



Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 7

February 20, 2013

ITEM NAME: Long-Term Care New Benefit Design and Product Pricing

PROGRAM: CalPERS Long-Term Care Program

ITEM TYPE: Action

RECOMMENDATION

Staff recommends the Pension and Health Benefits Committee (PHBC):

- a) Approve benefit design and pricing for the LTC4 product offering;
- b) Set a continuous open application for the CalPERS Long-Term Care (LTC) Program to begin December 2013; and,
- c) Extend eligibility to adult children and other qualified persons by amending the Long-Term Care Act.

EXECUTIVE SUMMARY

This agenda item is a follow-up to the direction provided by the PHBC on November 15, 2012, to bring forward plan designs for a new product that would be offered in an open application period of the LTC Program. This agenda item includes suggested final benefit designs for LTC4, pricing methodology, support for expanding eligibility to include adult children and other qualified persons, and an ongoing, rather than, cyclical open application process.

STRATEGIC PLAN

This agenda item supports the Strategic Plan Goal A - Improve long-term pension and health benefit sustainability, as well as Business Objectives 3.4 and 3.5 in the 2012-14 CalPERS Business Plan to stabilize and sustain the LTC Program.

BACKGROUND

In November 2012, staff presented to the PHBC the draft benefit design concepts developed from market research, review of the Federal LTC insurance program, internal and consulting LTC actuaries, and recommendations from Univita. As a result of these reviews staff has modified the recommended benefit design for LTC4.

ANALYSIS

In preparation for the proposed open application period, staff and United Health Actuarial Services consulting actuaries developed the LTC4 benefit design and completed pricing for LTC4 with validation by Mercer Health and Benefits LLC, to ensure the new product being offered is both competitive and financially prudent.

Benefits Design for LTC4

The focus of the LTC4 is to promote independence and a greater ability for our policy holders to remain safely at home as long as possible, and create a competitive product. The proposed benefit design is reflected in Attachment 1 – Proposed LTC4 Benefit Design. Staff is also recommending accepting applications on a continuous basis to remain competitive in the market and available to our eligible population when it becomes important to them.

Changes from the November 2012, draft benefit design include adding the International Benefit to the base product instead of a rider, simplifying the percentage of inflation protection and deductible period, and adjusting the Daily Benefit Amount to \$10 increments instead of \$50 to be consistent with Department of Health Care Services (DHCS) requirements for Partnership Plans. Attachment 2 – Proposed 2013 Benefit Design, from the November 14, 2012, PHBC meeting provides the description of benefits and provided for comparison.

The 5 percent compound inflation offer must be made to maintain the tax qualified status of the CalPERS LTC Program, and is a requirement for the Partnership policies. Applicants will also have the choice of either Simple or Compound Inflation Protection Riders, or the Benefit Increase Offer Rider.

Proposed California Partnership Benefit Changes

Partnership policies allow the policyholder to keep an amount of assets equal to that paid in long-term care insurance benefits and still qualify for Medi-Cal, rather than having to spend-down savings to meet Medi-Cal requirements. Partnership policies also include the compound 5 percent built-in inflation protection, which policyholders are not allowed to change to simple inflation protection until age 70, and a 30-day deductible period on one-year policies. The DHCS California Partnership for Long-Term Care has reviewed and approved the proposed benefit design for compliance with their requirements.

LTC4 Pricing Methodology

The 2012 CalPERS LTC Annual Valuation was used as the starting point for the development of the CalPERS LTC4 pricing. This includes all assumptions and methodologies as documented in the October 5, 2012, valuation report. CalPERS has valuable LTC historical experience that is the basis for the 2012 annual valuation including over 15,000 policyholders that have received payments for incurred claims and nearly 2.4 million life exposure years. The 2012 valuation morbidity assumptions utilized for the CalPERS new product development reflect the tighter underwriting of the Program that started in calendar year 2000. Underwriting requirements were reviewed as part of pricing to ensure the guidelines are current with the industry and provide comprehensive screening. Modifications were made to the annual valuation assumptions to reflect the additional benefit features designed for LTC4. Finally, expected expenses were reviewed and assumptions were developed to account for

underwriting and marketing expenses. Using the additional expense assumptions in conjunction with the modifications to the 2012 valuation assumptions, premiums were developed consistent with a target margin of 10 percent. This process was completed for the base plan and all additional riders, and the resulting premiums were compared to similar industry plans. Sensitivities to changes in the underlying assumptions and the resulting impact upon the expected margin were also reviewed. Actuaries from two external consulting firms reviewed assumptions and CalPERS staff believe the rates are within acceptable range and sufficient to meet adversely moderate deviation scenarios.

