



**WRITTEN TESTIMONY OF
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ASSOCIATION**

**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**

SUBCOMMITTEE ON GOVERNMENT OPERATIONS

**HEARING TITLED
“FEDERAL LONG TERM CARE INSURANCE PROGRAM:
EXAMINING PREMIUM INCREASES”**

NOVEMBER 30, 2016

Chairman Meadows, Ranking Member Connolly and Subcommittee Members:

On behalf of the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to express our views regarding the recent premium increases for enrollees in the Federal Long Term Care Insurance Program (FLTCIP). This hearing provides not only a forum to examine the causes of these premium increases, but also a platform to propose and evaluate potential reforms to prevent such increases from occurring again.

Effective November 1, 2016, FLTCIP premiums increased by an astounding 83 percent, on average, and by as much as 126 percent for nearly 40 percent of enrollees. The average increase amounts to \$111 per month. For many, however, the increase will be much larger, bringing total premiums to as much as the cost of rent, or more.

These cost increases come as a rude awakening for federal employees and retirees. They were presented with difficult and unfair choices – pay substantially higher premiums, reduce coverage substantially, or abandon what, for some, has been more than a decade-long investment in protecting their future. This situation should not have occurred and signals the need for changes in the structure of FLTCIP. Federal employees and retirees must not face such bait-and-switch tactics again.

This is not what NARFE envisioned for the program 16 years ago when the Federal Long Term Care Act was signed into law by President Bill Clinton. NARFE took pride in the fact that we played the leading role in ensuring that millions of families in the federal and military communities would have access to long-term care benefits without being sent to the poorhouse. Today, however, the prospect of financial disaster is inching closer, as enrollees face premium increases of hundreds of dollars per month – on top of the substantial premiums they already are paying.

We hope this hearing explores not only why this happened, but how to prevent this from happening again in the future. Public servants planning for their future deserve that much.

Looking Back

When FLTCIP was launched in 2002, eligible individuals were assured that the program would have “premium stability.” The likelihood of a rate hike was downplayed in promotional materials. Indeed, FLTCIP applicants would have to wade through the first 20 pages of the 38-page benefit booklet to find an explanation about the possibility of rate hikes. In fact, some will attest that they were led to believe “you will never see your rates increase” – the incentive for enrolling at an early age.

When the program was launched, the Office of Personnel Management (OPM) and Long Term Care Partners, the administrators of the program under a partnership between Metropolitan Life Insurance Company and John Hancock Life & Health Insurance Company, said that a rate hike would be “unlikely” because in constructing the plan they used the conservative assumptions of the National Association of Insurance Commissioners (NAIC) with regard to benefit claims, premium and investment income, and lapsed rates. As a result, they said, FLTCIP likely would

avoid the premium increases that were commonplace in the individual market and that were anticipated at that time in the nation's second largest group plan, sponsored by the California Public Employees Retirement System (CALPERS).

Although FLTCIP had not guaranteed that enrollees' premiums would remain stable, the announcement of a premium increase in 2009 surprised some FLTCIP enrollees, who thought that the program's marketing materials indicated that selecting the ACIO (an inflation protection option) would result in premiums that would remain constant over the life of their policies.

When the first rate hike of 25 percent was announced in 2009, NARFE was concerned that early warning signs within the industry were not heeded and that the sticker shock of a single-year jump could have been averted. As a result, opportunities to mitigate the premium increase were either disregarded or missed. It is infuriating to find ourselves saying the same thing seven years later.

If it was not clear seven years ago, it is clear now – this program, as it is currently designed, cannot be relied upon to provide premium stability or affordability. This is a problem that this hearing and future legislative efforts should aim to fix.

Long-Term Care Costs and the Need for Planning

NARFE is extremely disappointed that we once again find ourselves in the position of encouraging our members to assume personal responsibility and plan for their future, yet we are hesitant to recommend a product with premiums that are neither predictable nor affordable.

