NARFE
FEDERAL BENEFITS EXPERTS

Kenneth J. Thomas
National President

Kathryn E. Hensley
National Secretary/Treasurer

July 7, 2022

The Honorable Kiran A. Ahuja
Director
Office of Personnel Management (OPM)
Theodore Roosevelt Building
1900 E Street, NW
Washington, DC 20415-1400

Dear Director Ahuja:

I write, on behalf of the National Active and Retired Federal Employees Association (NARFE), regarding expected premium increases for Federal Long Term Care Insurance Program (FLTCIP) enrollees next year in connection with the intended renewal of the contract with John Hancock.

Specifically, for the reasons set forth below, I request OPM explore every legal option at its disposal to provide enrollees with the option to receive a partial refund of their premiums rather than be forced to pay for another set of escalated premiums above the amount they signed up for. In the absence of legal authority, I urge OPM to request that authority from Congress.

I commend OPM for the actions it has taken thus far related to FLTCIP. Suspending active marketing of the program and taking steps to suspend new enrollments will prevent more individuals from signing up for a product that provides no clear limit on the required financial commitment from enrollees. Notice to enrollees and employee and retiree representatives such as NARFE regarding expected premium increases provides a degree of transparency into the contract renewal process. Engaging an independent actuary will allow OPM to scrutinize the insurers' assumptions. Securing a consultant to assess alternative options demonstrates a willingness to look beyond the four corners of the current program. Continued openness to providing options to keep premiums stable (albeit with reduced coverage) would ensure some financial flexibility for enrollees.

But, while commendable, those actions do not promise a satisfactory remedy for FLTICP's failure to live up to its agreement with enrollees. Enrollees did not sign up for an essentially unlimited cycle of premium increases. Boilerplate contract language noting that "premiums are not guaranteed" cannot reasonably be interpreted to mean "premium increases are not limited at all." Yet that is apparently how it's being interpreted. The only limits to increases appear to be OPM's approval, the (ever increasing) expected costs of long-term care and pursuant to the (under) performance of the insurer's investments. After enduring premium increases as high as 25 percent and 126 percent in connection with the last two contract renewals, enrollees will be faced with yet another premium increase, well beyond the limit of what they could reasonably expect when they signed up.

Enrollees do not have a financially viable option to simply cancel their coverage. Doing so would forfeit the value of the premiums that they have already paid in. For most – or at least many – enrollees, those premium payments will outweigh the value of the insurance coverage they have thus far received, as the value of long-term care coverage comes at the end of life. Rather than lose the value of their coverage entirely, they are forced to pay elevated premiums to retain it.

For the enrollee, the situation resembles a classic bait-and-switch scheme wherein they were baited to purchase a lower-cost insurance product, but then forced to either switch to a higher-cost insurance product or sacrifice the substantial cost that they have already incurred.

Even if the insurer could not have known that premiums would need to increase as much as they have when they originally set them – or when they increased the first time by up to 25 percent; or when they increased them again by up to 126 percent – all the risk of the insurer's mistaken assumptions has fallen on enrollees, and not the insurer. That is neither fair nor equitable, as the insurer is insulated from any serious financial repercussions for its failure to provide enrollees with accurate quotes regarding the actual cost of the insurance they purchased.

The only equitable solution is to allow enrollees the option of a partial refund of their premiums rather than force them to pay yet another premium increase. The amount of the refund could be calculated by subtracting the actuarial value of the insurance coverage provided for each enrollee (e.g., the average costs of claims for an individual aged 50 to 71 over the course of the last 21 years). As the actuarial value of coverage must be calculated when setting premiums, presumably this could be done for refunds as well.

Doing so would give enrollees the realistic option to consider alternatives to FLTCIP as they plan for the financial costs of their future long-term care needs. Perhaps they would decide to purchase a hybrid whole life/long-term care policy; or self-insure by setting aside money for future costs; or consider alternative long-term care insurance. Or they might decide it's still better to pay the higher premiums and remain with FLTCIP. But it would be a real choice to do so, allowing enrollees the autonomy to enter into that new agreement – or not.

This would not be a post-hoc claw back of premiums simply because of how much they cost. It would not be a full refund of premiums such that enrollees would not receive the value of insurance coverage over the past 21 years for nothing. It is a remedy for a failure of FLTCIP to live up to its end of the bargain with enrollees and provide enrollees with a real choice regarding their long-term care financial planning. It would restore a degree of fairness for individuals who have seen premium increases rise beyond any realistic expectation.

For the reasons stated above, I urge you to consider providing FLTCIP enrollees with the option of a partial refund of their premiums as an alternative to accepting another set of increased premiums for future coverage.

Please contact NARFE Staff Vice President of Policy and Programs, John Hatton, at (571) 483-1267 or jhatton@narfe.org to discuss this request further. Thank you for your consideration.

Sincerely,

Ken Thomas
National President