FEDERAL LONG–TERM CARE INSURANCE PROGRAM: EXAMINING PREMIUM INCREASES

HEARING

BEFORE THE

SUBCOMMITTEE ON
GOVERNMENT OPERATIONS

OF THE

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AND GOVERNMENT REFORM
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FEDERAL LONG–TERM CARE INSURANCE PROGRAM: EXAMINING PREMIUM INCREASES

Wednesday, November 30, 2016

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:06 p.m., in Room 2154, Rayburn House Office Building, Hon. Mark Meadows [chairman of the subcommittee] presiding.

Present: Representatives Meadows, Jordan, Walberg, Buck, Grothman, Connolly, and Lynch.

Also present: Representatives Comstock, Beyer, and Delaney.

Mr. MEADOWS. The subcommittee on Government Operations will come to order. Without objection, the chair is authorized to declare a recess at any time. The gentleman from Virginia is on his way. And so we're going to go ahead and try to get this started in the interest of your time and some pressing schedules that are here.

I'd like to start off by acknowledging just the incredible work of the staff, both in majority and minority, on their preparation for this particular hearing. It's an issue that, obviously, has great impact, but it's also one that was not on my bucket list. And so it's been interesting to be able to come up to speed on that and be aware of it.

And as you know, the Federal Long Term Care Insurance Program helps Federal employees prepare for the future healthcare needs by enrolling in long-term care insurance coverage. Federal employees can help reduce the financial burden of acquiring care as they grow older. And these burdens, obviously, can be very costly.

According to the Department of Health and Human Services, Americans turning 65 today will spend an average of $138,000 in long-term care services. By purchasing insurance now, the Federal employees can start paying for those services that they will need well into the future.

Alarmingly, the cost for this insurance continues to rise, and on July 18, the Office of Personnel Management, better known as OPM, after signing a new contract with John Hancock Insurance to administer the program, announced that the premium rates for most enrollees will drastically increase. Premiums have increased an average of $111, representing an 83 percent increase for nearly all of the 274,000 program enrollees.

For 102,000 of these enrollees, the rate increase was between 100 and 126 percent, translating to about $200 per month extra that people must pay to maintain the coverage. These most recent premium increases come after rates have already increased in 2009 by nearly 25 percent. And for many enrollees, including some 7,500 North Carolinians who are part of this program, this cost increase has been a financial difficulty. Unfortunately, these rates—the rate increases are not limited just to the Federal program.

Premiums have increased for nearly all long-term care insurance programs in the private sector as well, as my mother has very eloquently illuminated to me. And so a large reason behind these premium increases have to do with the nature of long-term care insurance. Insurance carriers must project a host of variables, including mortality rates, voluntary lapses, interest rates, morbidity rates and the like.

The values of these variables are constantly changing, and when projected several years into the future, it makes for the actuarial assumptions to be difficult, if not off in a number of cases. This necessitates premium increases at times in order for the insurance carriers to guarantee it can cover the expected benefits. Fortunately, insurance carriers have begun to acquire actual claim data in order to make more informed assumptions.

The hearing today will provide this committee the opportunity to delve into the variables that actually must be taken into account when setting these premium rates. This hearing will also allow the committee to look at factors affecting the lack of competition for Federal programs contracts. I'm concerned only that one carrier has bid on this contract, you know, both the second and third contracts. Encouraging healthy competition for Federal long-term care insurance programs contracts is an important aspect.

And so I look forward to hearing all of your testimony that we will receive today. And I recognize the gentleman from Virginia, my good friend, the ranking member, Mr. Connolly, for his opening statements.

Mr. CONNOLLY. Thank you, Mr. Chairman. And thank you for the honorable way in which you have responded to my request to have this hearing. I really appreciate it, and you've kept your word in helping make sure we had a hearing on this very important topic. I also ask unanimous consent to enter a statement into the record from Anthony Reardon, the national president of the National Treasury Employees Union.

Mr. MEADOWS. Without objection.

Mr. CONNOLLY. I thank the chair. The Federal Long Term Care Insurance Program, also known as FLTCIP, was created in 2002 to provide affordable long-term care insurance to Federal workers and their families. The program has been administered by John Hancock Life & Health Insurance Company and overseen by the Office of Personnel Management. Although the Federal Government provides benefits to Federal employees, it is paid for by Federal employees with no government contribution.

This past July, OPM announced rate increases in the program that affected nearly all of the 274,000 FLTCIP enrollees. Like many of my constituents, I was shocked to learn that the increases averaged 83 percent, equivalent to an additional $111 per month

beyond the current premium that enrollees were paying, and nearly 40 percent of enrollees were actually subject to 126 percent.

OPM has an obligation, it seems to me, to the Federal employees enrolled in the program to provide a service that's affordable. OPM's management and John Hancock's administration of the contract has left many FLTCIP enrollees scrambling to find ways to find affordable alternatives or to pay for the increasing costs of long-term care through other methods, and that raises serious concerns. Many of my constituents are worried about how they will afford to pay increased premiums. Many are retirees on fixed income and a huge increase, which they did not expect and did not plan for, is putting them in a financially untenable position.

Although Hancock provided enrollees with a few personalized rate options, the choices are less than satisfying to most of my constituents. If enrollees choose to keep their existing long-term care coverage, they somehow have to find a way to get the additional money to pay for it. If they cannot afford to pay the increased premium, then they have to reduce their coverage to lower the cost or give it up entirely. Those are not particularly desirable options.

It's important to note that this was not the first rate increase since FLTCIP's inception. In 2009, after Hancock was awarded the FLTCIP second contract, 66 percent of enrollees were notified their premiums would increase by up to 25 percent. Prompted by the alarming increases in FLTCIP premiums in October 2009, the Senate Permanent Select Committee on Aging held a hearing to examine FLTCIP and long-term care insurance in general. Witnesses from OPM and Hancock at that time agree that the misleading language used in marketing materials led enrollees to believe they would not suffer any, much less, egregious increases in premiums. The series of dramatic rate increases over the last two contract terms are propelling FLTCIP premium prices out of reach for the average middle-class Federal employee.

When FLTCIP was established by the Long-Term Care Security Act, it was intended to be an affordable way for individuals to protect against the risk of losing all of their retirement savings because of a long-term illness. It was meant to provide a safety net for Federal employees in old age. During an April 1999 Oversight subcommittee hearing, then representative Joe Scarborough, now a television host, the lead sponsor of the bill, a Republican, stated that he hoped to make long-term care, quote, "affordable and available to all Federal employees."

Maybe we should have subpoenaed him, Mr. Chairman.

Today, we have a product that has become unaffordable for most Federal workers. It's clearly deviated from the intent of the Act. However, Federal workers are not alone here. Industry experts are saying that all middle-class Americans are struggling with the same problem. Rate increases and benefit reductions are happening in the private sector too when it comes to long-term care. And nearly all private sector companies have abandoned unlimited long-term care coverage, leaving no long-term care insurance option for those who want to guard against the risk of catastrophic long-term care costs.

I'm concerned about the future of this important kind of insurance, as I know you are, Mr. Chairman. Long-term care insurance

was designed to close gaps in coverage. Long-term care costs are not covered by Medicare or health insurance, and Medicaid only covers such costs for low-income individuals. With over 70 percent of people age 65 and older needing some long-term care during their lives and costs of semiprivate nursing homes averaging well above $100,000 annually, the necessity of this insurance seems clear.

John Hancock, one of the few remaining and largest long-term care providers in the United States serving 1.2 million enrollees, has recently announced it will be pulling out of the private sector long-term care market, as I understand it. As options for long-term care dwindle, many individuals rely on their families to provide care. However, family caregivers are becoming scarcer as baby boomers will outnumber caregivers 4 to 1 by 2030. In 2030, this baby boomer will be over 70.

This hearing not only provides an opportunity to look at ways to ensure that FLTCIP lives up to its original promise, but also understand the reasons for the rate increases so we can try to work together to find solutions to address the failing market. This problem affects hundreds of thousands of Federal employees and retirees and millions of middle-class Americans. The market has not solved this problem on its own. And today's hearing cannot be the last on the topic.

Historically, Republicans and Democrats have agreed that when the market is unable to solve a problem, the government has an appropriate role to play in finding solutions that work for American families. I feel strongly that this market failure and the exposure of many Americans to catastrophic costs deserves our attention. We've got to safeguard about affordability and stability of long-term care premium rates for middle-class Federal workers and, indeed, for all Americans.

I thank all of the witnesses for being here. And, again, thank you, Mr. Chairman, for delivering on your promise.

Mr. MEADOWS. I thank the gentleman for his eloquent words. I also would note that we will hold the record open for 5 legislative days for any member that would like to submit a written statement.

The chair notes the presence of the gentlewoman from Virginia, Mrs. Comstock is here. It is my understanding that the gentleman from Virginia, Mr. Beyer, and the gentleman from Maryland, Mr. Delaney, may indeed come as well.

We appreciate, Mrs. Comstock, your interest in this topic.

Mr. CONNOLLY. Mr. Chairman?

Mr. MEADOWS. Yes.

Mr. CONNOLLY. I would ask unanimous consent that all of those named be given the privilege of participating as if they were a member.

Mr. MEADOWS. Without objection, so ordered.

I will also ask unanimous consent to enter into the record a statement from the representative from Maryland, Chris Van Hollen, on this particular subject.

Without objection, so ordered.

