



Agenda Item 10

August 20, 2013

ITEM NAME: Long-Term Care Program Semi-Annual Update

PROGRAM: CalPERS Long-Term Care Program

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item provides a semi-annual update to the Pension and Health Benefits Committee (PHBC) on the Long-Term Care (LTC) Program, with an update on the 2013 rate increase and the ongoing Stabilization and Open Application Period Project (SOAPP), as well as program statistics as of June 30, 2013.

To summarize the highlights of this semi-annual period: 1) 16,270 policyholders converted their policies from Lifetime Benefits with Inflation Protection to one of several options that offered Retained Inflation as opposed to Built-In Inflation; 2) the Open Application project is proceeding on schedule and anticipated to launch in December of this year; and, 3) contractual enhancements continue to make timely progress.

STRATEGIC PLAN

This agenda item supports the Strategic Plan Goal A – Improve long-term pension and health benefit sustainability, as well as Business Objectives 3.4 and 3.5 in the 2012-2014 California Public Employees' Retirement System (CalPERS) Business Plan to stabilize and sustain the LTC Program.

BACKGROUND

The CalPERS LTC Program has provided long-term care services to its policyholders for 18 years. As of June 30, 2013, the Program has 144,936 policies in effect with an invested asset value of \$3.7 billion dollars.

On October 16, 2012, the Board approved the following LTC Program stabilization actions:

- a. Offer a 10-year long-term care policy with Retained Inflation (RI);
- b. Extend the RI option to all policies with built-in inflation protection;
- c. Include an optional Daily Benefit Amount (DBA) "buy-back" option for those policyholders who dropped their built-in inflation protection or decreased their DBA after the 2010 premium increase; and,
- d. Approved a rate increase of 85 percent for specific LTC1 and LTC2 policies to be levied over a two-year period, beginning in 2015.

As part of this program stabilization effort, execution of the 2013 five percent rate increase began in February with the first of three letters sent to select policyholders over a three-month period. Prior to mailing, the Program collaborated with constituent groups on the series of letters to obtain feedback and input to further enhance communication. Constituent groups included: Service Employees International Union, Retired Public Employees Association, and California State Retirees. The February letter provided general notice of rate increases for affected policyholders; the March letter included generic examples of the options that will be made available, and the April letter was the official 2013 five percent offer letter package which included rate details and conversion options customized for the individual policyholder.

ANALYSIS

2013 FIVE PERCENT PREMIUM INCREASE

The LTC Program administered the ongoing 5 percent premium increase for policyholders with Lifetime coverage and built-in automatic Inflation Protection. This premium increase affected 62,874 policyholders who bought Lifetime Benefits with Inflation Protection policies between 1995 and 2002. Those policyholders had until May 29, 2013, to choose from several options including a new 10-year policy with RI.

Two key objectives of the 2013 five percent rate increase were achieved:

- 1) implementation of the five percent rate increase in the prescribed time frame; and
- 2) conversion of Lifetime coverage with Inflation Protection plans to plan options with RI and dropping built-in automatic inflation protection (10, 6, and 3 years).

The assumed conversion rate for 2013 was 10 percent; the actual conversion rate of 26 percent exceeded assumptions. Statistics related to premium increases are shown in Attachment 1.

There was a 2.1 percent voluntary termination rate for the first six months of 2013 compared to 1.1 percent voluntary termination rate for the same period in 2012. For all policyholders who voluntarily terminated from January 1 to the present, the LTC Program will send correspondence designed to emphasize their policy reinstatement provision, acknowledge the difficult decisions they faced, and remind them that affordable options are still available should they choose to reinstate coverage. Policyholders can reinstate policies within one year of termination and are required to pay premium due. No underwriting will be required of policyholders wishing to reinstate within the one-year period.

Every three years, CalPERS offers a Benefit Increase Option (BIO) offers to eligible policyholders. BIO offers policyholders the opportunity to increase their DBA without proof of insurability. Offer letters are anticipated to be mailed in early September of this year with December 1st as the effective date for those who chose to increase their DBA.

STABILIZATION AND OPEN APPLICATION PERIOD PROJECT (SOAPP)

The SOAPP effort plans and implements the changes identified in the LTC Program restructuring strategy. The strategy consists of a combination of program improvements and enhancements, LTC4 benefit design and pricing, opening the program to new applicants by December 2013, and planned premium increases for 2013, 2014, and 2015 as voted on and instructed by the PHBC. SOAPP consists of eight different initiatives as summarized in Attachment 2 and highlighted below:

- The 2013 Premium Increase Initiative has been completed. Other active Initiatives include Open Application, BIO, Mainstream RI, and Program Innovations.
- The Open Application Initiative will open the Program to new applicants in December of 2013. The new benefit design has been completed, and development of application and marketing materials is underway to support the December launch.
- Several significant accomplishments for policyholder communications have also been completed. Most notably, the Program launched a new website on August 1, 2013. This new website provides the ability for policyholders to view their policy coverage, status of a claim, download and print forms, and more. The website also provides general information about long-term care, including an overview of long-term care and why you should plan ahead, and industry data on the cost of long-term care. The website is currently being enhanced to support the initiation of Open Application.
- Ongoing policyholder communications also include the development of the LTC Program Newsletter. The newsletter is scheduled for publication in the fall 2013.

PENDING CALIFORNIA LEGISLATION

The LTC Program awaits the outcome of the following item of legislation:

Assembly Bill 373 (Mullin):

If enacted, this bill would amend the Public Employees Long-Term Care Act to expand eligibility to adult children of California public employees. The bill would specify that eligibility to enroll in long-term care plans is subject to limitations of federal law. The bill's supporters include the American Federation of State, County and Municipal Employees; the American Federation of Labor and Congress of Industrial Organizations; the California School Employees Association; and, the

California Medical Association. The bill was passed in the Assembly and is pending in the Senate.

PROGRAM UPDATE AND STATISTICS

Significant changes in program statistics from the previously presented semi-annual agenda item in February 2013 include: changes to policyholder enrollment, annual premiums, and claim volumes. Attachment 3 provides updated information for the 6-month period ending June 30, 2013.

BUDGET AND FISCAL IMPACTS

The activities outlined in this agenda item are consistent with planned expenditures.

ATTACHMENTS

Attachment 1 – 2013 Premium Increase Statistics

Attachment 2 – SOAPP Update

Attachment 3 – Program Statistics

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