The prospect of burdensome long-term care costs is a reality for our members today just as it was when the program was created. According to the U.S. Department of Health and Human Services, about 69 percent of people will need some form of long-term care services or support, and they will need those services, in some form, for an average of three years.¹ National median costs for these services are high: \$3,813 per month for homemaker services, \$3,861 per month for a home health aide, \$3,628 per month for assisted living facilities, \$6,844 per month for a semi-private room in a nursing home, and \$7,698 per month for a private room.² Without insurance, too many will be forced to spend down and rely on Medicaid to cover the cost of care, if they are not excluded due to income requirements.

Federal employees and retirees do not bear this burden uniquely. The United States is experiencing considerable growth in its older population, with the population aged 65 and over estimated to grow from 43.1 million people in 2012 to 83.7 million people in 2050. This is largely due to the Baby Boomer generation that began turning 65 in 2011.³ This is going to put a

¹ United States Department of Health and Human Services. "How Much Care Will You Need?" Retrieved from: <http://longtermcare.gov/the-basics/how-much-care-will-you-need/>.

² Genworth Cost of Care Survey. Retrieved from: <https://www.genworth.com/about-us/industry-expertise/cost-of-care.html>.

³ "An Aging Nation: The Older Population in the United States," available at: <https://www.census.gov/prod/2014pubs/p25-1140.pdf> (May 2014).

major strain on all forms of services for the elderly in the foreseeable future, including long-term care.

Federal employees and retirees want to do the responsible thing for themselves and their families. This program and this product seek to address the real need to plan for these future long-term care costs. But the lack of price stability and predictability make it increasingly difficult to make reliable plans for the future. With the current increase, enrollees may retain coverage, but at astronomical costs. Or they may reduce their coverage as premiums rise beyond their means. Just navigating these options is no small feat.

Enrollees may now be asking themselves if it would have been better to self-insure, by setting aside the same money they paid in premiums as savings earmarked for long-term care services in the future. Or they may be looking at alternative options now available in the private market, such as hybrid long-term care insurance policies that combine long-term care insurance with life insurance, and asking whether those products would better suit their needs.

This should not be a program that enrollees feel locked into because they have no other choice but to remain, given the amount of money they already have invested. Congress and other stakeholders should be looking to improve the program so that it provides the reliability enrollees were expecting when they purchased the product, and/or the flexibility to make alternative choices without forfeiting the value of the premiums paid thus far.

Why This Happened

For enrollees, the “why” comes as little solace, but is worth examining. The explanation is that the actuaries got it wrong: Long-term care costs are rising faster than expected and interest rates (and the return on the investments intended to sustain the program) are expected to remain low for longer than originally expected. That may be the case, but the actuaries and insurance company did not just get it wrong – they got it very wrong.

We hope this hearing provides the opportunity to further investigate why the assumptions were so far off, and how the lessons learned from those mistakes may be applied to assumptions about the future. What do we know now that we did not know three years ago, when John Hancock completed an actuarial review that led to revised assumptions? What do we know now about the length of time individuals are utilizing long-term care that we did not know before? How might that change in the future? What do we know about the amount and cost of care these individuals will need that we did not know three years ago? How might that change? How much have lower interest rates affected investment returns for fund assets and the need for higher premiums? How and when have changes in assumptions regarding future interest rates changed? To what extent are these assumptions subject to change, and in what direction?

There may be understandable explanations for all of these questions – there may even be some reasonable ones – but none of those explanations do anything for the enrollees who are faced with these massive premium increases. And that goes to the heart of the problem with the structure of this program. When the insurance actuaries and OPM, in its oversight role, make mistakes predicting the future costs of the program, they are not the ones who are forced to bear

the financial responsibility for those mistakes. Rather, it is the enrollees who are on the hook. That is a problem in the structure of the program and ought to be fixed.

Enrollee Decision Period Options

When the premium increases were announced, policyholders were provided extensive information on options available to them to mitigate the impact of the rate spike. Enrollees received a letter containing personalized options for reducing benefits and premiums, permitting the preservation of a modicum of long-term care coverage, rather than abandoning what was, for some, a decade-plus investment.

Absent an affirmative decision to modify the covered benefits under their plan, enrollees were informed that the full premium increase would go into effect automatically, and benefits due under their individual policy would remain in force. Further, policies would remain unchanged so long as premiums continued to be paid. No promises were made about future premium increases.