Mr. MEADOWS. We'll now recognize our panel of witnesses. I'm pleased to welcome Mr. Michael Doughty, president and general

manager of John Hancock Insurance. Welcome. Mr. John O'Brien, senior adviser for health policy at the U.S. Office of Personnel Management. Welcome, Mr. O'Brien. Ms. Laurel Kastrup, chair of the Health Financial Reporting Insolvency Committee at the American Academy of Actuaries. Thank you for being here. Mr. Richard Thissen, national president of the National Active and Retired Federal Employees Association. Welcome. And Mr. Marc Cohen, clinical professor of gerontology at the University of Massachusetts Boston. Welcome to you all. And pursuant to committee rules, all witnesses will be sworn in before they testify. So if you would please rise and raise your right hand.

Do you solemnly swear or affirm that the testimony you're about to give will be the truth, the whole truth, and nothing but the truth?

Let the record reflect the witnesses answered in the affirmative.

You may take your seat. In order to allow time for discussion, we would ask that you would limit your oral testimony to 5 minutes. Your entire written statement, however, will be made part of the record.

And so I'd like to go ahead and recognize you, Mr. Doughty, for 5 minutes.

WITNESS STATEMENTS

STATEMENT OF MICHAEL DOUGHTY

Mr. DOUGHTY. Thank you, Chairman Meadows, Ranking Member Connolly, and members of the subcommittee. I'm Mike Doughty, president and general manager of John Hancock Insurance. I oversee John Hancock Insurance products, including the Federal long-term care program.

I appreciate the opportunity to be here today to discuss the Federal Long Term Care Insurance Program and the contract that OPM awarded to John Hancock Life & Health Insurance Company in April 2016. John Hancock has been involved with the program since its inception, and we remain committed to providing a strong and financially sound long-term care insurance product for Federal employees.

We recognize enrollees' legitimate concerns about the premium increase and the very real impact that it will have on people's lives. I appreciate the opportunity to address that increase, the reasons that it was necessary, and the steps that John Hancock has taken, in coordination with OPM, to provide enrollees with alternative options designed to mitigate the financial burden of the rate increase.

Congress created the Federal Long Term Care Insurance Program 16 years ago. Under the authorizing legislation, OPM conducts a competitive bidding process and awards a 7-year contract to a company to provide long-term care insurance. Regardless of the company that received the contract, the legislation has a unique feature that requires all funds, premiums, and investment returns, to be maintained separately in a fund called the Experience Fund. The Experience Fund is used exclusively for the program's assets and liabilities, and it transfers to a new carrier if OPM awards the contract to another provider.

Also, the Experience Fund receives no taxpayer money. All benefits are paid by the enrollees' premiums and the fund's investment returns. For these reasons, it is critically important that the premiums and the projected investment returns of the Experience Fund match the projected claims that enrollees will make many decades into the future. The entire industry has learned that making predictions about claims in the far-distant future is very challenging. But it was these projections that made the recent premium increase necessary.

In 2013, John Hancock observed trends in our non-Federal long-term care insurance policies that we determined could affect the Federal program. So we began an assessment of the Federal program. The review of the Federal program, which was completed in May 2014, showed that the Experience Fund would experience a deficit in the future. We found that new claims were increasing, particularly at older ages, claims were lasting longer than expected, and policies with higher daily benefits had higher than expected claims. We continued to evaluate the data.

Overall, the data revealed changes in mortality rates, people are living longer than previously expected; morbidity rates, more people are requiring long-term care and for longer periods of time; and investment changes. We have been in a sustained period of low interest rates.

On page 7 of my written testimony, there is a chart that captures the effects of these changes. The Experience Fund was projected to enter a deficit between 2035 and 2040 without a premium change. With the premium change, the Fund is projected to maintain funding sufficient to cover all enrollees' projected future claims.

Both John Hancock and OPM have a contractual obligation to adjust the premiums to make sure that the Experience Fund is able to meet the needs of enrollees for many decades into the future. And that's what we did. Importantly, these projections were reviewed by John Hancock's experts, by OPM, by John Hancock's independent actuarial firm, and by OPM's independent actuarial firm.

Next, recognizing the significance of the premium change, John Hancock worked closely with OPM on the implementation.

First, we created a program to communicate with enrollees about the premium increase, including a Web site, webinars, videos, FAQs and a professionally staffed call center.

Second, we created several alternative options which were designed to permit enrollees to adjust their coverage in light of the premium increase.

Finally, Mr. Chairman, I want to note that John Hancock agreed, in our new contract with OPM, to reduce the charges that we receive under the contract so that John Hancock will not have an increased profit from this rate increase.

Thank you for the opportunity to be here today. I look forward to discussing possible ways to strengthen the Federal Long Term Care Insurance Program, and I would welcome the opportunity to answer your questions.

[Prepared statement of Mr. Doughty follows:]

Statement
of
John Hancock Life & Health Insurance Company

Presented by
Michael Doughty
President and General Manager, John Hancock Insurance

Before the
Subcommittee on Government Operations
Committee on Oversight and Government Reform
United States House of Representatives

Hearing on "Federal Long Term Care Insurance Program: Examining Premium Increases"

November 30, 2016

Chairman Meadows, Ranking Member Connolly and Members of the Subcommittee:

I am Mike Doughty, President and General Manager, for John Hancock Insurance.

John Hancock is one of the two original insurers of the Federal Long Term Care Insurance Program (FLTCIP), and is one of the largest insurers of both group and individual long term care insurance, based on the number of policies in force. John Hancock appreciates the opportunity to appear before you today to discuss the features of the program under the new contract that was awarded to John Hancock Life & Health Insurance Company by the U.S. Office of Personnel Management (OPM) on April 5, 2016, including pricing, consumer support available to enrollees under the program, and the extensive communications we have put in place to assist members of the federal workforce and their families.

We especially want to address the rate increase, why it was necessary, and to explain the steps we took, along with the Office of Personnel Management, to give enrollees affected by this significant rate increase, viable, alternative options. We recognize the financial burden the increase places on enrollees. We want to emphasize to the Committee that John Hancock does not — and cannot, according to the terms of the new contract — make additional profit on the premium increase amount. The new contract, contract number OPM-3516C0004 ("the contract"), became effective May 1, 2016 and will continue until April 30, 2023.

General Information about John Hancock

John Hancock, through its insurance companies, comprises one of the largest life insurers in the United States, and has been in the business of insuring American lives since 1862. Throughout its 154 year history, John Hancock has been a leading innovator in product design and a leading provider of insurance and investment products to consumers, providing Americans security through their working years and retirement. As you may be aware, John Hancock recently announced its decision to discontinue selling new standalone long term care policies because the small demand for the product did not warrant the expense of the operational infrastructure required to support it going forward. However, this decision does not impact the Federal Long Term Care Insurance Program. The federal program is managed separately, and the Experience Fund, where the program's assets are kept, is also separate. Under the Office of Personnel Management's oversight and management, John Hancock will continue to issue coverage under the Federal Long Term Care Insurance Program to eligible enrollees who apply.

John Hancock will continue to offer long term care as riders to life insurance policies, and will also continue to service more than one million long term care customers with existing policies. To date, John Hancock has paid more than $8.5 billion in long term care claims for its group and retail business, plus over $750 million in claims for the Federal Long Term Care Insurance Program since the program began in 2002. Currently, John Hancock pays out over $1.2 billion per year in claims, plus over $168 million for the federal program.

Knowing how important claim payment is to policyholders, John Hancock supported including an independent third-party review process in the enabling legislation for the Federal Long Term Care Insurance Program. Subsequent to this, in 2008, John Hancock was the first

company to launch an independent third-party review process for its non-FLTCIP long term care insurance policyholders. John Hancock did this before either the National Association of Insurance Commissioners (NAIC) or states required such a provision. John Hancock did this to give its policyholders reassurance that any disputed benefit eligibility or claim decision would provide recourse from a neutral party. Under this provision, the decision of the independent third party is binding upon John Hancock, but not on the policyholder. John Hancock continues to believe that independent third party review is an important consumer protection. A similar third party appeal provision has been built into the Federal Long Term Care Insurance Program since the program's inception.

As evidenced by our decision to bid on the 2016 Contract, John Hancock is committed to the Federal Long Term Care Insurance Program and its enrollees.

We believe that a history of financial strength and stability is important to consumers considering the purchase of long term care insurance and can be a market differentiator. John Hancock has strong ratings for financial strength and stability, as noted below:

Financial Strength Ratings

	Standard & Poor's	Moody's	A.M. Best	Fitch	DBRS
The Manufacturers Life Insurance Company	AA-	A1	A+	AA-	AA (low)
John Hancock Life Insurance Company (U.S.A.)	AA-	A1	A+	AA-	
John Hancock Life Insurance Company of New York	AA-	A1	A+	AA-	
John Hancock Life & Health Insurance Company	AA-	A1	A+	AA-	
Manulife (International) Limited	AA-				
Manulife Life Insurance Company	A+				

Source: http://www.manulife.com/Credit-Ratings. All ratings current as of August 31, 2016. Credit rating agencies assign financial strength or credit ratings to Manulife Financial, its subsidiaries and its securities.

What is Long Term Care Insurance?

Long term care services help people meet their basic personal needs. Given the high costs of long term care (for example, nursing home costs average in excess of $100,000 per year in metropolitan areas, while assisted living and home health care services average more than $50,000 in many places), many choose to purchase insurance to help meet their long term care needs. Long term care insurance provides coverage for costs incurred by individuals in need of help with activities of daily living, such as dressing and bathing—or for services needed due to cognitive impairment. Long term care costs are generally not covered by health insurance.

