



Written Testimony of

Paul E. Forte
Chief Executive Officer
Long Term Care Partners, LLC[®]

Submitted to the

Special Committee on Aging
United States Senate

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Good morning, Mr. Chairman and members of the Committee. Thank you for this invitation to testify. My name is Paul Forte. I am the Chief Executive Officer of Long Term Care Partners, LLC, a new joint venture company between John Hancock Financial Services and Metropolitan Life Insurance Company. Long Term Care Partners is the exclusive administrator of the Federal Long Term Care Insurance Program. I am pleased to be able to participate in this important hearing on the state of the private long term care insurance market, one of the key insurance markets of the future, and on the Federal Program, a landmark event in the development of that market.

I want to express my gratitude for the leadership role this Committee has taken over the years in highlighting the importance that private long term care insurance plays in retirement planning. You and members of this Committee have supported the need to encourage the private long term care insurance market in order to meet the nation's long term care needs without crippling taxpayers and already strained government programs.

It is a special honor for me to testify on this subject. I began my work on long term care insurance in 1987, in the infancy of private long term care insurance, when relatively few people had policies. In those days, carriers were just taking their first steps toward insuring the risk posed by long term care needs. Knowledge was limited to some general ideas about plan design. Actuarial assumptions were based purely on public data like the National Nursing Home Surveys, because private insurance experience was unavailable. Consumer advocates were critical of policy provisions. State insurance regulation was still evolving. Financial planners were either unaware of private long term care insurance or unconvinced that it represented a good value. When asked about long term care insurance, many simply recommended saving for long term care expenses through various investment instruments.

It is deeply gratifying to reflect on how far we have come since then. Today, more than 5 million Americans own some form of long-term care insurance. Nearly 100 companies are selling long term care insurance products. Sales of long term care insurance are still modest when compared to other forms of protection – roughly \$1 billion in new annualized sales premium last year – but there is every indication that this is a powerful new insurance market with a significant role to play in our nation's future, because 76 million baby boomers are beginning to think seriously about retirement and they are beginning to realize that they may not be able to save enough to cover long term care expense risk.

The policies themselves have improved dramatically. Most now gear their coverage to custodial care, as opposed to skilled nursing care; most pay benefits for cognitive, as well as functional impairment; and most now accommodate, to some extent, aging in place, the coverage of a wide range of services and care settings so as to help people live as long as possible in the community.

Over the years, John Hancock and MetLife have labored to perfect our respective long term care insurance products and to serve our ever expanding books of business. We have simultaneously participated in public policy initiatives, recognizing that without them the private LTCI market was not likely to grow. As representatives of our respective companies and our industry, we have advocated for responsible state insurance regulations, for appropriate federal standards for policies, and for favorable tax treatment for long term care premiums and benefits, issues in which this Committee has taken a lead role. Both companies were in full support of the Health Insurance Portability and Accountability Act of 1996, and both have worked closely with the National Association of Insurance Commissioners and consumer groups to help shape the current NAIC LTCI Model Act and Regulation, which provides reasonable consumer protections and product standards. We support the current NAIC long term care insurance models in total, and their adoption in the states.

But of all the public policy initiatives in which we have been involved, none, in our opinion, is as significant to the future of the private long term care insurance market as the establishment of the Federal Long Term Care Insurance Program through the Long

Term Care Security Act of 2000. This program will have far reaching effects on the entire U.S. population, not just the 20 million member Federal Family. It will involve the most sustained education and enrollment campaign ever conducted for long term care insurance. It will cause millions of people to think seriously about long term care and long term care insurance who have never given the subject a thought. And it will have an effect on the way that long term care is delivered in this country, because it will establish new benchmarks for service.

The Federal Program is distinguished for its quality, its comprehensiveness, and its value. I will present some of the evidence for this assertion momentarily, but it may be of interest to the Committee to know something of the process by which the Program was designed.

The Federal Program is the result of more than three years of study into all aspects of long term care and long term care financing. The U.S. Office of Personnel Management (OPM) began its work in 1999, talking with employees, retirees, and other stakeholders within the Federal Family, and then consulting with dozens of the top people in the industry, from actuaries and underwriters to care managers and customer service specialists. The Request for Proposal OPM issued in June of 2001 was as challenging and thorough as any that has appeared. The negotiations for the contract were tough. Since the statute allowed for the formation of consortia of insurers, who would bring diverse resources together, the expectations for expertise and capacity were high. Emphasis was placed on both technical capabilities *and* price. The aim throughout was

to secure not only the strongest possible plan design at the best possible price, but to ensure, through good administration, *that plan design would stay meaningful and that the Program would continue to be competitively priced in the years ahead.* After proposals were submitted and reviewed, and oral interviews were held, all competitors were asked to revisit their proposals and to sharpen their pencils. Best & Final offers were considered and a decision was made.

