Agenda Item 8

March 17, 2015

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

PROGRAM: CalPERS Long-Term Care Program

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item provides an update to the Pension & Health Benefits Committee (PHBC) on the Long-Term Care Program. The Program overview compares the 2014 plan year to plan years 2013 and 2012. Three years of trend are used to provide financial information related to program stabilization and sustainability efforts, voluntary and involuntary policy termination, benefit eligibility, claims cost, sites of care total costs and average costs per claimant. The decline in annual premium between 2012 and 2014 is primarily due to participant death and participants entering claims status. In 2014, the Program enhanced its website with the addition of an on-line application capability and premium payments by credit card. Additionally, the preferred provider network was expanded to all of California, and the Transition Care Pilot, which seeks to reduce hospital readmission rates in a 400 participant pilot, was implemented. The LTC4 product has been available for over a year and statistics for applications received, underwritten, approved and declined are provided.

STRATEGIC PLAN

This agenda item supports Strategic Plan Goal A – Improve long-term pension and health benefit sustainability.

BACKGROUND

The CalPERS Long-Term Care Program has provided long-term care services to its participants for 20 years.

In October, 2014, the Fiscal Year 2013-14 Long-Term Care Fund Valuation was approved by the CalPERS Board of Administration (Board).

In November, 2014, staff reported highlights of the Long-Term Care Program's Valuation to the Board. These highlights updated the Board on the Long-Term Care Program stabilization plan, 2013-14 Long-Term Care Fund margin of 23.49 percent, long-term care policy conversion rates, and plans for the 2015-16 premium increase.

The three-year Stabilization and Open Application Period Project closed at the end of December, 2014. This three year project incorporated activities that would stabilize and sustain the Long-Term Care Program including changes to the investment asset allocation, reducing the discount rate, ending the 5 percent annual rate increase in

2014, implementing the 2015-16 rate increase of 85 percent spread over two years, providing new policy conversion options to avoid these rate increases, improving program performance, providing innovative services, and reopening the Long-Term Care Program to new participants.

ANALYSIS

This semi-annual report consolidates prior Board reporting program activities, including 2012-2014 trends. Please refer to the "Long-Term Care Program Semi-Annual Update" (Attachment 1).

<u>Overview</u>

As of December 31, 2014, the Long-Term Care Program has 138,348 participants; $4.2 billion invested asset value; 6,555 participants in claim; and, $1.5 billion paid in participant benefits since program inception in 1995.

In the years 2012-2014, number of participants decreased 9,944 primarily due to participant deaths. Aggregate premium payments deceased from $327 million to $293 million primarily due to attrition from death, and the addition of over 900 participants entering claim and receiving benefits. Benefits paid increased from $182 million to $240 million, and the average benefit paid per claim increased from $32,000 to over $36,000.

<u>Coverage Modification History and Plan Change Opportunities</u>

Beginning in 2013, participants subject to the 5 percent rate increase were offered the opportunity to change to ten, six and three-year policies with the Benefit Increase Option (BIO) to avoid the ongoing 5 percent and 2015-16 aggregate 85 percent rate increase. Statistics on policies that were converted to avoid the 5 percent and 85 percent rate increases are provided below. For all participants electing to convert their policies, there was a premium decrease.

- In 2013, 62,377 participants received a 5 percent premium increase letter, and approximately 31.2 percent elected to modify their coverage and avoid this increase. In 2014, 40,970 participants received a 5 percent premium increase letter, and approximately 17.4 percent elected to modify their coverage to avoid the last of the ongoing 5 percent rate increases.

- In August, 2014, an Early Plan Change Opportunity letter was mailed to 45,169 participants subject to the aggregate 85 percent rate increase scheduled for 2015-16. Approximately 37.5 percent elected to modify their coverage to fixed term policies.

- In April, 2015, another opportunity will be extended to participants to convert their policies prior to July 1, 2015. Participants impacted by the premium increase will receive a letter with their coverage specific modification options.

Those impacted participants may elect to modify their coverage at any time prior to July 1, 2015, in order to avoid the 85 percent premium increase.

- On July 1, 2015, the first year of the aggregate 85 percent premium increase will take effect. For those who did not convert their policies, the premiums will increase 36 percent.

Program Metrics 2012-2014

Over 90 percent of initial claims eligibility decisions were approved per year; there were 351 new benefit eligible participants (an increase of 14.7 percent) between 2012 and 2014. Once a participant is approved for claim eligibility, that participant is subject to a 30-day (Partnership) or 90-day (Comprehensive) deductible period. On average, 11 percent of benefit eligible participants recover before, and 9 percent of benefit eligible participants recover after benefit payments are made. Claims are closed in the event of death (54 percent) and less that 2 percent were closed for exhaustion of benefits.

