



# Pension and Health Benefits Committee Agenda Item 11

September 20, 2016

**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 on the California Public Employees' Retirement System (CalPERS) Long-Term Care (LTC) Program. LTC Program trends between 2013 and June 30, 2016, provide comparative information related to program performance and sustainability efforts. Additionally, the latest LTC product, LTC4, has been available for over two years and statistics for applications received, underwriting results, and web activity are provided.

### **Strategic Plan**

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

### **Background**

The CalPERS LTC Program has provided long-term care coverage to its participants for over 20 years. In March 2016, staff reported highlights of the LTC Program's Semi-Annual Update to the Pension and Health Benefits Committee (PHBC).

### **Analysis**

Please refer to the "Long-Term Care Program Semi-Annual Update" (Attachment 1).

### **Key Statistics**

As of June 30, 2016, the LTC Program has 132,289 participants; \$4.3 billion invested asset value; and, \$1.9 billion paid in participant benefits since program inception in 1995. Participant death accounts for the majority of unrealized premium. From January 1, 2013, to June 30, 2016, 10,300 policies were terminated due to death and account for the majority of unrealized premium.

### **Eighty-Five Percent Premium Increase Update**

For LTC participants subject to the 85 percent premium increase multiple opportunities were provided to accept coverage modifications and avoid the increase. In August of 2014, prior to the first portion of the 85 percent increase, an early change offer was sent to 45,169 LTC participants. Of these participants 16,929 elected a coverage modification. In 2015, the first portion of the 85 percent premium increase with coverage modification options was sent to 60,291 LTC participants. Of these participants 16,962 elected a coverage modification.

LTC participants who elected to accept the 2015 portion of the 2015-16 85 percent premium increase were subject to another increase in 2016. Conversion offers were sent on April 1, 2016, to 41,147 participants, of whom 35,865 elected to accept the rate increase, while 5,282 elected to modify their coverage. All coverage modification offers included a premium decrease option. In the 2015 valuation, no conversion was assumed for the second rate increase in 2016. The actual conversion rate as of July 2016 for the second rate increase is 12.8 percent, which will result in an improvement to both the margin and funded status in the 2016 valuation.

#### Optional Daily Benefit Amount Purchase Option

The October 16, 2012, PHBC meeting included the Optional Daily Benefit Amount (DBA) Purchase option recommendation. In 2017, the Optional DBA Purchase Option will be made available to LTC participants who elected to remove their built-in inflation protection any time following the 2010 premium increase and did not retain their inflated DBA. This option will also be available to LTC participants that decreased their DBA to mitigate a premium increase and maintained the built-in inflation protection on the reduced DBA. The Optional DBA Purchase Option will allow LTC participants to repurchase up to 100 percent of their DBA in effect at the time they requested removal of the built-in inflation protection benefit or requested a decrease of their DBA following the 2010 premium increase. The Optional DBA Purchase option will be provided to approximately 1,800 eligible participants.

#### Participants

For 2016, the Long-Term Care Group, Inc. Preferred Provider Network has gained additional contracted providers which may provide discounts on services for our CalPERS LTC participants. Claim payments continue to rise steadily, totaling \$138 million as of June 30, 2016. Claim dollars paid by site of care have generally been highest for Assisted Living Facilities, totaling \$75 million for the January 1 to June 30, 2016 time period.

#### LTC4

Monthly application, underwriting, policy acceptance, and decline statistics have been maintained since the opening of the LTC4 application process. As of June 30, 2016, 2,693 applications were received; 1,513 were approved, 938 were declined through underwriting review, 197 were withdrawn, and 45 were pending underwriting. The LTC Program receives an average of 90 applications per month. Online application submittal accounted for nearly two-thirds of total application submittals for the January 1 to June 30, period of 2016.

The LTC Program has made several updates to improve website functionality and user experience. The LTC website revisions for 2016 include the incorporation of expanded eligibility criteria, updates to the Partnership Plan design, and the addition of the Evidence of Coverage to the participant's secure portal.

Marketing for this period concentrated on an integrated marketing campaign focused around the February 2016, CalPERS Benefit Education Event (CBEE) in Monterey. The campaign was launched in coordination with the CalPERS Public Affairs office. The campaign produced increased web traffic geographically centered on the Monterey and surrounding region. The LTC Program will continue direct outreach efforts; to include attendance at CBEEs, the CalPERS Education Forum, and employer benefit fairs.

#### 2018 LTC Solicitation

The current LTC administrator contract will expire at the end of 2017. The LTC Program has begun the solicitation process for selecting a new third-party administrator. The March 2016,



release of the Request for Information No. 2016-8187 produced a total of eight responses from interested vendors. In June 2016 the process progressed to the Request for Proposal phases with Solicitation No. 2016-8180 - Phase I, eliciting three responses. Phase II of the solicitation process was released in early September 2016. Responses will be evaluated and the LTC vendor selection process will be initiated leading to implementation and possible transition.

### **Budget and Fiscal Impacts**

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

### **Benefits and Risks**

The LTC Program continues to improve financially and administratively.

### **Attachments**

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

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