While policyholders were given considerable information on the cause of the premium increase and available options, the fact remains that enrollees faced either a forced increase in premiums, or, as personal resources permitted, a forced decrease in coverage.

Consumer Feedback

We have heard from hundreds of NARFE members, and their messages have been personal and blunt. While the average 83 percent increase of \$111 (on top of average premiums of \$134) would bring the average premium to \$245 per month, many individuals were facing even higher increases. For example, one NARFE member reported her premiums would rise from around \$275 to more than \$600 per month. She wasn't alone in her experience.

Other members said the following:

- “In order to stay enrolled in the program, I find I must make decisions on cutting back on my food purchases and lifestyle. All I can say at this point is that this is outrageous and un-American. I would have to find a job in order to keep my coverage. How is this happening to [the] elderly?”
- “I am so much older now than when I enrolled in the federal plan, the cost to switch to another plan would be prohibitive. All my bills are fixed; the new payment will have to come from the grocery budget.”
- “They surprised us with the news and gave us only poor options to choose from. I'm lucky that I can afford the increase BUT that doesn't make it right. How about grandfathering those already in the program? Also, I understand that inflation hits across-the-board, so I understand that prices will have to be increased periodically BUT 100+% at once? Come on...”

- “We already have paid John Hancock \$56,000 in premiums. We cannot quit now. We have too much invested. We are outraged by this ‘bait-and-switch’ scheme”
- “Increases are one thing, over 60% per month increases are excessive and indicate very poor administration of the program. We feel betrayed and angry at this exorbitant increase in our premiums, just like everyone else.”

Federal retirees, many without options to buy this product elsewhere, are rightfully shocked and dismayed by the recent rate increase.

Potential Legislative Reforms to the Federal Program and National Long-Term Care Policy

NARFE is committed to pursuing legislative reforms that would provide federal employees and retirees affordable and reliable options to plan for their long-term care needs.

First, we support specific reforms to the Federal Long Term Care Insurance Program that could restore trust that the program can provide more reliable pricing in a more affordable manner. We hope this hearing explores the policy options offered by NARFE and others that could improve the affordability of the federal program, saving money for participants, or that could improve price stability, which would protect federal employees and retirees from making an open-ended commitment to ever-increasing, unpredictable premium costs.

But we also support broader reforms to long-term care financing that could address the needs not only of federal employees and retirees, but of all Americans. Notably, we support a public-private partnership to meet the long-term care needs of all Americans. The Federal Long Term Care Insurance Program would still provide valuable private-sector insurance for the front-end costs of long-term services and support within this framework.

1. Public-Private Long-Term Care Partnership

The crisis faced by FLTCIP is not unique. Individuals enrolled in other private long-term care insurance plans are facing similar massive premium increases, and neither FLTCIP nor any other private long-term care insurance provider is continuing to offer unlimited catastrophic coverage. In other words, the private market, on its own, is failing to offer adequate options for middle-class consumers seeking to insure against worst-case scenarios in which individuals face the need for high levels of care over a long period of time. Rather, Medicaid, a program intended to protect those in poverty, steps in as the only catastrophic option for middle-class consumers, who must spend down all of their savings to qualify.

We hope Congress explores the possibility of a new public-private partnership to replace the current Medicaid-reliant model to better insure middle-class consumers against catastrophic risks of needing long periods of high-level care. Bipartisan groups of policy experts recommend this approach. Notably, the Long-Term Care Financing Collaborative has recommended addressing

this market failure through a universal, catastrophic long-term care insurance program.⁴ Their report provides comprehensive analysis and recommendations that Congress should closely examine. Essentially, they recommend a program that would provide insurance after the first two or three years that an individual incurs long-term care costs. At that point, the program would provide a limited daily benefit amount.

With a universal catastrophic program, there still would be significant space for private insurance, such as the Federal Long Term Care Insurance Program, to insure the front-end costs incurred in the first few years of long-term care. The cost of such coverage would be drastically lower than the unlimited catastrophic coverage plans that saw the massive 126 percent increase this year. The most expensive claims, which are driving up the cost of coverage, would be covered by the universal catastrophic insurance program. Furthermore, universal coverage would fill the hole existing in private-market coverage offerings (including FLTCIP), as unlimited coverage is no longer offered.