Attachment 3 – LTC4 Sample Pricing provides pricing for the new benefit design. It is important to note the differences between the CalPERS plans and those of private commercial carriers. The products have been priced at different points in time, using different actuarial assumptions and discount rates. The benefits are similar to the proposed LTC4 plan, but not identical.

Eligibility

Staff has reviewed the eligibility requirements under the Long-Term Care Act of 1991. Currently, eligible individuals include active and retired annuitants and members of all California public employers, their spouses, parents, siblings, and spouses' parents. Staff would like to revise the eligibility requirements under Government Code section 21611 for the LTC Program to be more consistent with Internal Revenue Code provisions applicable to State-maintained long term care plans. One immediate consequence will be expanding eligibility to adult children. This will increase the eligible population for new LTC Program business opportunities and coincides with Program's goal of providing coverage to family members.

Regarding family member coverage, the United States Supreme Court is scheduled to review the Defense of Marriage Act later this year. In addition to other laws and regulations, this may affect Internal Revenue Code provisions governing state-maintained long term care plans. Staff proposes revising Government Code Section 21611 in a manner that expands eligibility to family members, should the definition of family member change under applicable Federal law. Attachment 4 – CalPERS LTC Program Eligibility Related Regulations provides the details of the Internal Revenue Code and CalPERS LTC Act.

Communication Plan

Staff has initiated the Stabilization and Open Application Period Project (SOAPP) to manage the implementation of new benefit options, contract enhancements and initiatives, communications to policyholders and the anticipated Open Application Period.

The SOAPP strategic approach is designed to: (1) provide viable options for LTC Program policyholders that have lifetime benefits or built-in inflation protection the

opportunity to convert their coverage to other plan designs to mitigate the impact of scheduled future rate increases and significantly reduce the liability to the LTC Program; and, (2) bring in new policyholders, which with appropriate underwriting, reduces the risk to the pool.

The first initiative in the project is the 2013 Premium Increase. The SOAPP is implementing a series of communications to inform and educate policyholders on how changes approved by the Board in November 2012 will affect them. These letters and articles will provide information to assist policyholders in their decision making, including options available to avoid the 2013-2015 premium increases. The goal is that every member will be in possession of clearly presented information to make an informed decision.

The first letter to all those immediately impacted by the ongoing premium increase in 2013 policyholders was mailed at the beginning of February. Detailed educational information letters will be also sent to policyholders who will later on be impacted by the 2015 premium increase, e.g. those who are not currently subject to the 5 percent increase and to any policyholders who are not affected by any of the 2013-2015 premium increases. Articles will be developed and shared with constituent organizations and CalPERS Ambassadors for use in their newsletters and member interactions.

The next steps in the SOAPP effort include the implementation of the LTC4 benefits and plan design and CalPERS commitment to provide a viable voluntary insurance benefit for eligible persons. In addition, the new five year contract with Univita also provides for enhanced member experience through various tools that allow easier access and interaction, such as a new website portal, interactive voice response, and alternate methods of premium payment. Attachment 5 – SOAPP Overview provides diagrams to illustrate the strategic approach and planned initiatives. Future SOAPP updates will be included in the LTC Program semi-annual updates to the PHBC.

BENEFITS/RISKS

The benefits of implementing the LTC4 product include:

- Implementing a new generation of benefits and plan design that will be competitive in today's marketplace;
- Providing an opportunity to bring in additional lives with appropriate underwriting, lowering the risk to the pool;
- Bringing new and younger policyholders into the LTC Program will bring more premium dollars into the LTC Fund; and,
- Demonstrating the sustainability of the LTC Program and the commitment of CalPERS to provide a viable voluntary insurance benefit for eligible persons.

The risks of implementing the LTC4 product include:

- The LTC insurance market is still in flux and continues to evolve;
- Challenge meeting timeline considering all the benefit design changes to be implemented within Univita's systems and member communications to be developed;
- Frustrated applicants who do not pass underwriting and associated potential increase to appeals workload causing increased workload on staff;
- The number of applications approved and resulting premiums may not offset the costs associated with the open application period; and,
- Premiums may increase in the future and there is the potential for policyholder dissatisfaction.

ATTACHMENTS

Attachment 1 – Proposed LTC4 Benefit Design

Attachment 2 – Proposed 2013 Benefit Design (November 2012)

Attachment 3 – LTC4 Sample Pricing

Attachment 4 – CalPERS LTC Program Eligibility Related Regulations

Attachment 5 – SOAPP Overview

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