CalPERS

Finance and Administration Committee

Agenda Item 6a

April 14, 2025

Item Name: Long-Term Care Valuation Report

Program: Actuarial

Item Type: Information

Executive Summary

This agenda item provides the results of the California Public Employees' Retirement System Long-Term Care (LTC) Program's annual actuarial valuation for the fiscal year ending June 30, 2024. As of June 30, 2024, the program's funded status is 94%, improved from 90% last year, and the margin is negative 10.58%, improved from negative 19.01% last year. As of June 30, 2024, the program had 80,153 policies in-force, 6,548 of which were on claim.

The program experienced an investment return of positive 8.9% during the fiscal year, which improved the program's margin by 7.97%.

This valuation report reflects the premium increases approved for implementation starting in 2025. These premium increases improved the margin by 21.01%.

The assumption updates in this valuation in total decreased the margin by 4.48%, with the claim incidence assumption having the largest negative impact reflecting more expected claims at older ages.

The program's pending class action received final Court approval and was implemented in part during the 2023-24 fiscal year. Its estimated cost was $120 million. This estimate is conservative (meaning it may be too high) in light of pending settlement administration issues.

Population changes in the program during the fiscal year reduced the margin further by 5.43%.

In fiscal year 2023-24, premiums received were $298.8 million, administrative expenses were $26.5 million, and claims payments were $361.1 million. The fund also gained $372.6 million in investment returns. The program funded the class action settlement cost during the fiscal year. The balance of the LTC Fund is at $4.3 billion as of June 30, 2024.

A numeric reconciliation of the margin can be found on page 4 of this agenda item.

Strategic Plan

This agenda item supports the strategic plan goal of pension sustainability.

Background

The CalPERS LTC Program was established in 1995 and has 80,153 policyholders as of June 30, 2024. Information on the types of policies offered through the program and the number of policyholders under each type can be obtained from Appendix D of the valuation report.

Since its inception, the CalPERS LTC Program has experienced worse-than-expected morbidity, higher-than-expected claims, lower-than-expected voluntary termination, and lower-than-expected investment income. This experience is similar to that of other LTC insurance providers. Due to this experience, CalPERS has taken corrective actions to stabilize the LTC Fund.

The 2023 valuation reported an underfunded status for the program due to higher projected liabilities and lower projected future investment returns. As a result, the board approved a 10% premium increase each year for two years starting in 2025 for non-partnership policies and a 6.7% premium increase each year for three years starting in 2025 for partnership policies. Policyholders were given options to reduce their benefits and either maintain or reduce their premiums to offset the rate increase.

This actuarial valuation uses the First Principles Based modeling method. This modeling method is standard in the LTC insurance industry and provides better information to analyze assumptions. Assumptions for the First Principles Model have been developed and refined over time to reflect emerging experience and new findings.

Analysis

Funded Status and Margin of the Program

The results of this actuarial valuation are based on the in-force data, revised assumptions, and the fund balance as of June 30, 2024. The funded status, as of June 30, 2024, is 94% and the margin is negative 10.58%.

The following table shows how the funded status and margin were derived and compares the key results from the June 30, 2023 valuation to the key results from the June 30, 2024 valuation:

Component	6/30/2023 ($ in Millions)	6/30/2024 ($ in Millions)
1. Present Value of Future Benefits	$7,705	$6,726
2. Present Value of Future Expenses	$353	$349
3. Present Value of Future Premiums (PVFP)	$2,739	$2,493
4. Valuation Liabilities (= 1 + 2 - 3)	**$5,319**	**$4,582**
5. Valuation Assets	$4,798	$4,318
6. Valuation Margin (= 5 - 4)	**($521)**	**($264)**
7. Margin as a % of PVFP (= 6 / 3)	**(19.01%)**	**(10.58%)**
8. Funded Status (= 5 / 4)	**90%**	**94%**

Main Reasons for Changes in Margin

During the 2023-24 fiscal year, the investment return was positive 8.9%. This increased the margin by 7.97% in this valuation. The rate increases to be implemented starting in 2025 also increased the margin by 21.01%.

In this valuation, the claim incidence assumption was updated to reflect the higher likelihood of incurring claim at older ages. This contributed to the overall decrease in margin of 3.26% from the morbidity assumption updates. The sum of all other assumption updates in total reduced the margin by an additional 1.22%. A change to the modeling method also reduced the margin by 1.50%.

The program’s pending class action received final Court approval and was implemented in part during the 2023-24 fiscal year. Its estimated cost was $120 million. This estimate is conservative (meaning it may be too high) in light of pending settlement administration issues.