2. Reforms Specific to the Federal Long Term Care Insurance Program

NARFE also suggests that this committee explore the following policy options, which could improve enrollee choice, ensure price stability and/or improve affordability within FLTCIP.

a. Require the program to offer hybrid long-term care policies that combine a whole life insurance policy with long-term care coverage

This requirement would utilize the value of premiums already paid by current enrollees to convert their policies to hybrid policies. One major advantage of this option is that it would allow for guaranteed premiums, which the current program clearly does not.

Hybrid long-term care products are becoming more popular in the private market and are now outpacing traditional long-term care policies. In 2014, an estimated 100,000 hybrid policies were issued, with \$2.4 billion in premiums. This compares to 130,000 policies and \$330 million of new premiums issued in the stand-alone, long-term care insurance market.⁵

These products add a long-term care “rider” to a permanent life insurance policy (whole life or universal life products, not term-limited products), and require a lump-sum premium up front, or a guaranteed set of premiums for a set period of time. If the insured has long-term care expenses, he can receive a tax-free advance on his life insurance death benefit to pay for long-term care while he is still alive. When long-term care expenses exceed the value of the death benefit, policies may contain an additional rider that requires the insurance company to pay for additional long-term care expenses. If he dies without needing any long-term care, his heirs receive a death

⁴ Long-Term Care Financing Collaborative. “A Consensus Framework for Long-Term Care Financing Reform,” available at: <http://www.convergencepolicy.org/wp-content/uploads/2016/02/LTCFC-FINAL-REPORT-Feb-2016.pdf>.

⁵ National Association of Insurance Commissioners & The Center for Insurance Policy Research. “The State of Long-Term Care Insurance: The Market, Challenges, and Future Innovations,” p. 78, available at: http://www.naic.org/documents/cipr_current_study_160519_ltc_insurance.pdf.

benefit – in this way, many individuals look at this product as a way to ensure that the premiums are not “wasted.”

The insurance benefit may be claimed under conditions similar to those of traditional long-term care policies – when the policyholder cannot perform two of six activities of daily living. Once a doctor certifies eligibility, the insured can draw a monthly amount from her death benefit for long-term care costs.

For example, an individual may have a life insurance policy with a face amount of \$100,000 and a long-term care rider allowing for 4 percent of the face value each month. In this scenario, the policy will pay out \$4,000 per month until the benefit is exhausted, which would be 25 months. With an “extension of benefit” rider, which costs an additional amount, the monthly benefit may last another one or two times whatever it would be without the extension. In this scenario, it may be another 25 or 50 months.

This does come at a cost. Having the option to draw from the life insurance policy for long-term care expenses typically adds between 3 and 15 percent to the original life insurance premium.⁶ Extending the benefits would usually at least double that.⁷

Because these policies require a large up-front payment, they are similar to high-deductible policies, as expenses are paid from the cash value of the death benefit – that is, the insurance aspect of the coverage does not kick in until that cash value is depleted. This essentially reduces the amount of long-term care insurance coverage needed, while still putting aside money to cover the up-front costs.

However, one drawback to these products is the risk that rising interest rates and inflation could diminish the value of the policy. In this sense, it may have the opposite problem from the current program.

b. Require the program to offer options with actual, guaranteed limits on premium increases by utilizing reinsurance to limit losses and protect against the risk of inaccurate actuarial assumptions

This option would combine limits on premium increases with reinsurance to provide premium stability and protect against insolvency. That is, the insurer (John Hancock) would offer plan options with guaranteed limits on premium increases. John Hancock would be required to buy insurance from another (reinsurance) company to protect against the risk that premiums (including allowable, limited increases) would not be sufficient to meet the liabilities of the program. The reinsurance would carry a risk premium that an enrollee would have the option to pay in exchange for the guarantee that premiums would not increase above a certain level. The reinsurer not only would protect against premium increases, but it also would serve as an

⁶ ElderLawAnswers. “Hybrid Policies Allow You to Have Your Long-Term Cake and Eat It, Too.” Retrieved from: <http://www.elderlawanswers.com/hybrid-policies-allow-you-to-have-your-long-term-care-insurance-cake-and-eat-it-too-15541>.