Participants in long term care insurance programs pay premiums in the present for claims that are generally not expected to be paid out for 20 or 30 (or more) years.

General Information about Long Term Care Partners, LLC

The size, scale, and visibility of the Federal Long Term Care Insurance Program led the program's original joint insurers, John Hancock and MetLife, to establish a separate entity to administer the program. Since the inception of the program in 2002, Long Term Care Partners, LLC has handled all aspects of administration. Long Term Care Partners is also the administrator of BENEFEDS, through which it performs enrollment and premium administration for the Federal Dental and Vision Insurance Program (FEDVIP) and handles premium allotments for the Federal Flexible Spending Accounts Program (FSAFEDS).

The staff of Long Term Care Partners brings deep experience in the long term care insurance business, sensitivity to the federal workforce, annuitant, and military communities, and proven capability to use information technology to build customer-focused systems, automate transactions, and enhance customer access, in order to assist enrollees and their families. Long Term Care Partners is subject to, and consistently meets, very high performance and customer service metrics established by the Office of Personnel Management. Additionally, Long Term Care Partners prides itself on the high caliber of service it provides to enrollees and their families with its outstanding care coordination personnel, staffed by registered nurses with clinical experience in long term or geriatric care.

Background on the Federal Long Term Care Insurance Program

The legislation establishing the Federal Long Term Care Insurance Program was signed into law on September 19, 2000, and was a bipartisan effort to make long term care insurance available to federal employees, annuitants, the military, and their eligible family members.

The Federal Long Term Care Insurance Program is regulated by the Office of Personnel Management.

After a full and open competitive bidding process, the Office of Personnel Management awarded the first seven-year contract to a consortium under which John Hancock and Metropolitan Life Insurance Company (MetLife) jointly insured the program. For both the second contract period (May 2009 to April 2016) and the third contract period (May 2016 to April 2023), the Office of Personnel Management again conducted a full and open competitive bid process, and awarded the contracts to John Hancock, the only entity to submit a compliant bid.

The Federal Long Term Care Insurance Program Experience Fund & How It Works

The legislation creating the Federal Long Term Care Insurance Program requires the insurance providers to account for all premiums received for the Federal Long Term Care Insurance Program — and to track investment returns — separately from all other funds. John Hancock maintains a separate account for the Federal Long Term Care Insurance Program,

known as the Experience Fund, that is used exclusively for the program's assets and liabilities. Pursuant to the statute, the Experience Fund receives all premiums collected and investment income earned. This funding approach allows for a seamless transition to a successor carrier, as was the case in 2009, when the MetLife/John Hancock consortium ended and John Hancock became the sole successor carrier. The statute also requires that enrollees pay the entire premium for the coverage, so that no taxpayer dollars subsidize enrollee premiums.

Some key points regarding the structure of the Federal Long Term Care Insurance Program and its Experience Fund include the following:

- Assets in the Experience Fund must be used exclusively to pay Federal Long Term Care Insurance Program claims, expenses, and risk charges.
- The Experience Fund must have sufficient funding to cover all current and projected claims and program expenses for all current enrollees in the program.
- Determining the balance of the Experience Fund at any given point in time requires projecting the expected total liability decades into the future, until the last claim is covered, which, for the current enrollee population, is likely to be around the year 2085.
- The only source of the funding to pay claims is the premiums deposited in the Experience Fund and investment income earned.
- All investment gains or losses and any surplus belong to the Experience Fund, not to John Hancock.
- The Experience Fund is reviewed regularly by John Hancock and the Office of Personnel Management, and is subject to external, independent audit as of September 30 of each year.
- Risk charges contractually payable to John Hancock and to the program administrator, Long Term Care Partners, are set by formula, capped, and subject to performance metrics established by the Office of Personnel Management.
- As of September 30, 2015, the Experience Fund had assets of $4.8 billion.

What Caused The Need For A Rate Increase?

Sustainability is a critical and required aspect of the Federal Long Term Care Insurance Program and the Experience Fund. By law and under the contract, premiums must "reasonably and equitably reflect the cost of the benefits provided." Premiums may be adjusted under the contract as necessary to achieve overall Federal Long Term Care Insurance Program funding sufficiency.

In the Fall of 2013, we observed trends in our non-FLTCIP business that could affect the federal program, so we began an assessment of that program as well. This review was completed

in May 2014 and led John Hancock to conclude that the Experience Fund would experience a deficit – *i.e.*, then current premiums would not be sufficient to cover projected claims for current enrollees. We found that new claims were increasing, particularly at older attained ages, claims are lasting longer than expected and that policies with higher daily benefit amounts were exhibiting disproportionately higher claims.

We concluded our initial analysis in May 2014 and presented the conclusions to the Office of Personnel Management in June 2014, during a "funded status" meeting. We continued to evaluate our assumptions for investment returns and future mortality and morbidity improvements.

The premium rate increases effective November 1, 2016, reflect changes to John Hancock's actuarial assumptions based on its 2013-2014 study and subsequent changes to assumptions for future investment returns and future mortality and morbidity improvements. These changes were intended to correct for the following trends:

- **Morbidity Rates** – Claims are lasting longer than expected, and more people than expected are claiming at the older attained ages and later policy durations.

- **Investment Returns** – Returns are lower than expected, due to the sustained low interest rate environment.

- **Expectations of Future Mortality Improvement**, informed by a new table published by the Society of Actuaries in 2014.

Similar trends have caused long term care carriers nationwide to seek rate increases. Prior to the increase, there was a funding shortfall of $2.3 billion, as of September 30, 2015.

This does not mean money had been lost or that the Federal Long Term Care Insurance Program Experience Fund had a negative balance. On the contrary, the program had ample funds to reimburse projected claims for many years to come. There was no current liquidity or solvency issue. The funding shortfall reflected the results of *projected* liabilities exceeding *projected* assets, based on new assumptions about future claims usage and investment returns. The 2016 premium increase was, in effect, a course correction that addressed this shortfall by bringing the program's projected assets and liabilities into alignment.

John Hancock cannot guarantee that rates will not have to be increased in the future. As is the case for all long term care insurance — not just the Federal Long Term Care Insurance Program — John Hancock is required to price using assumptions that will result in premiums that are sufficient, along with a reasonable margin to absorb the impact of moderately adverse (*i.e.*, moderately worse than expected) claims experience. This pricing is intended to cover all claims for existing enrollees, *unless* the underlying assumptions change and an adjustment to the premiums becomes necessary. The Federal Long Term Care Insurance Program needed a rate increase when the actuaries determined, in mid-2014, that the rates were not adequate based on new data and emerging claims trends. The revised assumptions were reviewed by independent actuarial firms. Both John Hancock and the Office of Personnel Management have a contractual

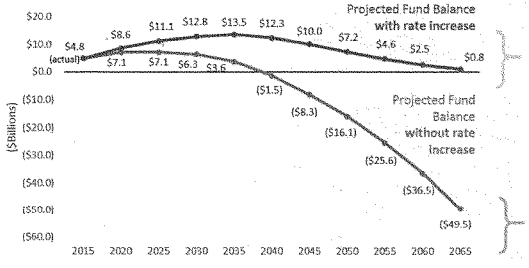
responsibility to adjust current premiums where necessary to achieve overall program funding sufficiency.

The importance of new and credible data are critical to determining long term care pricing, and the more data that emerges, the more accurately actuaries can price coverage. As displayed in the chart below, *without the 2016 premium increase*, projections indicated underfunding that would have accelerated over time if left uncorrected, and if claims had exceeded the expected claims, including a margin for adverse experience. By 2039, under this scenario, the program's Experience Fund would have run out of money, based on the revised assumptions.

However, *with the 2016 premium increase*, as shown below, the Experience Fund is projected to maintain funding sufficient to pay all current enrollees' projected future claims, including a margin for adverse experience, over the life of the business.

John Hancock does not make additional profit on the premium rate increase amount. Any surplus remains in the Experience Fund and can only be used for the benefit of plan participants. If actual future experience after the 2016 rate increase is equal to or better than current expectations, the resulting surplus ultimately could be used to reduce premiums of enrollees, or to enhance their benefits.

Projected FLTCIP Fund Balance, with and without rate increase, 2016-2045
(in $ billions; values shown at fiscal year end; based on 9/30/2015 Funded Status Report)



Note: The chart above—which applied to the FLTCIP enrollee population (274,465 as of 5/31/16) before the 2016 rate increase – illustrates the fund's projected cumulative balance over time ***with and without the rate increase,*** *including a margin for adverse experience, as is consistent with industry pricing practice. John Hancock conducts a comprehensive experience study for its long term care business typically every three years. Its most recent comprehensive review of claims experience was completed in 2014. The projections in the above chart reflect changes to John Hancock's actuarial assumptions based on this study.*

With the 2016 premium increase, *the FLTCIP Experience Fund is projected to maintain funding sufficient to pay all current enrollees' projected future claims, with a margin included for adverse experience, over the life of the business.*

John Hancock does not make additional profit on the rate increase; any surplus remains in the Experience Fund, and can only be used for the benefit of plan participants. If actual future experience is equal to current expectations, the resulting surplus ultimately will be used to reduce premiums or enhance benefits.

