



Agenda Item 8

November 19, 2013

ITEM NAME: Long-Term Care New Product Update

PROGRAM: CalPERS Long-Term Care Program

ITEM TYPE: Information

EXECUTIVE SUMMARY

The purpose of this agenda item is to update the Pension and Health Benefits Committee (PHBC) on the pricing methodology used for the California Public Employees' Retirement System (CalPERS) fourth generation (LTC4) long-term care product release, and provide example rates. LTC4 pricing and benefit design was approved by the Board of Administration (Board) in February 2013.

STRATEGIC PLAN

This agenda item supports the Strategic Plan Goal A – Improve long-term pension and health benefit sustainability, as well as, the 2012-2014 CalPERS Business Plan Objectives 3.4 and 3.5 to stabilize and sustain the Long-Term Care (LTC) Program.

BACKGROUND

In February 2013, staff presented to the PHBC the LTC4 pricing methodology, along with a rate chart showing example rates for plans based on a hypothetical \$200 Daily Benefit Amount (DBA). The chart listed rates for both the Base Plan and Optional Benefits. CalPERS LTC Program and Actuarial staff used the CalPERS LTC Program Market Study conducted by Mercer and provided to the PHBC in February 2012 as the source for modernizing its benefit design for LTC4. The benefit design and rates were approved at the February 2013, Board meeting.

ANALYSIS

LTC4 Pricing Methodology

The 2012 CalPERS LTC Actuarial Valuation was used as the starting point for the development of the CalPERS LTC4 pricing. This includes all assumptions and methodologies as documented in the annual 2012 Actuarial Valuation of the CalPERS LTC Program as of June 30, 2012. CalPERS utilized valuable LTC historical experience that was the basis for the 2012 Actuarial Valuation including over 15,000 participants that have received benefit payments totaling over \$1.2 billion since LTC Program inception.

The 2012 Actuarial Valuation morbidity assumptions utilized for the CalPERS new product development reflect the long form underwriting of the LTC Program that

started in calendar year 2000. Underwriting requirements were reviewed as part of pricing to ensure the guidelines are current with the long-term care insurance industry and provide comprehensive screening.

Modifications were made to the 2012 Actuarial Valuation assumptions to reflect the additional benefit features designed for the new LTC4 product series. Expected expenses were reviewed and assumptions were developed to account for underwriting and marketing costs. Using the additional expense assumptions in conjunction with the modifications to the 2012 Actuarial Valuation assumptions, rates were developed consistent with an LTC Fund target margin of 10 percent. This process was completed for the base plan and additional Optional Benefits, and the resulting rates were compared to similar long-term care industry carriers. Actuaries from two external consulting firms reviewed the assumptions and CalPERS staff believes the rates are within acceptable range.

LTC4 Product Pricing

Attachment 1 presents benefits comparisons between LTC3 (plans issued between 2005 and 2008) and LTC4, along with the annual premiums for Base Plans and Optional Benefits based on a \$200 DBA. It includes the actuarial pricing assumptions for various factors such as morbidity, mortality, and investment returns. Also included are premium comparisons with other major long-term care commercial carriers.

Attachment 2 provides more detailed coverage information about LTC4 standard and optional benefits. Differences between Non-Partnership and California Partnership plans are noted with an asterisk.

BUDGET AND FISCAL IMPACTS

This Agenda item has no budget or fiscal impact.

ATTACHMENTS

Attachment 1 – Long-Term Care Program LTC4 Product Pricing
Attachment 2 – CalPERS LTC4 Plan Benefit Design

KATHY DONNISON, Chief
Health Plan Administration Division

ANN BOYNTON
Deputy Executive Officer
Benefit Programs Policy and Planning