There are currently 6,555 participants in active claim status which is 923 more participants than 2012 (16 percent increase). Annual claim payments have increased by 32 percent between 2012 and 2014. The top five disabling conditions have remained constant with Pure Dementia and Stroke as the top two reasons for participants receiving benefits.

Assisted Living Facility (ALF) claims payments account for the highest paid dollar amount, $120 million in 2014 compared to Home Health Care claims of $77 million and Nursing Home payments of $40 million. Between 2012 and 2014, ALF costs rose by 32 percent, home health costs by 42 percent, and skilled nursing facility costs by 12 percent. The average claim per participant in a nursing home is $49,000 compared to $38,000 in an ALF, and $29,000 for home care.

Participant policy terminations are the result of nonpayment of premium, participant decision to terminate a policy, benefit exhaustion, or participant death. Participant premium lapse and voluntary terminations spiked in 2013, and represented 2 percent of the policyholders in that year. By 2014, the number of policy holders who lapsed or voluntarily terminated policies returned to the average of 1 percent. The policy lapse and terminations accounted for an average of $4.7 million per year reduction in premium. This compares to an average of $8.2 million per year reduction in premium due to death in the same time period.

The LTCG, Inc. call center service calls decreased from 149,464 in 2013 to 138,246 for 2014; a reduction of 7.5 percent. The peak call month was September, 2014, driven largely by the 2015 Early Change Opportunity.

Program Innovations

Website enhancements continue to improve functionality and participant user experience. In 2014, two key on-line enhancements included the addition of premium payment by credit card, and the ability to update participant demographic information, such as change of address, phone number, or similar information, directly through the website.

The LTCG, Inc. Preferred Provider Network (PPN) grew from 1,026 contracted providers as of June 30, 2014, to 1,775 contracted providers as of December 31, 2014. The PPN includes qualified providers that may offer cost savings for care provided to participants. In 2014, the PPN is offered in all of California, not just the six metropolitan areas covered in the prior years.

CalPERS, LTCG, Inc. and Anthem Blue Cross have instituted a one-year Transition Care Program pilot in 2015 aimed at reducing hospital readmissions by assisting with a safe transition home after discharge. Transition care nurses will provide services for up to 400 eligible participants.

LTC4 Open Application

The LTC4 program reopened for new applicants on December 23, 2013, with a soft launch and a hard launch on February 17, 2014. In July, 2014, the online application functionality was added and from that date, 47 percent of applications have been submitted via the website. In early 2014, employer kits were available on-line for download and in September, 2014, the fully developed employer kit with marketing materials was made available to the contracting agencies.

Monthly application, underwriting, policy acceptance and decline statistics for the LTC4 product have been maintained since reopening of the LTC4 application process. By the end of February, 1,644 applications were received; 905 were approved, 544 were declined, 104 withdrawn, and 91 are pending underwriting. At the reopening of the program, the cumulative totals were growing at a rate of approximately 200 per month, then slowed to approximately 100 per month. Initially, the ratio of application approvals to declines was lower; as a higher number of new applicants failed to pass underwriting. As of February, 2015, approvals constitute 62 percent of underwriting decisions.

Custom Select plans were the primary choice by applicants followed by the Essential 3-Year pre-packaged plan choice. Among optional benefits, the Restoration of Benefits was among the most selected, followed by the Paid-Up Survivor Benefit. Of optional benefits for inflation protection, the three percent compound inflation option was the most selected among Custom Select plans, followed by the BIO.

BUDGET AND FISCAL IMPACTS

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

BENEFITS/RISKS

The program continues to improve financially and administratively. The newest product reflects current market benefit design, product pricing and underwriting. To date, marketing efforts have produced good results, but a significant increase in the number of applications and approvals is needed to meet goals. Specifically, unlike other companies with long-term care products, CalPERS is not operating through agents. This may adversely impact our ability to rise to the attention of many eligible prospective participants and ensure that our brand is appropriately represented. The recent acquisition of LTCG, Inc. by Stone Point Capital holds significant promise for the long-term improvement in core infrastructure, customer service and program improvements. We are working closely with the new management team to ensure that improvements are realized.

ATTACHMENTS

Attachment 1 – Long-Term Care Program Semi-Annual Update

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