Without the 2016 premium increase, *projections indicate underfunding that would accelerate over time if left uncorrected and claims exceed expected, with a margin included for adverse experience. By 2039 the FLTCIP Experience Fund would run out of money, based on revised assumptions.*

Preparing for the Enrollee Decision Period

On April 5, 2016, statements by both the Office of Personnel Management and John Hancock about the third contract award noted that:

- A rate increase for current enrollees was part of the third contract.
- In the summer of 2016, enrollees would be provided with benefit restructuring options to help offset or mitigate the increase.
- Further details would be forthcoming.

On July 17, 2016, changes to the Federal Long Term Care Insurance Program website, LTCFEDS.com, went live, including:

- A banner announcing the onset of the Enrollee Decision Period.
- Enhanced online accounts allowing enrollees to log in and view their personalized options.
- Additional tools, including videos and webinars, accessible through enrollee accounts.

Formal announcements with details about the rate increase and meetings with stakeholders began on July 18, 2016, to coincide with the Federal Long Term Care Insurance Program Enrollee Decision Period service centers being fully staffed and operational, and the initial mailings of customized option packages being sent to affected enrollees. All mailings were completed by July 27, 2016.

Background and preparation for the Enrollee Decision Period

John Hancock submitted a bid for the third Federal Long Term Care Insurance Program contract on October 16, 2015. Although John Hancock did not know at the time if it would be awarded the contract, in anticipation of a possible award, John Hancock and the administrator, Long Term Care Partners, spent months developing enrollee options and system requirements for this complex effort. Once the contract was awarded, John Hancock and the Office of Personnel Management worked together to put in place the systems and communications that would enable enrollees to make informed choices, including well-trained representatives in Long Term Care Partners' call centers who were adequately staffed and had access to tools that would allow them to provide high quality personalized service to program enrollees. Consequently, when the Enrollee Decision Period began on July 18, 2016, everything enrollees needed in order to receive support and take action on their personalized options was in place.

The contract reflected that there would be a rate increase, resulting in new higher premiums. The increase affected most of the program's 272,000 enrollees, with the exception of those 80 years or older at the time of their original enrollment, those currently in claim status, those who applied to the program on or after August 1, 2015, and those enrolled in the Alternative Insurance Plan (a plan available to those who did not pass underwriting for long term care insurance under the Federal Long Term Care Insurance Program). Before the increase, the average monthly premium was $134. The average monthly increase was $111, representing an average increase of 83% if an enrollee accepted the rate increase and did not elect one of the

alternative personalized options in the offer package. Increase amounts varied widely, from 0% to 126%, depending on a given enrollee's age at time of enrollment, policy series originally purchased, and plan design. Generally speaking, enrollees with older plans (FLTCIP 1.0) that have longer benefit periods (5 year and unlimited benefit period) — as well as higher inflation options (*e.g.*, 5% and 4% automatic compound inflation coverage) and younger ages as of the date the policies were issued — faced the highest rate increases.

John Hancock and the Office of Personnel Management considered implementing graduated or "stepped" premium increases over several years in order to reduce the immediate impact of the increase. But in addition to adding complexity and potential confusion, extending the period over which the rate increases would be administered would have resulted in enrollees ultimately paying more — up to 13% more for some plan designs — since the increase would now have to take into account — and correct for — additional years of inadequate premiums. Instead, the current "all-at-once" approach was adopted, with personalized options for enrollees to help mitigate the rate increase.

Enrollee Options to Mitigate the Rate Increase

John Hancock and the Office of Personnel Management recognized the budgetary strain that a rate increase can have on enrollees especially those on fixed incomes. To help ease the burden, all affected enrollees were provided with options to help reduce the impact of their rate increase, or eliminate it altogether, by reducing their plan coverage. A personalized option package was mailed to all affected enrollees. The package allowed enrollees to select from among the following, depending on the specifics of their coverage:

- Choose a "premium neutral option" to fully offset the premium increase (in some cases, this option may substantially reduce the rate of future inflation protection growth or benefits).

- Choose a partial increase, accepting roughly half the premium increase along with moderate benefit package reductions.

- Accept the full increase and retain current benefits and inflation protection.

- Cease premium payments and receive a limited "paid-up" policy with a greatly reduced lifetime maximum benefit (available only to enrollees whose premium has increased beyond a certain percentage based on the age of the person as of the date the policy was issued).

Enrollees had until September 30, 2016, to make a decision and could change their decision as often as they wanted until this deadline. After this date, enrollees still had time to make or change their decision; in mid-October, enrollees were mailed an updated Schedule of Benefits, reflecting the new premium and benefits effective as of November 1, 2016, and were given a period of 30 days from receipt of their new Schedule of Benefits to make a change or selection from any of the options that were included in their personalized options packages

mailed in July. Whatever the final decision, the effective date of the change was November 1, 2016.

Even after November 1, 2016, as has always been the case, enrollees can make changes to their coverage, such as decreasing their coverage, although the personalized options from the Enrollee Decision Period would no longer be available.[1]

As of November 16, 2016, more than 96% of enrollees who have responded have chosen either to accept the increase or to take one of the benefit reduction options. So far, about 3.3% have chosen to discontinue coverage or receive the "paid-up" option. In short, the vast majority of enrollees are opting to keep their coverage and not drop it, presumably because they recognize the value of the coverage, even with the rate increase. As of November 16, 2016, there are about 266,000 active, premium-paying enrollees. About 6,000 additional enrollees elected the "paid-up" option, giving them a fixed amount of coverage without further premium payments.

We recognize the desirability of finding ways to address rate stability going forward. As a result, we have formed a working group with the express purpose of evaluating program, product, and regulatory changes that could improve the stability of rates for the Federal Long Term Care Insurance Program. This working group will include members drawn from John Hancock, Long Term Care Partners, and OPM. The group will solicit input from top long term care insurance industry experts, and, upon completion will present a set of recommendations to the Office of Personnel Management.

The Federal Long Term Care Insurance Program Has Helped Enrollees with Their Long Term Care Needs

In the absence of private insurance, or access to publicly funded programs, Americans have no choice but to bear the burden of long term care costs out-of-pocket. Potential long term care needs pose the largest unfunded liability facing the American family today. When the costs of long term care have to be borne by individuals, the assets accumulated over a lifetime of hard work can be and often are wiped out.

A brief look at the Federal Long Term Care Insurance Program claims data tells a compelling story about the value of the coverage to enrollees. Since the start of the Federal Long Term Care Insurance Program in 2002, the program has paid over $750 million in claims to program enrollees and currently pays more than $14 million in such claims per month. As of October 31, 2016, more than 11,700 enrollees have received claim reimbursement, and over 4,500 enrollees are currently in claim status. We project that in the year 2040 alone, claims for those currently enrolled in the program will exceed $1 billion, which illustrates the expected growth in claims and underscores the need to ensure that the program is adequately funded.

Just looking at the 20 largest claims for the program, as of November 21, 2016:

[1] The personalized options cannot remain available indefinitely because they were calculated to be actuarially equivalent for the various populations at the time of the Enrollee Decision Period. Those populations will change over time and they would no longer be actuarially equivalent in the future.

- Total claims dollars paid to date for 20 largest claims/claimants = $12,202,780.02.
- Total premium paid by these top 20 claimants = $374,252.59.
- Of these top 20 claims, 12 remain open.
- Total amount of claims dollars paid to these top 20 claimants ranges from $505,376.09 - $895,781.28.
- 16 of the top 20 have unlimited benefit periods and 10 of these remain open.

There have been numerous reports about rate increases in the private long term care insurance market. But while private long term care insurance is not perfect, it would be wrong to dismiss it out of hand. Private long term care insurance is still sought by tens of thousands each year looking for relief from the financial impact and stress of long term care needs. Throughout the Enrollee Decision Period the number of new applications to the program has remained constant or higher than prior to the start of the Enrollee Decision Period.

The Federal Long Term Care Insurance Program contains a number of specialized features and benefits that have proven to be helpful and meaningful to members of the federal family, such as international benefits, care coordination by licensed registered nurses, third party review of disputed claims, no war exclusion, a generous informal care/family care benefit paid at 100% to name a few, as well as a track record of meeting or exceeding stringent performance metrics set by the Office of Personnel Management.[2]

Thank you, Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee for the opportunity to speak to you today and to offer this testimony. I will be happy to answer any questions you may have.

[2] The performance metrics are established as part of the contract and are reported annually in the Quality Assurance Surveillance Plan (QASP), which is submitted to the Office of Personnel Management for review.

Mr. WALBERG. [Presiding.] I thank the gentleman.
And I recognize Mr. O'Brien for your 5 minutes of testimony.

STATEMENT OF JOHN O'BRIEN

Mr. O'BRIEN. Thank you, Vice Chairman Walberg, Ranking Member Connolly, members of the subcommittee. Thank you for the opportunity to testify on the Federal Long Term Care Insurance Program.

OPM's mission is to recruit, retain, and honor a world-class Federal workforce to serve the American people. Part of that mission requires OPM to administer benefits, including the insurance product such as the Federal Long Term Care Insurance Program, for Federal employees, annuitants, and their families.

At the outset, let me make clear that I share the committee's frustration that premiums needed to be raised by such a significant amount. I and my colleagues at OPM are painfully aware of the financial burden and hard choices those premium increases placed on participants. However, we cannot avoid our primary responsibility to those participants to assure that when the time comes for someone to use the benefit that they have paid for, the funds will be there to deliver those services.

