CalPERS

Pension & Health Benefits Committee

Agenda Item 6d

November 17, 2020

Item Name: Long-Term Care Optional Benefit Design and Premium Changes

Program: CalPERS Long-Term Care Program

Item Type: Action

Recommendation

Implement a rate increase for all Long-Term Care (LTC) policies beginning in July 2021 and adopt the following benefit design options to be offered as rate increase mitigation options for the California Public Employees' Retirement System (CalPERS) Long-Term Care Program (LTC Program):

1. Copay option of 10% and 20%
2. 180-day elimination period for facility only and comprehensive policies and 90-day elimination period option for Partnership policies
3. 3% built-in inflation protection option for Partnership policies
4. 2-year benefit period for facility and comprehensive policies
5. 6-month benefit period for Partnership policies
6. Enhance the partial benefit upon lapse provision to be available to all policies that do not have the Non-Forfeiture optional benefit

Executive Summary

At the April, June, and September 2020 Pension and Health Benefits Committee (PHBC) meetings, team members discussed key challenges facing the CalPERS LTC Program. Chief among them are the need to lower assumptions about LTC Fund investment returns, as well as the need to adjust actuarial assumptions related to policyholder morbidity, mortality, and lapse rates. Cumulatively, the needed adjustments necessitate significant increases in CalPERS LTC Program rates.

At its November 2020 meeting, the PHBC will be asked to adopt a rate increase for all CalPERS LTC Program policies, effective July 2021. It will also be asked to approve several benefit design modifications that would be made available to CalPERS LTC Program policyholders in lieu of a rate increase. Choosing one or more of those benefit design changes would be an optional choice for policyholders.

Key decision points for PHBC Members will be the size of rate increase – a range for which is still being calculated by CalPERS team members, as it depends in part on the evaluation of

various proposed changes to the LTC Fund asset allocation to be discussed at the November meeting of the Investment Committee – as well as the period of time over which rate increases should occur. In addition, CalPERS has identified several optional benefit design choices to help mitigate the rate increases for policyholders. These include reducing the daily benefit amount, reducing benefit durations, increasing elimination periods, decreasing or dropping automatic inflation protection, and additional copayments.

The PHBC will also consider adopting a partial benefit upon lapse option for those that cannot afford the rate increase and do not want to modify their coverage or continue to pay premiums. This benefit upon lapse option would make available reduced-level coverage to policyholders who let their policy lapse due to the rate increase. It is currently available to some, but not all, CalPERS LTC Program policyholders.

In addition to discussions of the rate increase and optional benefit design changes, CalPERS team members will update the PHBC on the development of a novel benefit design that would enhance in-home support for CalPERS LTC Program policyholders that could lessen the need for future premium increases, by lowering policyholders' need for costly institutional care.

Strategic Plan

This agenda item supports the Strategic Plan Goal: Fund Sustainability and is required to strengthen the long-term sustainability of the LTC Fund.

Background

As of June 30, 2020, the CalPERS LTC Program membership stands at approximately 117,000 policyholders.

Like the commercial long-term care insurance industry, the CalPERS LTC Program has experienced:

- Lower than expected investment income
- Worse than expected morbidity
- Better than expected mortality
- Lower than expected policy lapse
- Higher than expected claims incidence

Combined, these items have adversely impacted the financial status of the LTC Fund; therefore, similar to the commercial long-term care insurance industry, CalPERS has implemented various corrective actions, including increasing policy premiums. These premium increases were implemented to policies in 2003, 2007, and 2010. These initial mitigation efforts were not sufficient to address the structural defects, and the Board instituted 5% annual increases for LTC policies with lifetime coverage and inflation protection beginning in 2011 through 2014. These 5% ongoing increases were halted, and an 85% increase was implemented over 2-years in 2015 and 2016 for LTC policies with lifetime and/or inflation protection.

With the current Annual Valuation performed by CalPERS Actuarial Office (ACTO), with a reduced discount rate, a premium increase in July 2021 is necessary. CalPERS would like to offer new optional benefit designs that would allow policyholders to mitigate some or all of the premium increase. The combination of benefit designs offered are policyholder specific based on each policyholder's current policy. The Health team is seeking approval of multiple new benefit designs that are not currently offered. The new benefit designs will be combined with current benefit design offerings to maintain or reduce policyholder's current premiums.

