees had the option to apply with abbreviated underwriting, providing the same rights as other qualified family members for purposes of applying for coverage. This inclusion of same-sex domestic partners resulted from President Obama's June 2010 memorandum directing agencies to take action to extend benefits to the same-sex domestic partners of Federal employees, consistent with existing law. During the 2011 open season, over 300 applications were submitted by same-sex domestic partners of Federal employees.

OPM along with Long Term Care Partners used numerous methods of communication to provide awareness about the benefits of long-term care insurance to the Federal workforce. Direct mail campaigns, direct email campaigns, onsite workshops, webinars, advertisements, payroll notices, and public relation efforts were all utilized to educate the Federal workforce about long-term care insurance. Educational efforts for the 2011 open season began in fall 2010. The educational campaign focused on reaching all eligible employees multiple times through multiple channels. Webinars were used heavily during this open season and an online decision tool was available. Increased information was available on the website, including the ability to apply for coverage online for both full and abbreviated underwriting. The educational campaign sought to provide a high degree of transparency for people considering purchasing long-term care insurance by clearly outlining the features and benefits of the FLTCIP, demonstrating the impact of inflation

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on long-term care costs, and effectively communicating to all employees the potential for future rate increases should they be necessary for the health of the FLTCIP. The public relations plans raised awareness of both long-term care insurance in general and the FLTCIP. News releases and appearances on Federal radio programs such as *Federal Drive*, *For Your Benefit*, and *Your Turn with Mike Causey* delivered the message to Federal family members that the FLTCIP is a valuable and cost-effective way to protect against the high costs of long-term care.

Overall, Long Term Care Partners received over 45,000 applications during the 2011 open season. The breakdown of the approved applications was 55 percent female and 45 percent male. For active civilian enrollees the average age was 53 and for active uniformed services enrollees the average age was 47 during the open season. The most frequently purchased plan options included: a 3-year benefit period elected by 43% of the applicants and the most popular daily benefit amount was \$150 also elected by 43% of the applicants. In addition, 70 percent of the enrollees selected the automatic compound inflation option with 58 percent of enrollees selecting the 4 percent automatic compound inflation option and 12 percent of enrollees opting for the 5 percent automatic compound inflation option. The communication efforts during the 2011 open season were very successful as enrollment increased 20% from 224,000 to approximately 270,000 enrollees.

Future of the FLTCIP

As the long-term care insurance market continues to evolve, we believe the FLTCIP is well positioned to offer a variety of benefit choices with relatively low cost to enrollees. In addition, we have taken steps to address potential premium risk. The National Association of Insurance Commissioners (NAIC) 2000 model long-term care insurance regulations established guidelines

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that carriers must meet when setting premium rates. In its Request for Proposals (RFP) for both contracts, OPM stated that carriers must follow NAIC's model regulation by including a margin for moderately adverse conditions when setting premiums for new enrollees. To ensure continued stability of the FLTCIP, in its RFP for the second contract, OPM stated that carriers should adjust premiums for existing enrollees to ensure that they were adequate, but that premium increases for existing enrollees should not exceed 25 percent per enrollee.

OPM is working to maintain the long term viability of the FLTCIP by pursuing policies that will help protect current and future enrollees. For example, we are interested in pursuing participation in state Long Term Care Partnerships which provide asset protection as an additional incentive for enrollment. We are also continuing to assess plan benefit options to ensure they are not only attractive to enrollees but also limit risks that would tend to increase future premiums.

Long-term care insurance provides a cost effective way for individuals making average incomes, like most Federal employees, to protect themselves against the financial catastrophe that a long-term illness or injury can cause. However, the long-term care insurance market is still relatively young and uncertain. OPM will need to closely monitor the market to make certain the FLTCIP meets the current and future needs of the Federal family. Our goal is to administer the FLTCIP as an on-going program that will provide enrollees with insurance protection to mitigate their potential costs for long-term care services.

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