The Federal Long Term Care Insurance Program currently serves roughly 270,000 members whose premiums cover 100 percent of program's costs. All those premiums and the income those premiums generate is held in a single Experience Fund by John Hancock. While the fund is held by John Hancock, it belongs to the program and not the insurer. The Federal Long Term Care Insurance Program must assure that it can provide benefits decades into the future. Therefore, premiums must be based on long-term projection of both costs and revenues.

We are here today because at the end of the most recent contract cycle, the long-term insurance program had to respond to two hard facts. First, estimates of long-term care costs are increasing. And second, projection of long-term revenues to support those costs are decreasing. The confluence of higher anticipated costs and lower anticipated returns is not unique to the Federal Long Term Care Insurance Program. The entire long-term care insurance market faces this challenge.

Given these circumstances, increased premiums were necessary for the long-term viability of the Experience Fund. Without the increase, there would be an unacceptable risk that the Experience Fund would not have sufficient funds to pay for future claims.

In order to test the market and ensure that the reasonable efforts were made to attract the most competitive proposal, OPM made the decision to recompete the contract. John Hancock was the sole bidder, and OPM awarded the contract in April 2016. The premium rates proposed by John Hancock were reviewed by OPM's staff and its actuaries. In addition, OPM contracted with a separate independent actuary to evaluate the proposed premium rates and confirm the reasonableness of the assumptions used.

While the long-term viability of the Experience Fund made a substantial rate increase necessary, OPM was well aware of the economic hardship that the rate increase would cause participants. OPM's priority became to do all it could to ensure that enrollees

had the information and opportunity to make informed choices about the costs and benefits of coverage in light of their own circumstances and needs.

Working with John Hancock and long-term care partners, we conducted an enrollee decision period from July the 18 to September 30. Outreach efforts included three direct mailings to enrollees with personalized information about the rate increase and options that they could use to adjust their benefit package to reduce their premium or keep the same premium; a Web site, also with personalized information, as well as a set of informational videos that explain benefit options; and finally, a fully staffed call center that assured individuals could get their questions answered by a real person.

In large part, the enrollees took advantage of this enrollee decision period. By the end of October, 172,000 enrollees, or just shy of two-thirds of the entire population, took some action in response to the premium changes. Of those who took action, most chose to keep their premium constant by reducing their benefit package.

While OPM remains committed to the FLTCIP program and the individuals it serves, we must also acknowledge that the long-term care insurance marketplace has changed substantially from 2002 when the program started. At that time, over 100 insurers offered long-term care products. Today, only a handful of insurers are actively selling long-term care insurance, and those insurers are primarily serving individuals by individual policies rather than group plans.

The challenge of matching premiums with long-term costs and revenues is real and ongoing. OPM staff is and will continue to closely monitor these trends and what it means for the long-term care insurance program and work to ensure that participants have an array of options to meet their needs.

Thank you for the opportunity to testify today, and I am happy to address any questions you may have.

[Prepared statement of Mr. O'Brien follows:]

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF
JOHN O'BRIEN
SENIOR ADVISOR FOR HEALTH POLICY
U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON GOVERNMENT OPERATIONS
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

on

"Federal Long-Term Care Insurance Program: Examining Premium Increases"

November 30, 2016

Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee:

Thank you for the opportunity to testify today on the Federal Long Term Care Insurance Program (FLTCIP). The Office of Personnel Management's (OPM) mission is to recruit, retain and honor a world-class workforce to serve the American people. A part of that mission requires OPM to offer and administer benefits, including insurance products, such as FLTCIP, for Federal employees, annuitants and their families.

FLTCIP provides long term care insurance to help pay for the costs of care when enrollees need assistance with activities of daily living or have severe cognitive impairment, such as may occur with Alzheimer's disease. Most Federal and U.S. Postal Service employees and annuitants, active and retired members of the uniformed services, and their qualified relatives are eligible to apply for coverage. FLTCIP provides reimbursement for nursing home stays, assisted living facilities, hospice stays, respite care, caregiver services, home care, adult day care services, and both formal and informal caregiver services. The various plan options within FLTCIP allow coverage and premiums based on a combination of the daily benefit amount; the benefit period; the maximum lifetime benefit; and the degree to which the benefit will grow with inflation.

Statement of John O'Brien, Senior Advisor for Health Policy
U.S. Office of Personnel Management

November 30, 2016

FLTCIP is the largest employer-sponsored long term care insurance program in the nation with approximately 274,000 enrollees. It is also a voluntary, 100% employee-paid benefit, meaning that enrollees' premiums cover all program costs. Premiums from enrollees are deposited in a separate, FLTCIP-only Experience Fund that is held and managed by the insurer. As the sponsor of FLTCIP, OPM has an obligation to ensure the Experience Fund is sufficiently funded. OPM knows that the premium increases can pose a financial hardship for many enrollees, but we are committed to ensuring that funds are available to pay claims decades into the future.

Background

FLTCIP was established as a result of the Long-Term Care Security Act (Public Law 106-265) (the Act), which was passed in 2000. In 2002, OPM contracted with Long Term Care Partners, LLC, which was a joint partnership of John Hancock Life Insurance Company (John Hancock) and Metropolitan Life Insurance Company, to manage the application process and the administration of claims. For the initial contract term, both John Hancock and Metropolitan Life Insurance Company provided long term care insurance for FLTCIP enrollees.

Under the terms of the Act, the long term care insurance contract is for a term of seven years, unless terminated earlier by OPM in accordance with contract terms. OPM awarded the second contract to John Hancock, bidding for itself only, in April 2009. This second contract increased premium rates by up to 25 percent for certain existing enrollees. Although the FLTCIP benefit booklet has always stated the conditions under which premiums might increase, we understand some enrollees felt that the program could have been more clear regarding potential premium increases. In response, since the 2009 premium increase, OPM has taken additional steps in print and electronic materials to emphasize the potential for rate increases in the future.

Eligible individuals can apply to FLTCIP at any time with full underwriting. In addition, new employees to the Federal Government and their spouses have 60 days to apply for coverage with abbreviated underwriting. In 2011, OPM announced the second open application period for FLTCIP. The open application period allowed eligible employees and their spouses to apply with abbreviated underwriting.

OPM continually monitors the performance of FLTCIP through standards agreed upon in the contract between OPM and John Hancock. John Hancock provides OPM with semi-annual funded status reports that include information on the Experience Fund and premium rates. In addition, John Hancock meets with OPM to review the status reports as well as investment results and strategy. Finally, OPM and John Hancock discuss the operational aspects of FLTCIP on a monthly basis.

OPM was first notified of a projected potential funding shortfall in the Experience Fund by John Hancock in June 2014. A potential funding shortfall means that the projected costs of the program over the projected lifetime of enrollees may exceed the projected resources available to cover those expenses (available assets plus future premiums plus investment returns). The primary driver of this projected shortfall was John Hancock's reassessment of the long term costs of the program based on the costs of current enrollees receiving benefits along with actuarial projections of how much those costs would be in future years when a greater percentage of

enrollees begin to collect benefits. At this time, OPM began the process for determining the appropriate acquisition method for the next FLTCIP contract.

Subsequently, in accordance with the 2009 contract, in April 2015, John Hancock submitted proposed increased premium rates for current and future enrollees. The new pricing, in addition to reflecting higher anticipated claims, also adjusted for changing trends in morbidity and mortality rates as well as in investment experience. In other words, prices for long term care insurance are based on projections about future investment returns. Future investment returns are affected by economic indicators such as interest rates and other market conditions. The historically low interest rates that were experienced in the time period between the 2009 contract and John Hancock's June 2014 Experience Fund update had a very significant impact on the future investment return projections. This has been the case across the long term care insurance industry, as insurers are making changes to assumptions based on claims data and investment experience resulting in premium increases.

As previously mentioned, enrollees' premiums in FLTCIP cover all program costs, and those premiums are maintained in the Experience Fund. Under the Act, premiums must "reasonably and equitably reflect the cost of the benefits provided" and the increased premium levels were necessary to secure the stability of the Experience Fund. Without the increase, there would be an unacceptable risk that the Experience Fund would not have sufficient funds in the future to pay the claims of those who are counting on it. OPM decided to not delay or gradually increase the premiums as this most likely would require an even greater increase in premiums for enrollees in the future.

The April 2015 proposed premium rates for current and future enrollees would have taken effect at the beginning of the third contract term and operated as a contract extension which is allowed per the contract. As the second contract term was nearing its end, OPM made the decision to recompete, rather than extend, the existing contract and issued a Request for Proposals (RFP) in September 2015. OPM reached this decision in order to ensure that reasonable efforts were taken to attract the most competitive proposal for the upcoming third contract. Effective August 2015, premiums for future FLTCIP applicants were increased.

As it had in the prior FLTCIP contracts, OPM instructed that carriers must follow the National Association of Insurance Commissioners model regulation when setting premium rates. John Hancock was the sole bidder to the September 2015 RFP and proposed similar premiums to those first proposed in April 2015, with minor modifications. After conducting its procurement review and analysis of John Hancock's proposal, including obtaining an independent actuarial evaluation of the proposed premium rates, OPM awarded the third contract to John Hancock in April 2016. Under this contract, premium rates for existing FLTCIP enrollees were increased significantly as of November 1, 2016. Under the new contract, Long Term Care Partners continues to serve as administrator of FLTCIP.