Population changes in the program during the fiscal year reduced the margin further by 5.43%.

The table below provides the breakdown for all impacts on the margin between 2023 and 2024:

	Change in Margin	Resulting Margin	Funded Status
Margin as of 6/30/23 valuation		(19.01%)	90%
Estimated Litigation Cost	(4.47%)	(23.48%)	86%
Roll-forward to 6/30/2024	(3.69%)	(27.17%)	86%
FY23-24 Non-Investment Gain/Loss	(0.97%)	(28.14%)	86%
FY23-24 Investment Gain/Loss	7.97%	(20.18%)	89%
FY23-24 Population Change	(5.43%)	(25.61%)	89%
Model Update	(1.50%)	(27.11%)	88%
Expense Assumption Update	(2.21%)	(29.32%)	87%
Lapse and Mortality Assumption Updates	0.99%	(28.33%)	88%
Morbidity Assumption Updates	(3.26%)	(31.59%)	87%
Rate Increase	21.01%	(10.58%)	94%
Margin as of 6/30/24 valuation		(10.58%)	94%

History of Funded Status and Margin

The table below shows the funded status and the margin/(deficit) for the LTC Program for the last five years. The program's margin was positive in the 2020 valuation and reflected a stabilization plan adopted to change the asset allocation and increase premium rates. The higher-than-expected investment return and the program experience due to COVID-19 increased the margin in the 2021 valuation. However, the rising interest rates reduced the market value of fixed income assets and reduced the valuation margin to negative in the 2022 and 2023 valuations. Further refinements in the morbidity assumptions also contributed to the margin decreases since 2021. The higher-than-expected investment return and rate increases scheduled to start in 2025 improved the margin in this valuation.

Five Year History of Funded Status and Margin

Valuation Date	Funded Status	Margin
June 30, 2020	101%	1.34%
June 30, 2021	108%	10.51%
June 30, 2022	95%	(7.40%)
June 30, 2023	90%	(19.01%)
June 30, 2024	94%	(10.58%)

Subsequent Events

Since 2022, the Program's mortality and morbidity experience are reverting closer to pre-pandemic levels. There is still uncertainty regarding how these experiences will evolve over the long term. Future experience will continue to be monitored.

The inflation and interest rates in the economy have been higher in recent years. Volatility in the economic environment may lead to fluctuation in the investment return. Long-term care services have also experienced higher cost-of-care inflation in recent years. A prolonged high inflation environment may lead to higher-than-expected future claim costs.

Budget and Fiscal Impacts

The June 30, 2024 actuarial valuation was prepared by the CalPERS actuarial team with a parallel analysis from Oliver Wyman's actuarial consulting team. Funding was already identified within existing budgetary resources.

Benefits and Risks

The actuarial calculations performed as part of the actuarial valuation are based on several assumptions related to very long-term demographic and economic behavior. Unless the assumptions (morbidity, lapses, deaths, expenses, and investment return) are exactly realized each year, there will be differences between actual and projected cash flows on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and will either increase or decrease the funded status and margin of the LTC Program. If the actual experience differs from the assumptions over a prolonged period, it may indicate a need for assumption updates and result in a need for premium changes to ensure the financial integrity of the LTC Program.

Some LTC assumptions such as claim incidence rate, claim termination rate, and claim utilization rate can have more variability throughout a long period of time. These assumptions can be impacted over time by plan demographics, health care technologies, policyholder preferences, and shock events such as pandemics. Timely updating of valuation assumptions to reflect this information is beneficial for adequately monitoring the funded status of the program and minimizing the risk that actual experience is not in line with assumptions.

Demographic assumptions such as mortality rate can have a significant impact on the LTC Program if not realized over a long period of time. These assumptions in general are not subject to wide variances from year-to-year and typically the changes to these additional assumptions only gradually occur over time. Refer to the "Risk Analysis" section of the valuation report for more information on how sensitive the margin of the LTC Program is to the changes in key actuarial assumptions.

Investment return also poses a significant risk to the program if not realized over time. LTC insurance is characterized by level premiums and increasing claim costs over the coverage period. The collected premiums are invested and the aggregate premiums plus investment income are used to pay out future claims. Investment income is a significant component of the income as the block of insurance matures. If investment returns are lower than expected over a prolonged period, increased premiums will be needed to make up for the reduced growth in assets.

Attachments

Attachment 1 – Long-Term Care Valuation Report as of June 30, 2024

Attachment 2 – Long-Term Care Valuation Presentation

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