This, in short, was the way the Federal Program was designed and, I believe, the process was sound. Now to the evidence for my assertion that the Federal Program is of high quality and value.

First, the Federal Program makes generous allowance for informal care benefits. The testimony before this very Committee of such distinguished persons as you, Mr. Chairman, Secretary of Health and Human Services Tommy Thompson, former Senator Dave Durenberger, and others, points to the need to move long term care away from its institutional bias and toward home and community-based care. This is the aim of the Cash and Counsel Programs in Arkansas and Florida, the Family Care and the Community Options Program in Wisconsin, and the Program of All-Inclusive Care for the Elderly (PACE), whose demonstration projects have shown what can be done to provide high quality care for people in their communities.

Under the Federal Program, we are taking an approach consistent with such important initiatives. Insureds will be able to receive up to 75% of their normal daily benefit

payable for services provided by friends, neighbors, and other non-professional persons. These persons can be paid to help with bathing, dressing, preparing meals, exercising, going to the doctor, visiting community agencies, and doing other daily living tasks.

Moreover, the Federal Program will pay benefits for informal care from *relatives*, provided those relatives have not been living with the insured before the insured is certified as eligible to receive benefits. The Federal Program will pay up to 75% of the Maximum Daily Benefit for up to 365 days over the lifetime of the coverage. These informal benefits are far in excess of what is typically available in the private LTCI market, where benefits for informal care are typically limited to less than 50% of the Daily Benefit Amount, available for only 25 or 30 days per year, and not payable to relatives at all.

Finally, the Federal Program makes available both hospice care benefits and caregiver training benefits, neither of which require the fulfillment of the normal waiting period but can be paid immediately upon an insured's being certified for benefits.

We believe that such benefits will help many persons to stay in their homes and communities who would not otherwise be able to do so, and to lead happier, more productive lives than would otherwise be possible.

The second point of design I wish to call to your attention is Care Coordination and Information Counseling Services. Many long term care insurers require that certification

for benefits be handled by persons with medical training. This person will confer with visiting nurses, attending physicians, health care practitioners, and others to ascertain the nature and extent of functional or cognitive impairment before approving benefits.

While certification of this kind helps to ensure that real needs are being met, it does not in itself help people to make informed choices. Under the Federal Program, Care Coordinators will offer information counseling services to the insured and the insured's family members. Among those services are the best potential sites of care for the insured's particular needs, the way to combine various modes of care, nutritional counseling, and discounts available from select providers. A detailed plan of care will be written for each insured, and efforts will be made to help the insured make wise choices with respect to providers. Incidentally, information counseling by a Care Coordinator will be available to qualified relatives of enrollees (e.g., spouses, parents, parents-in-law, adult children), even if those relatives are not themselves enrolled in the Program. This emphasis on Care Coordination and Counseling means patient advocacy. It means making sure that insureds have qualified resources to help them access benefits when they need them.

The last element of design I will discuss is the Claims Appeal Process. During the evolution of the Long Term Care Security Act, many parties felt strongly the need for an independent appeals process for benefit eligibility and for disputed claims generally. I am happy to report that the Federal Program has such a process, whereby an independent

third party, mutually agreed upon by Long Term Care Partners and OPM, will consider appeals by insureds to adjudicate. The third party's assessment will be binding.

Several insurers today allow for the consultation of persons not working for the carrier to render an opinion on whether a particular insured should be certified for benefits. But none of these insurers, to my knowledge, will actually *accept* the decision of an independent third party as *final*.

The Federal Program is distinguished from other long term care insurance offerings in other ways. In the interest of time, let me just mention the following:

- The right to switch inflation protection modes from Future Purchase Option to Automatic Compound Increase, without evidence of insurability and with appropriate discounts.
- A unique separate account strategy for the investment of plan assets.
- International insurance coverage, whereby persons enrolled in the Program can receive benefits anywhere in the world.
- The largest education and awareness campaign ever conducted on the subject of long term care and long term care financing. This campaign, which has already begun and will extend throughout the remainder of 2002, will involve a Call Center staffed by long term care specialists, substantial mailings, satellite broadcasts, more than 2,000 face-to-face meetings nationwide, and powerful, interactive website technology to help Federal Family members make smart choices.