2016 Premium Increase

In April 2016, OPM announced the new contract award and that premiums would increase for FLTCIP enrollees. Subsequently, in July 2016, OPM provided personalized information detailing how the premium increase would impact each FLTCIP enrollee. The amount of the

increase depended on the given enrollee's age at the time of enrollment, the plan design, and the plan originally purchased (FLTCIP 1.0 or FLTCIP 2.0). For enrollees subject to a rate increase who maintained their existing coverage, the increase varied widely from no increase to an increase of 126 percent. The average monthly increase amount was $111, which represented an average increase of 83 percent. The increase did not impact the following: enrollees who purchased at 80 years or older; enrollees eligible for benefits or awaiting decision on a paid claim; enrollees that enrolled after August 2015; and enrollees in the Alternative Insurance Plan, which is a long term care insurance plan that offers some benefits for applicants with certain medical conditions.

2016 Enrollee Decision Period

In order to assist enrollees with making a decision about their coverage, OPM took a number of steps to communicate and explain the changes in premiums during the 2016 Enrollee Decision Period. The Enrollee Decision Period provided enrollees impacted by the premium increase with an opportunity to make coverage changes. Starting in July 2016, impacted enrollees received offer packages with personalized options that would allow them to reduce the impact of the rate increase, or eliminate it all together, by reducing plan coverage. In addition, there were webinar tutorials, online instructional videos, and experienced program consultants available at Long Term Care Partners to provide additional support. Enrollees had until September 30, 2016 to make a decision about their plan coverage. In mid-October, Long Term Care Partners sent a new schedule of benefits to each enrollee impacted by the premium rate increase. Enrollees had 30 days from the receipt of this new schedule of benefits to change their election, if desired.

During the 2016 Enrollee Decision Period, over 172,000 enrollees submitted their selection, with a response rate of over 65 percent. Over 96,000 enrollees chose the option to keep their premiums the same by reducing benefits. Long Term Care Partners handled approximately 86,000 calls, with an average speed to answer of 12 seconds. The FLTCIP website had over 320,000 visits. Other website tools provided to enrollees such as frequently asked questions and rate quote calculator were viewed over 49,000 and 63,000 times, respectively. It was our priority to enable enrollees to make informed choices about the costs and benefits of coverage, in light of their particular economic situation and their expectations about their future long term care needs.

Future of FLTCIP

Since the inception of FLTCIP, the long term care insurance market has seen many insurers exit the market, and those that remain no longer concentrate on group business. At the height of the market in 2002 (when the initial contract was awarded), well over 100 insurers offered standalone products. Today, only a handful of long term care insurers are actively selling long term care insurance, and those insurers are primarily issuing individual policies rather than group plans. For example, other than FLTCIP, John Hancock is no longer in the group market and recently announced it was discontinuing new sales of its stand-alone individual long term care product. As the industry continues to evolve, OPM will continue to assess plan benefit and design options to ensure FLTCIP enrollees are receiving an array of options to meet their long term care needs.

Statement of John O'Brien, Senior Advisor for Health Policy
U.S. Office of Personnel Management

November 30, 2016

Since its establishment, FLTCIP has made an important difference in the lives of thousands of members of the Federal family. FLTCIP has paid claims in excess of $728 million, and currently pays more than $14 million per month in claims. We look forward to future discussions on ways to make this program both beneficial and cost-effective for the enrollees, while ensuring that the Experience Fund is adequately funded so that it is available to enrollees in the future, in the event that they have a need for it.

Thank you for the opportunity to testify today and I am happy to address any questions you may have.

Mr. WALBERG. I thank the gentleman.

I recognize now Ms. Kastrup for your 5 minutes of testimony.

STATEMENT OF LAUREL KASTRUP

Ms. KASTRUP. Vice Chair Walberg, Ranking Member Connolly, and distinguished members of the subcommittee, thank you for the opportunity to testify on the issue of examining premium increases for long-term care insurance.

My name is Laurel Kastrup. I am an actuary specializing in long-term care insurance and financing. I am representing the American Academy of Actuaries. The Academy is a nonpartisan professional association representing the actuarial profession. Our mission is to serve the public and the U.S. actuarial profession. We do this by providing independent and objective actuarial information, analysis, and education to help in the formation of sound public policy.

I would like to start by emphasizing the importance of actuarial input when considering the design and evaluation of any potential long-term care policy approach. Actuaries are uniquely qualified, according to our professional standards. Qualified long-term care actuaries play a crucial role in the design of long-term care financing systems, from private long-term care insurance to public programs that provide long-term care benefits.

Actuaries have specialized expertise in managing the risk of adverse selection in insurance coverage. We have the ability to recognize and incorporate uncertainty into cost projections and premiums. We also have experience in evaluating the long-term solvency and sustainability of public and private insurance programs. The Academy recently developed an issue brief to highlight important underlying factors affecting long-term care insurance premium rate increases. Without long-term care insurance, many more people would exhaust their savings on care costs and then potentially rely on public programs such as Medicaid for their additional care needs.

Long-term care insurance requires a long projection period with assumptions extending over 50 years into the future, which creates a high level of uncertainty. The premium rates needed to ultimately be sufficient are also affected by changing circumstances, such as changing service providers, for example the growth of assisted living facilities; changes in incidents of Alzheimer's disease; the effects of mortality improvement in the population; and changes in family composition reducing availability of caregivers.

Determining premium increases is a relatively straightforward mathematical calculation. However, determining projection assumptions can be difficult. Actual historical experience that are sufficiently credible is needed to justify the future assumptions used in projections. With long-term care insurance, it can take a long time from the purchase of a policy until the first time a claim is submitted. This means that for a relatively young group of policy forms, there is often little claims experience to justify premium rate increases based on those forms alone.

Actuaries are required by actuarialstandards of practice to use alternative data sources, such as experience from the insurance companies older, similar policy forms or public data for identifying

reasonable assumptions. Waiting until there is adequate claim information on each policy form can result in much larger, less affordable rate increases.

Insurers have routinely allowed insureds to reduce coverage by changing benefit options in order to help offset some or all of the rate increase. In an effort to enable policyholders faced with a rate increase to retain significant coverage, some companies have started making available an option for policyholders to avoid the rate increase by reducing their future automatic built-in inflation increases.

In closing, I want to mention that I understand that these premium rate increases can affect families. My own personal experience with long-term care insurance was that my grandpa had a policy. It had a small daily benefit. He gave up the inflation option to avoid rate increases. When he moved into an assisted living facility, his long-term care insurance policy, along with his income from Social Security was enough to make the cost affordable for him.

Predicting future policyholder and service provider types and availability can be difficult. This uncertain future makes it important that there is a way to take corrective action. The more conservative assumptions used in today's pricing of private long-term care insurance and the improved speed at taking corrective action should improve future projections resulting in fewer and smaller rate increases.

I, again, thank you for the opportunity to be here today with you and share the recent analysis by the American Academy of Actuaries on long-term care insurance. I would be happy to answer any questions.

[Prepared statement of Ms. Kastrup follows:]

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Subcommittee on Government Operations of the

Committee on Oversight & Government Reform

United States House of Representatives

Hearing on

"Federal Long-Term Care Insurance Program: Examining Premium Increases"

Statement of

Laurel Kastrup, MAAA, FSA

on behalf of

the American Academy of Actuaries

November 30, 2016

The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Chairman Meadows, Ranking Member Connolly, and distinguished members of the subcommittee, thank you for the opportunity to testify on the issue of "Federal Long-Term Care Insurance Program: Examining Premium Increases." My name is Laurel Kastrup. I am an actuary specializing in long-term care insurance and financing. I am representing the American Academy of Actuaries, where for the past several years I have been the chairperson of its Health Financial Reporting and Solvency Committee.

The Academy is the nonpartisan professional association representing the actuarial profession in the United States. Our mission is to serve the public and the U.S. actuarial profession by providing independent and objective actuarial information, analysis, and education to help in the formation of sound public policy.

I would like to begin by emphasizing the importance of actuarial input from the beginning of any process involving the consideration, design, and evaluation of a potential long-term care (LTC) policy approach. Actuaries are uniquely qualified according to their professional standards. Qualified long-term care actuaries play a crucial role in the design of LTC financing systems—from private long-term care insurance (LTCI) to public programs that provide LTC benefits. Actuaries have specialized expertise in managing the risk of adverse selection in insurance coverage, the ability to recognize and incorporate uncertainty into cost projections and premiums, and experience in evaluating the long-term solvency and sustainability of public and private insurance programs. Actuarial expertise can provide a basis for exploration of new and innovative program designs.

To enhance the understanding of LTCI premium rate increases, the Academy's LTC Reform Subcommittee recently developed an issue brief that examines important underlying factors affecting such increases. Without LTCI, many more people would exhaust their savings on care costs and then [potentially] rely on public programs such as Medicaid for their additional care needs LTCI requires a long projection period with assumptions extending over 50 years into the future. Another key factor has been and continues to be high levels of uncertainty and changes in circumstances that affect the levels of premium rates needed to ultimately be sufficient.

In determining whether LTCI policies require a premium rate increase, two authorized methods are applied—one for policies subject to minimum loss ratio (MLR) certifications and one for rate stability certifications.

