Agenda Item 9

October 20, 2015

ITEM NAME: Long-Term Care Program Expanded Eligibility

PROGRAM: CalPERS Long-Term Care Program

ITEM TYPE: Information

EXECUTIVE SUMMARY

California Government Code (GC) Section 21661(f) grants the California Public Employees' Retirement System (CalPERS) Board of Administration (Board) the authority to expand eligibility for the CalPERS Long-Term Care (LTC) Program. Should the Board choose to exercise its authority to expand eligibility, staff proposes to extend eligibility to all classes of persons eligible under 26 Internal Revenue Code (IRC) Section 7702B(f)(2) "Treatment of Qualified Long Term Care Insurance."

STRATEGIC PLAN

This agenda item supports Strategic Goal A, "Improve long term pension and health benefit sustainability."

BACKGROUND

In December 2013, the CalPERS LTC Program was reopened to new applicants. In January 2014, the Public Employees' Long-Term Care Act was amended. Among other amendments, Section 21661(f) was added. This new Section states that the CalPERS Board "may expand eligibility to all classes of persons who meet the requirements of this section, applicable provisions of the Internal Revenue Code, or any other authority that governs eligibility for a federally qualified state long-term care plan."

ANALYSIS

Under GC Section 21661(e), eligible individuals include active and retired members and annuitants of California public employers, their spouses, domestic partners, parents, siblings, adult children, and spouses' parents. GC Section 21661(f) provides the authority for the Board to expand eligibility for the LTC Program to all classes of persons who meet the eligibility requirements of 26 IRC Section 7702B(f)(2)(C) "Treatment of Qualified Long Term Care Insurance," and by extension 26 IRC Section 152(d)(2)(A-G) "Dependent Defined."

Under 26 IRC Section 7702B(f)(2)(C)(i), for example, former employees of a state or public agency are generally eligible for a state long-term care plan such as that of CalPERS. The other classes of persons who are not mentioned in GC Section

21661(e) but who would qualify for eligibility under 26 IRC Section 7702B(f)(2)(C) are:

- Member's grandchildren or non-adult children
- Member's grandparents
- Member's nephews or nieces
- Member's aunts or uncles
- Member's son-in-laws, daughter-in-laws, brother-in-laws or sister-in-laws

If the Board chooses to exercise its authority under GC Section 21661(f), staff will expand the pool of potential applicants eligible to enroll in the CalPERS LTC Program to include the above, mirroring the categories of eligible classes under 26 IRC Section 22702(B)(f)(2).

BUDGET AND FISCAL IMPACTS

The budget and fiscal impact is likely neutral in the short term. Larger enrollment will increase Third-Party Administrator (TPA) fees, but since these fees are paid on a per member per month basis, the per member per month amount remains the same. Over the long term, greater enrollment might lead to economies of scale, which could have an economically positive effect on premiums.

BENEFITS/RISKS

The benefits of implementing expanded eligibility to align with 26 IRC Section 7702B(f)(2) include the opportunity to bring in additional lives with appropriate underwriting, lowering the risk to the pool, increased premium revenue in the LTC Fund, improved sustainability of the LTC Program, and demonstrated commitment by the Board to provide a valuable voluntary benefit for eligible persons. There is a risk that even with expanded eligibility, there will not be an increase in LTC Program growth.

ATTACHMENT

California Public Employees' Retirement System Long-Term Care Program Eligibility Related Regulations

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