⁷ *Id.*

independent source of oversight, with a financial incentive to appropriately price the risk that the underwriter's assumptions were incorrect.

Reinsurance has been used in the long-term care industry before. It also has been proposed as a component of a nationwide long-term care insurance program for all Americans by Paul Forte, chief executive officer of Long Term Care Partners.⁸ The reinsurance itself may add an additional cost, but it could provide premium stability.

Reinsurance could be combined with other measures to ensure premium stability without increasing costs or threatening solvency. FLTCIP could include automatic annual premium increases equivalent to the increase in the CPI-W (on which cost-of-living adjustments for federal annuities are based). This additional premium income could provide a reserve fund to either maintain solvency, if the assumptions underestimated costs, or provide a rebate, if costs were overestimated.

Furthermore, to prevent further drastic increases, contract terms could be shortened to every three years to ensure a more continual reassessment of the assets and liabilities of the program.

c. Require (or allow) the program to offer high-deductible (or longer waiting period) plan options

For those who can afford to cover a certain amount of long-term care expenses on their own, combining self-insurance with a high-deductible, long-term care policy may be a less costly option that still insures against extremely high long-term care costs.

Under the current program, there is a limited daily benefit amount that can be used to pay for long-term care services, which may be limited by a term, e.g., three years. This daily benefit amount kicks in after a 90-calendar-day waiting period, but then is available to cover all costs.

With a longer waiting period or a monthly deductible, a federal retiree with a guaranteed annuity could purchase coverage above what he could afford to pay, thereby limiting the amount of insurance necessary, reducing the cost (and associated premium).

For example, with a \$3,000 monthly annuity, one may be able to afford \$2,000 per month (perhaps more or less, depending on taxes and other expenses) to stay in an assisted living community or nursing home (or on in-home care) without needing long-term care insurance. Having the option to purchase a plan with a \$2,000 monthly deductible also would allow for a reduced daily benefit amount, as one would only need long-term care insurance to cover the costs above \$2,000 per month. For federal retirees with guaranteed monthly income from a federal annuity and/or Social Security benefit, such an option could reduce premium costs and would make a lot of sense. While monthly deductibles are not used in the private market, they could work well for those with guaranteed monthly annuities.

⁸ Paul E. Forte. "The American Long-Term Care Insurance Program (ALTCIP)," pp. 10 -12. Retrieved from: <https://www.soa.org/...ltc/2014/mono-2014-ltc-manage-forte.pdf>.

Alternatively, a longer waiting period – for example, of one or two years – could allow individuals to combine personal savings with lower cost, long-term care insurance. Providing the option to choose a one-year or two-year waiting period can reduce the cost of premiums by 40 percent and 64 percent, respectively.⁹

d. Provide an employer contribution toward coverage

Providing a federal government contribution toward the cost of FLTCIP would lower costs for enrollees faced with unaffordable, significant premium increases.

In its July 2011 report, [GAO-11-630](#), the Government Accountability Office noted the following:

“[O]fficials from three carriers we interviewed also noted that offering FLTCIP as a voluntary benefit with no government contribution to premiums detracted from their interest in the program because carriers had concerns that the program’s enrollment would not be as large as it could have been. In addition, officials noted that this aspect of the program would likely attract a disproportionate share of individuals who expected to incur long-term care costs and would likely submit claims earlier than was typically expected. These officials explained that if all active federal employees were automatically enrolled in FLTCIP, or if the government paid for a portion of all active federal employees’ premiums, FLTCIP would benefit from a larger number of enrollees as well as a larger portion of healthy enrollees who would have a lower risk of submitting claims.”

Thus, providing an employer contribution may not just lower costs directly, but also indirectly, by lowering the average cost of coverage and lowering overall risk through an expanded risk pool. Plus, the employer contribution is much more than an employee benefit, in that the move would encourage personal responsibility and could offset the Medicaid costs of long-term care.

e. Provide a federal income tax exclusion for premiums paid for long-term care insurance

This option would provide tax relief and, therefore, lower the net cost of long-term care insurance. This could be provided for all taxpayers paying for long-term care insurance. Alternatively, Congress could expand the current \$3,000 exclusion that applies only to the retirement plan distributions (e.g., a federal annuity) of retired public safety officers.