Despite the relatively straightforward mathematical calculations to determine premium increases, determining projection assumptions (such as, having sufficiently credible actual historical experience to justify the future projected assumptions) can be difficult. With LTCI it can be a long time from the purchase of a policy until the first time a claim is submitted. As such, there is often little claims experience to justify premium rate increases on a relatively young group of policy forms based on the experience of those forms alone. Section 3.2.1 of Actuarial Standard of Practice No. 18, Long-Term Care Insurance, requires actuaries to use alternative data sources—such as experience from the insurance company's older, similar policy forms, or public

data—for identifying reasonable assumptions.[1] Waiting until there is adequate claim information on each policy form could result in much larger, less affordable rate increases.

In the remainder of this testimony, I discuss premium rate increase within LTCI in four sections:

1. Factors affecting LTCI premium increases;
2. Differences between current and past LTCI policy forms;
3. Determining the need for premium rate increases; and
4. Alternatives to a premium rate increase.

1. Factors affecting LTCI premium increases

Private LTCI is complex—a policyholder is essentially paying today for a varied range of care he or she may or may not need years, if not decades, into the future. As such, LTCI requires a long projection period, with some policyholders receiving benefits beyond age 100. Therefore, even for the average issue age of 57, policy projections require assumptions for more than 50 years into the future. The future period is even longer for younger policyholders. Further, calculating premiums relies on a number of assumptions for variables such as:

- mortality;
- voluntary lapses;
- interest rates;
- morbidity, including
    - incidence of disabilities requiring LTC services;
    - recoveries and mortality while on claim;
    - benefit expiry;
    - service inflation costs of covered services relative to inflation protection assumptions; and
    - the amount of services required while disabled (for policies that reimburse actual expenses).

In addition, there has been and continues to be a high level of uncertainty and change in circumstances that affect the level of sufficient premium rates, such as:

- changing pattern of service/care providers (e.g., growth of assisted living facilities and continuing care retirement communities, access to home care services that are covered by LTCI);
- changing medical practice (e.g., criteria for diagnosis of Alzheimer's disease and other cognitive impairments);
- effects of mortality improvement in the population, leading to more older age benefits and longer stays;
- changes in family composition reducing availability of caregivers, leading to fewer supports for care at home;

[1] Actuarial Standard of Practice No. 18, *Long-Term Care Insurance;* Actuarial Standards Board; January 1999.

- lower investment income, a crucial consideration for a financial instrument that must accumulate large reserves over many decades to prefund the high cost of services that occur at advanced ages; and
- limited available data under existing LTCI coverage beyond 20 policy years for advanced ages, where morbidity tends to be substantially different from general population data due to the characteristics of those who purchase insurance.

If not for the ability to adjust premiums to better reflect actual experience, carriers would likely not have offered this type of insurance product.
Often, examining adverse experience from older policy form blocks provides valuable insights that may be applicable to newer blocks. After reviewing the adverse experience, insurers may need to change projection assumptions used for the newer policy forms. The revised projections could identify a need for a premium rate increase. It is important to note that even though adverse experience may not have developed yet for a newer block, the revised expected future benefits could be higher for that newer block than previously expected. Acknowledging the need to fund the higher expected future benefits for the newer block comes in the form of a premium rate increase. Actuaries will then communicate the amount of premium rate increases along with their assumed implementation timing to the relevant state insurance department. The implementation timing for the rate increases is crucial. Deferring implementation of a needed rate increase is detrimental to its objective of maintaining and restoring sustainability because waiting to implement the rate increase will not start the accumulation of the needed increased premium to fund the higher expected benefits, resulting in the need for a further increase. The effect on consumers is that deferrals generally lead to the need for a higher rate increase than originally calculated.

When original LTCI policy forms were issued in the 1980s and '90s, morbidity assumptions were often based upon general population statistics, and lapse and mortality assumptions upon experience of non-LTC insurance products. Not only did the insured population behave differently than the general population, but improvements in medical diagnostic practices and services, and a large increase in the use of assisted living facilities, helped increase (1) the number of individuals surviving to ages where the levels of disability are higher, leading to higher claim rates per insured; and (2) the survival time following the onset of disability.

Insurers are gradually learning through their claims experience what the actual levels of benefits are and will be; nonetheless, they still do not yet have a complete basis for assessing the ultimate levels of claims to be paid at advanced ages and later policy durations, nor how these levels might change over time. Insurers will continue to use existing information to estimate these ultimate claim levels and may need to raise premium rates further as more insured life experience develops or if there are unfavorable changes in benefit usage in the future.

2. Differences between current and past LTCI policy forms

LTCI policies issued today are designed to address many of the risks experienced in the policies issued in the past. Changes to product design such as having a lower maximum issue age,

offering a defined benefit pool instead of lifetime benefits, and improved underwriting, lessen the risk inherent in the product.

There are also significant differences in the pricing characteristics for LTCI policies issued in the past, especially more than a decade ago, compared to policies being issued today and what is expected going forward. The possibility of a future rate increase, at any point in time, is a function of the confidence level in the underlying assumptions and risks associated with these assumptions. With more conservative assumptions, more data to support those assumptions, key assumptions approaching their absolute limits (e.g., ultimate lapse rates approaching zero), and higher explicit margins, it is likely that the probability of rate increases on the current generation of LTCI policies will be lower than the probability of rate increases on previous generations. Future changes in the underlying morbidity, mortality, policyholder behavior, provider behavior, or regulations could alter this likelihood, yet statistical analyses on the experience are helpful when applying historical results to future projections.

A recent presentation[2] of the likelihood of future rate increases on policies issued in 2014 versus policies issued in 2007 and 2000, based on a survey of insurers writing business in 2000, 2007, and 2014, found the following:

- Barring the potential changes mentioned above (underlying morbidity, mortality, policyholder behavior, provider behavior, or regulations), and using the same projection model for each time period, the risk of a future rate increase issued in 2014 (using 2014 assumptions) is only one-quarter that of the risk on business issued in 2000 (using 2000 assumptions), and only one-third that of the risk on business issued in 2007 (using 2007 assumptions).

- The primary reasons for this improved expectation of future premium stability are the substantially greater insured experience behind each successive set of assumptions, the significantly lower future downside risk of most assumptions, and an increase in the margins for adverse experience.
    - Amount of data increased 16-fold from 2000 to 2014.
    - Claims data for ultimate experience (e.g., durations 10 and beyond) at attained ages over 80 increased 70-fold from 2000 to 2014.
    - Ultimate voluntary lapse rate assumptions decreased from 2.8 percent in 2000 to 0.7 percent in 2014. This leaves very little room for future adverse deviations from lower voluntary lapse rates.
    - Best estimate ultimate claim costs in the year 2000 were estimated at 70 percent of the recently released 2000-2011 SOA LTC Experience Study.[3] The corresponding best estimate ultimate claim costs used for 2014 pricing were 108 percent of that SOA LTC Experience Study.

[2] "LTCi New Business Pricing - How Safe Is It?"; Stephen Douglas Forman, James M. Glickman, and Roger Loomis; Society of Actuaries Annual Meeting; October 11-14, 2015.
[3] *Long Term Care Intercompany Experience Study – Aggregate Database 2000-2011 Report*; Society of Actuaries; January 2015.

- Ultimate mortality being used in 2014 pricing is 72 percent of the mortality assumption used in 2000.
- Investment portfolio rates were assumed to be 6.4 percent for every future year of a policy issued in 2000, while they are now assumed to be 4.6 percent for every future year of a policy issued in 2014.

As a consequence of the above, the average policy premiums (for the same benefits) increased to 215 percent of the year 2000 premiums by 2014.

3. Determining the need for premium rate increases

In determining whether LTCI policies require a premium rate increase, two authorized methods are applied—one for policies subject to minimum loss ratio certifications and one for a rate stability certifications.

Historically, LTCI pricing was subject to a 60 percent minimum loss ratio (MLR) by most states, meaning that the ratio of the present value of lifetime claims to premiums could not fall below 60 percent. Beginning in the early 2000s, many states enacted rate stability laws, which stated that LTCI should be priced without using the MLR approach. Instead actuaries need to certify that the premium rates have enough margin to withstand moderately adverse experience (MAE).

Under the MLR approach, if an insurer demonstrates that revised historical and future projected experience produces a lifetime loss ratio greater than 60 percent (or the originally priced-for loss ratio), a premium rate increase could be filed that would allow the projected experience on the policies to return to that lifetime loss ratio.

Under the rate stabilization approach, a premium rate increase could be requested if actual past experience combined with projected future experience exceeds the original or previously defined MAE margin. If revised projections using updated experience exceed the MAE margin, then a premium rate increase could be filed such that the lifetime loss ratio on the original premiums is assumed to be the greater of 58 percent and the original assumed loss ratio; and the lifetime loss ratio on the increased premiums is at least 85 percent (with claims projected into the future including MAE). For this premium rate increase filing, the amount of premium rate increase would need to be large enough for the insurer's designated actuary to certify that the premiums are sufficient with no further premium rate increases in the future unless the actual experience exceeds a revised MAE margin.

Under either approach, the need for a premium rate increase should be driven by projected lifetime loss ratios also, rather than actual past experience alone. Despite the relatively straightforward mathematical calculations to determine premium increases, determining projection assumptions (i.e., whether actual historical experience is sufficiently credible to justify changes in future projected assumptions) can be difficult.

Some assumptions have a higher degree of credibility earlier in the life of a policy than others. For example, policy lapses are more likely to occur in the earlier years of the policy, and claim

submissions are more likely to occur in later policy years. As such, actual lapse experience develops a higher degree of credibility in the earlier years of the business while actual claim experience has a lower degree of credibility in the earlier years of the business.

