William Shackelford
National President

Kathryn E. Hensley
National Secretary/Treasurer

September 12, 2023

Committee on Homeland Security and Governmental Affairs
U.S. Senate
340 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairs Peters and Sinema, Ranking Members Paul and Lankford, and members of the Senate Committee on Homeland Security and Governmental Affairs:

On behalf of the National Active and Retired Federal Employees Association (NARFE), I write to express our deep concerns regarding increases in Federal Long Term Care Insurance Program (FLTCIP) premiums, substantially above the original amount quoted to enrollees.

In response, I urge the Committee on Homeland Security and Governmental Affairs or the Subcommittee on Government Operations and Border Management to hold a hearing investigating the reasons for the premium increase, the profit structure of the program, and options for providing alternatives to – or relief from – the extraordinary premium increases.

More than 265,000 federal workers and retirees are set to receive letters this week stating their new premium, with many enrollees facing costs that are multiples higher than the premiums quoted to them when they enrolled. Those premiums were designed and intended to remain stable for the individual’s lifetime, yet they have done anything but that. While contracts included boilerplate language indicating such premiums were not guaranteed, they are rising above an amount any reasonable person could have expected. In 2009, premiums rose by up to 25 percent. In 2016 premiums rose by as much as 126 percent, with enrollees facing an average 83 percent increase. Now in 2023, OPM is unable to share with stakeholders the average premium increase, only stating that premiums will rise. I urge you to seek answers regarding the range of premium increases facing enrollees.

The latest increase presents an unfair and financially burdensome situation for enrollees, forcing them to either cancel their coverage and forfeit the premiums already paid or take on significantly higher premiums to retain their coverage. While enrollees will have options to adjust their coverage and premiums, this situation resembles a classic bait-and-switch scheme, as enrollees were led to believe that premiums would remain relatively stable when they first entered into their contracts. They took the bait on a lower-cost product, and now must switch to a higher price, or lose their investment.

In an effort to better understand FLTCIP, OPM commissioned a 2022 market analysis study to compare the program with private-sector long term care insurance offerings. While the analysis depicts a depressed private market, it highlights unique features of FLTCIP that are potentially troublesome. First, the program allows the insurer, in this case John Hancock, to take into account investment results in allowing adjustments to existing rates. This ties into the profit structure of FLTCIP, which "is unique compared to stand-alone LTC private-insurance accounting."[1]

Under FLTCIP, the insurer is guaranteed profit with little risk, which is not the case in the private market. Per the commissioned report:

> Insurer profit in the private market is based on the amount of revenue over benefits and expenses. As such, it is subject to benefit and expense experience and how that experience compares to projections used to develop premiums. Insurer profit under FLTCIP is based on three components: 1) A guaranteed percentage of premiums collected; 2) A percentage of premium that is based on performance meeting administrative standards; and 3) A percentage of assets in the program. In the private market, the ultimate responsibility for the policyholders' liabilities is the insurer. In FLTCIP, it is the program itself.[2]

The report's summary also notes that "Some individuals questioned if the profit charge collected by the insurance carrier is appropriate given the level of risk they maintain for the business."[3] The entire risk of the program is placed on enrollees, with the insurer authorized by OPM to raise premiums, without accounting for their own actuarial mistakes or underperforming investments. It's clear that FLTCIP is in desperate need of congressional oversight, particularly regarding the profit structure of the agreement between John Hancock and OPM.

I also urge you to conduct more than just oversight – to assess real solutions to provide relief to enrollees. More should be done to protect enrollees who were misled. Notably, I urge you to consider authorizing premium relief for affected enrollees, either directly or via tax credit, to help offset the exorbitant rise in premiums. As sponsor of the program, the federal government holds responsibility to ensure the program is treating employees fairly and equitably. Currently, enrollees are forced to carry the full burden of the insurance company's actuarial mistakes. This situation is made worse when noting the fact that the insurer is provided a unique structure and is allowed to continually profit after failing to get actuarial assumptions correct year after year.

For these reasons, I urge your committee or subcommittee to hold a hearing on FLTCIP and explore options for Congress to authorize relief for enrollees. Thank you for your consideration of our views. If you have any questions or concerns about this request, please contact NARFE Staff Vice President for Policy and Programs John Hatton at jhatton@narfe.org or 571-483-1267.

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[1] "2022 FLTCIP Market Analysis Study," January 2023, Milliman. Commissioned by the United States Office of Personnel Management, at p. 30.

[2] *Id.* at 11.

[3] *Id.* at 40.

Sincerely,

William Shackelford

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NARFE National President