CalPERS

Pension & Health Benefits Committee

Agenda Item 7b

September 15, 2020

Item Name: Long-Term Care Program Competitive Strategy

Program: Health Benefits Long-Term Care

Item Type: Information

Executive Summary

Each year, the California Public Employees' Retirement System (CalPERS) Actuarial Office (ACTO) in conjunction with an external consulting actuarial firm performs an experience study to ensure that assumptions made regarding the pricing of long-term care (LTC) products are still appropriate and in line with industry standards. This year, based on the current capital market assumptions and asset allocation of the Long-Term Care Fund, ACTO is recommending the discount rate be lowered to 4%. This is from a current rate of 5.25%. Without action to further stabilize the LTC program, this change will result in the need to significantly raise premiums on CalPERS' LTC Program policyholders.

Two LTC program stabilization efforts are currently underway. The first, which contemplates changes in the management and allocation of the LTC Fund investment assets, is being discussed in the Investment Committee. The second involves the development of modified policy provisions (that could be offered on their own or in combination) with a lower actuarial value. These options would be made available to policyholders seeking to forego some or all of a potential premium increase.

Strategic Plan

This item supports the goal of improving the Long-Term Care Program Fund sustainability.

Background

The Pension & Health Benefits Committee (PHBC) has oversight of the Long-Term Care Program. With a discount rate reduction, along with changes in other pricing assumptions, the Long-Term Care team, along with ACTO, the CalPERS Investment Office (INVO), and two outside consultants, have been investigating strategies to reduce the amount of the premium increase.

Analysis

The CalPERS team is evaluating a wide variety of options to help policyholders mitigate any needed premium increase. These include modifications to benefit designs and would be voluntary options that policyholders could elect to reduce or eliminate their premium increase.

The CalPERS team has modeled changes to current benefit designs that would reduce the actuarial value of current benefits and reduce or eliminate the need for premium increases for any policyholder. These include modifying the duration of elimination periods; instituting annual deductibles or other cost sharing; differentiating reimbursement by level of disability; and decreasing daily benefit and policy duration.

The team has also modeled modifications to benefits that were selected by only some CalPERS policyholders. For example, CalPERS policyholders in select insurance blocks chose a return of premium at death benefit, which returns some or all premium dollars to beneficiaries who die prematurely, before they become eligible for standard LTC benefits. Several such benefits can be surrendered or reduced to decrease the actuarial value of those specific policies.

In the event the Board needs to raise premiums, one or more of these options could be offered to policyholders, on a voluntary basis, to essentially lessen the impact of the otherwise necessary premium increase. The extent to which these options are employed, and the number of options that need to be employed, will depend on the analysis and final determination of the premium increase that is necessary.

In November, the final proposed premium increases required for each block will be presented to the PHBC for adoption. The recommended mitigation options for policyholders will also be presented for adoption. If adopted, any premium increase would go into effect no earlier than July 2021.

Budget and Fiscal Impacts

The contract with CalPERS' third party administrator, Long Term Care Group, includes premium increase deliverables and will have no fiscal impact on CalPERS' operational budget. However, external actuarial costs may be incurred to validate premium calculations for any offers made.

Benefits and Risks

Benefits:

- Providing premium increase mitigation options for LTC policyholders allows them to choose whether to reduce the actuarial value of their current policy in order to avoid premium increase without compromising the sustainability of the program.
- Premium increase mitigation is particularly important for policyholders on fixed incomes who cannot afford to pay additional premiums.
- Mitigation options can assist in stabilizing the LTC program.

Risks:

- Some of the premium increase mitigation options expose policyholders to additional out of pocket costs.

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