Proposed new benefit designs include a 10% or 20% copay option, 180-day elimination period, dropping inflation protection while retaining the Daily Benefit Amount for those with inflation protection or dropping the Benefit Increase Option (BIO) for those with BIO, and 2-year benefit duration.

CalPERS also offers Partnership policies, which are subject to regulations and benefit design approval by the Department of Health Care Services. The new options for these policies would include a 6-month decreased policy duration, 90-day elimination period, and reduced inflation to 3% and up to 20% copay.

Analysis

The financial impact of the premium increase on individual policyholders depends on their attained age and current financial situation. Premiums for policyholders are based on attained age groups as of 2020 and are displayed ranging from 50 to 70 years of age, in 10-year increments. As the premium increase is implemented, policyholders will be presented with a reduced benefit package option. Election of this reduced benefit package will either maintain or reduce the policyholder's current premium as is required by the policyholder's Evidence of Coverage.

The Benefit Options for converting policyholders' policies are:

1. **Copay option of 10% and 20%:** This option would have the policyholders cost share, much like for health benefits. The policyholder would pay the copay amount based on a percentage of the amount being reimbursed.
2. **180-day elimination period for facility only and comprehensive policies and 90-day elimination period option for Partnership policies**: Currently facility only and comprehensive policies have a 90-day elimination period and Partnership Policies have a 30-day elimination period. During the elimination period, a policyholder is responsible for their cost of care, is not eligible to receive reimbursement and is required to pay premiums until the elimination period is met. To start the elimination period, the policyholder must qualify by being unable to perform two or more activities of daily living or have severe cognitive impairment. The elimination period begins the first day the policyholder receives formal care for long-term care services. The policyholder is not required to continue care throughout the elimination period, however if the policyholder does receive care during the elimination period, they are responsible for the cost of care.
3. **3% built-in inflation protection option for Partnership policies**: Regulations for Partnership policies required 5% compound inflation; however, due to an update in the regulations, Partnership policies are allowed to be offered 3% compound inflation which will reduce the actuarial value of the plan.
4. **2-year benefit period for facility and comprehensive policies**: Current facility and comprehensive policies have Lifetime, 10-year, 6-year, and 3-year durations. The addition of the 2-year benefit duration will provide another option to policyholders.
5. **6-month benefit duration for Partnership policies**: Partnership policies currently offered have 1 and 2-year benefit duration. The addition of the 6-month benefit duration will provide another option to Partnership policyholders.

6. **Enhance the benefit upon lapse provision to be available to all policies that do not have the Non-Forfeiture optional benefit**: This benefit would pay the greater of the sum of all premiums paid for coverage, or 30 times the Daily Benefit Amount in effect at the time of lapse. The reduced Total Coverage Amount is decreased by the sum of all benefits previously paid. Those with the Non-Forfeiture benefit will receive that option and not the reduced benefit upon lapse.

If the policyholders want to customize their benefits, they also have the option of contacting the CalPERS LTC Program's third-party administrator Long Term Care Group (LTCG) to request a reduction of benefits to a benefit design that is offered. This will include the proposed benefit designs if approved and any of the current benefit designs available.

Budget and Fiscal Impacts

CalPERS third partly administrator, LTCG, is required by contract to make premium-related system changes, print and mail notifications and confirmations, and administer the premium increase.

Additionally, there will be expected costs of up to $200,000 for the use of uncontracted actuarial services.

Benefits and Risks

The benefits of implementing a premium increase and the plan benefit changes are the following:

- Increase the solvency and sustainability of the LTC Fund
- Provide additional alternatives for policyholders to avoid the projected rate increase in 2021

The risk of implementing the first-year premium increase and the plan benefit changes are the following:

- Increase policyholder hardship and dissatisfaction
- Potentially increase policy cancellations

Taking action now makes clear the rate increase is necessary and provides policyholders with information about possible alternatives to the 2021 rate increase.

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