Such provisions illustrate the quality of the Federal Program. But a program's success depends upon two other important factors: rates and service.

Much will be said about the competitiveness of the Federal Long Term Care Program rates in the weeks and months ahead. Some will be pleased, others will not. Certain parties have already suggested that better or cheaper policies are currently available elsewhere.

The Federal Program *is* an excellent overall consumer value. But in order to see this, you must compare Federal Program benefits with those of other policies, *because long term care insurance is not a commodity*. Every policy is different, with its own provisions, its own terms, its own limitations. If adjustments are made in the rates of other policies to allow for the benefits that the Federal Program offers – for example, generous informal care benefits, Care Coordination for insureds and family members, assisted living facilities covered at 100% of the Daily Benefit Amount, international insurance coverage – the Federal Program will come out on top. We estimate that Federal Program rates are at least 15% less expensive, on average, than comparably designed policies on a standard, single issue basis. And we expect these rates to be stable. OPM's recommendation that we set rates based upon "moderately adverse" actuarial assumptions means it is likely that these rates will be sufficient to support experience over the long term. This approach to setting premiums is fully consistent with the rate stabilization initiatives in the current NAIC model. It should be noted that in any event all rates quoted are

guaranteed not to increase for the initial seven-year contract period unless OPM approves the increase.

The other important factor in considering the merits of a long term care insurance offering is service. The Federal Program is being sponsored by OPM, which will function as regulator. This means that OPM will protect the interests of Federal Family members with respect to keeping plan design current, premiums stable, customer service responsive, claims adjudication equitable, and general satisfaction high. As I have already noted, OPM has proven itself a tough customer. I believe that it will continue to demonstrate its toughness in the interests of enrollees at every stage of the Program. If the carriers selected to underwrite and administer the Program do not perform as stipulated, they will be penalized with respect to profit charges and could ultimately be subject to replacement by other carriers. But having come at last to the subject of carriers, allow me to say a few words about them.

John Hancock and MetLife first began working closely together on this program in the fall of 2000, after President Clinton had signed the Long Term Care Security Act (P.L. 106-265) into law. Our two companies discussed the best way to support the proposed Federal Program, if we were fortunate enough to win the award. After much discussion, we decided to build a dedicated company -- from scratch. This company would have *all* of the expertise needed to manage a large national long term care insurance program, to make it strong and to keep it strong. It would be responsible for everything from marketing and underwriting to customer service and claims adjudication. Further, it

would make extensive use of the Internet and other technology, so that it would be easy for Federal Family members to access information and benefits quickly, wherever they were. It would give OPM and Federal Family members a single point of contact. In short, it would take the best of everything from both companies and put it together under one roof.

Needless to say, this approach took a lot of thought and a lot of hard work. And Long Term Care Partners is now under way. We are building our organization, recruiting talent, setting up systems, and developing service protocols. We are supporting the Early Enrollment Program, which began March 25 and will run through May 15. We are getting our building ready. It is located at Pease International Tradeport (formerly Pease Air Force Base), in Portsmouth, New Hampshire, one of the fastest growing commercial zones in New England. This facility will be fully operational on May 1, less than five months from the date of the contract award and two full months before the start of Open Season.

I'm proud to have been chosen to lead Long Term Care Partners, because I believe that the Federal Long Term Care Insurance Program will be one of the most flexible, inclusive, and affordable programs ever devised. I'm also proud because it will give me a chance to advance our national dialogue on long term care, a priority, I know, of this Committee and a process I believe we can assist through our efforts.

In closing, I would like to assure this Committee of the commitment that Long Term Care Partners brings to the Federal Program. Some of us have been involved in long term care insurance for the better part of our adult careers and have waited a long time for a stimulus of this magnitude; many of us have felt satisfaction at watching the Federal Program develop from its initial legislation into the impressive structure it is becoming; all of us are dedicated to making the Federal Program a success, because we believe in it and in the people who are making it happen here in Washington.

On behalf of the staff of Long Term Care Partners, and of my associates at John Hancock and MetLife, I would like to thank you again for this opportunity to appear and for your valuable time.