Currently, premiums for qualified long-term care insurance policies are tax deductible, but only if an individual itemizes his deductions and then, only to the extent that long-term care premiums, along with other unreimbursed medical expenses, exceed 10 percent of the insured's adjusted gross income, or 7.5 percent for taxpayers 65 and older (through 2016). Even then, the premium deduction is limited to a certain dollar amount, based on age (from \$390 per year for an

⁹ Richard G. Frank, Marc Cohen, and Neale Mahoney. “Making Progress: Expanding Risk Protection for Long-Term Services and Supports through Private Long-Term Care Insurance,” pp. 6-7. Retrieved from: http://www.thescanfoundation.org/sites/default/files/tsf_ltc-financing_private-options_frank_3-20-13.pdf.

individual 40 years of age or younger to \$4,870 for an individual 70 years of age or older).¹⁰ Additionally, 26 states and the District of Columbia also offer some degree of state tax relief for long-term care premiums paid.¹¹

Providing a comprehensive federal tax exclusion would provide a full federal tax benefit to all taxpayers regardless of whether itemizing deductions or not.

f. Allow for a premium refund when premiums increase as dramatically as they have this year

As a matter of fairness, when premiums increase as much as they have this year, enrollees should be given the option of a refund of the present value of the total premiums they paid in, minus administrative costs and the actuarial value of the coverage for the time period in which they were covered. Given that the value of coverage mainly comes in later years, this would allow individuals who purchased the coverage at an early age and no longer trust the program to exit without forfeiting their previously paid premiums. These amounts could be determined by independent actuaries.

g. Improve oversight of the program

There is a clear need for improved oversight of FLTCIP and better evaluation of the assumptions used to set premiums. The assumptions regarding premium costs were not just off by a little bit – they were way off. Better actuarial analysis and review by OPM – whether seven or 14 years ago or throughout the term of the contracts – should at least have mitigated the severe premium increases we are seeing today. Oversight and actuarial review may be improved by creating a specific FLTCIP oversight board, utilizing the expertise of the actuaries with the Centers for Medicare & Medicaid Services or soliciting independent expert review of the actuarial assumptions underlying the contract.

h. Ensure that FLTCIP qualifies as a Long-Term Care Partnership Program

Ensuring that FLTCIP qualifies as a Long-Term Care Partnership program would allow individuals to obtain Medicaid coverage if other (income-related) conditions are met, while protecting a portion of their assets that typically would need to be spent down to qualify for Medicaid coverage.

For an individual with an eligible Long-Term Care Partnership policy who uses some or all of the policy benefits, the amount of the policy benefits used will be disregarded for purposes of calculating eligibility for Medicaid. That means they are able to preserve assets up to the amount of the benefits paid out by the policy.

¹⁰ Elder Law Answers. “IRS Issues Long-Term Care Premium Deductibility Limits for 2016,” available at: <http://www.elderlawanswers.com/irs-issues-long-term-care-premium-deductibility-limits-for-2016-15358>.

¹¹ LTC Partner, “2016 Long Term Care Insurance Tax Deduction,” available at <http://longtermcareinsurancepartner.com/long-term-care-insurance/2016-long-term-care-insurance-tax-deduction>.

This policy does not necessarily improve price stability or affordability, but it provides an important benefit that is available for many other enrollees in private-market, long-term care policies.

Conclusion

Seven years ago, FLTCIP premiums rose by 25 percent, and congressional hearings were held. A GAO study was later released. But not much else was done. This year, premiums have risen by 83 percent, on average, and by as much as 126 percent. This hearing is a good first start in examining the causes of that increase. But without more action, it is far from enough. If we do nothing, will enrollees be facing a 100 percent increase seven years from now? I have no confidence saying that they will not.

The end goal for this hearing, for this subcommittee and this Congress should be real reforms that prevent such a massive increase from occurring again. Enrollees should not bear the risk when insurance companies and actuaries make mistakes. That is what occurs under the structure of the program right now. NARFE has proposed a variety of policy options and looks forward to working with Congress to pursue them. The status quo is unacceptable.

Thank you for the opportunity to share our views with you.