4. Alternatives to a premium rate increase

Insurers have routinely allowed insureds to reduce coverage by changing typical benefit options in order to help offset some or all of a rate increase. In recent years, in an effort to enable policyholders faced with a rate increase to retain significant coverage, some companies have started making available an option for policyholders to avoid the rate increase and keep their same premium by reducing the size of the future benefit increases for plans with automatic built-in inflation increases.

For example, policyholders would be able to keep their accrued benefit at their current inflation rate and only the future increases are lower than they would otherwise be. This is most effective as a conservation tool if it is done on an actuarially equivalent basis, meaning that the new prospective inflation accrual is set so that the present value of the expected reduction in benefits over time will be equal to the present value of the premium increase that is forgone. This is in contrast with most benefit reductions, which are in essence "partial surrenders" where there may be a reduction in the insurer's liability.

When insureds reduce their benefits to help offset a rate increase, an insurer would expect some adverse selection—meaning that the healthier insureds are the ones reducing their benefits and thus the experience on the block will likely worsen over time. With the approach described above, there may be less adverse selection involved because the benefit reductions are gradual and may not become significant for many years.

In the past, relatively few insureds have chosen to lapse their policies when premiums were increased and alternatives to the increase were offered. According to a 2010 report from reinsurance company, Gen Re, based on an industry survey, lapses at the time of a rate increase were only higher than normal by 2.5 percent of the total policies exposed to an increase.[4] The low 2.5 percent extra lapse rate suggests that the increases were generally affordable for the vast majority of policyholders, which is likely due to LTC insurance purchasers relatively being in the higher income and asset demographics than non-purchasers.

Conclusion

In closing, I want to mention how much I understand that these premium rate increases can affect families. My own personal experience with LTC was that my grandfather had a policy. It had a small daily benefit and he had given up the inflation option to avoid rate increases. When he

[4] The context for the premium rate increases at the time of the survey included: a low-interest-rate environment, generally lower-than-anticipated lapses and mortality, an average rate increase of about 25 percent in the survey, and premium price points that were generally at or below what policyholders could purchase at their attained ages.

moved into an assisted living facility, his LTC policy along with his income from Social Security was enough to make the cost affordable for him.

Predicting future policyholder and service provider behavior can be difficult. A means for taking corrective action to accommodate the changing future is important. The more conservative assumptions in today's pricing of private LTCI and improved speed at taking corrective action should improve future projections, resulting in fewer and smaller rate increases.

I again thank you for the opportunity to be here today with you and share the recent analysis by the American Academy of Actuaries' of long-term care insurance. I would be happy to answer any questions.

# # #

Mr. WALBERG. Thank you, Ms. Kastrup.

And now I recognize Mr. Thissen for your 5 minutes of testimony.

STATEMENT OF RICHARD G. THISSEN

Mr. THISSEN. Good afternoon, and thank you for the opportunity to express NARFE's view on premium increases for enrollees in the Federal Long Term Care Insurance Program, or FLTCIP.

NARFE was proud to have played the lead role in supporting legislation creating FLTCIP, but we are extremely disappointed in the recent premium increases. FLTCIP premiums increased by an astounding 83 percent on average and by as much as 126 percent for nearly 40 percent of the enrollees. The average increase amounts to $111 per month. For many, the increase will be much larger.

These cost increases come as a rude awakening for enrollees. Following the announcement in July, they were presented with difficult and unfair choices: Pay substantially higher premiums, reduce coverage significantly, or abandon what for some had become more than a decade-long investment in protecting their future. This situation should not have occurred and signals the need for changes in the program.

We have heard from hundreds of NARFE members, and their messages have been personal and blunt. One NARFE member reported her premiums would rise from $275 to more than $600 per month. She is not alone in her experience. Another member told me, "I am so much older now than when I entered 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." Another said, "We have already 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," end quote.

For these enrollees, the reasons behind the increases come as little comfort, but are worth examining. The actuaries got it wrong. Long-term care costs are rising faster than expected and interest rates are expected to remain low. This may be the case, but the actuaries and the insurance company did not just get it wrong, they got it very wrong.

We hope this hearing, at the very least, provides the opportunity to further investigate why the assumptions were so far off and how lessons learned from those mistakes may be applied to assumptions about the future. But our efforts should not end there. We need to plan for long-term care—the need to plan for long-term care is as much a reality today as it was when the program was created 16 years ago.

Average long-term care costs are high, $3,800 per month for home health, $3,600 to stay in an assisted living facility, $7,700 for a private room in a nursing home. Sixty-nine percent of Americans will need some long-term care services for an average of 3 years. Without adequate insurance, too many will be bankrupt and forced to rely on Medicaid.

Federal employees and retirees want to do the responsible thing for themselves and their family. This program seeks to address the real need to plan for these future long-term care costs, but the lack

of price stability and affordability make it increasingly difficult to do so. Legislative reforms are needed.

NARFE proposed a number of policy options in my written testimony. One of these proposals including providing enrollees an option to convert their plans to hybrid long-term care/life insurance policies, which would provide price stability. Another is to provide options to extend waiting periods or buy plans with deductibles which would improve affordability.

NARFE also supports broader reforms to the national long-term care policy. The crisis faced by FLTCIP is not unique. Individuals in private long-term care insurance plans are facing significant premium increases, and neither FLTCIP nor any other private long-term care insurance provider is continuing to offer unlimited catastrophic coverage.

Middle-class consumers seeking to insure against the worst-case scenarios are left with no options at all. Rather, Medicaid, a program intended to protect those in poverty, steps in as the only catastrophic option for consumers who must bankrupt themselves in order to qualify. Instead, NARFE supports a public-private partnership with a universal catastrophic insurance program that covers costs between the first 2 or 3 years of care and private insurance, such as FLTCIP, to cover the front end costs of care.

It is incumbent upon this subcommittee to support real reforms that provide Americans with affordable, reliable options. Enrollees should not bear the risk when insurance companies and actuaries make mistakes, and they should have options available to plan for their future needs. NARFE looks forward to working with Congress to pursue them. The status quo is unacceptable. Thank you so much.

[Prepared statement of Mr. Thissen follows:]

WRITTEN TESTIMONY OF
RICHARD G. THISSEN
NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES 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

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[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.

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[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.

Mr. WALBERG. Thank you for your testimony.

And now I recognize Mr. Cohen for your 5 minutes of testimony.

STATEMENT OF MARC A. COHEN, PH.D.

Mr. COHEN. Thank you, Vice Chair Walberg, Ranking Member Connolly, and members of the subcommittee. I'm Marc Cohen, the director of the Center for Long-Term Services and Supports at the McCormick Graduate School at UMass Boston, and a former president and current adviser to LifePlans, Inc., a long-term care research, consulting, and risk management company.

I appreciate the opportunity to testify in this topic. And in my testimony today, I will draw upon my 25 years of research focused on the private insurance market. I'd like to make three broad points today.

First, the rate increases that we're discussing should be viewed within the broader context of the long-term care insurance market and the challenges faced by all insurers in that market. These rate increases are occurring across almost all blocks of business as actuaries learn how the product is performing and make adjustments to their initial pricing assumptions.

Second, the current marketplace challenges do not diminish the need for an insurance-based solution for middle-class Americans, many of whom will face catastrophic costs and financial impoverishment in the absence of insurance solutions.

Finally, without public action, the private insurance market alone is unlikely to play a meaningful role in financing the Nation's long-term care needs. More specifically, an insurance-based public/private partnership stands the best chance of moving the needle on protecting middle-class Americans from significant costs that threaten their retirement.

Let me begin by making a few key observations to frame some of the subsequent discussion. Today, fewer than 10 percent have insurance protection, industrywide sales are declining significantly, and many companies have exited the market. Thus, the market is shrinking rather than growing, and this at a time when more Americans are facing significant long-term care costs.

There are a number of reasons why so many insurers have stopped offering policies. On the demand side, selling costs are high because consumers lack knowledge and understanding about long-term care risks and costs. They're confused about the role of public programs and there's general mistrust of insurers. On the supply side, insurers have faced a variety of unpredictable and often uncontrollable risks that are hard to spread. For example, given the current funding structure of almost all standalone policies, companies must correctly estimate yields on investment premiums 20 to 30 years into the future. An err of just a few percentage points in such an estimate can result in very large premium increases to assure adequate funding of future claims.

Second, unfolding negative claims experience has led to large rate increases as insurers waited many years before requesting some of these rate increases. Recent research shows that people would prefer smaller but more frequent adjustments rather than large infrequent ones. The problem is that these premium increases have made the product too costly for a growing number of

middle-class consumers who only have personal savings and safety net programs like Medicaid to rely on should they require significant amounts of care.

Despite private sector challenges, variation in long-term care needs and expenses make risk pooling through insurance desirable. The underdevelopment and growing unaffordability of private insurance in the absence of any public insurance present a fundamental problem. People have no way to effectively plan for what is a perfectly insurable risk.

Since current strategies have not worked well in assuring broad consumer appeal and ensure enthusiasm, what can be done? Some concrete actions include simplifying and standardizing products to reduce selling costs, changing the structure of premiums payments so that there is some level of indexing to address both affordability and premium stability issues.

Also, without expanded Federal and/or State support designed to spur both demand and supply, however, the needle is unlikely to move enough to protect the majority of middle-class Americans. In addition to an educational campaign designed to reduce consumer confusion and increase knowledge and awareness, we need to think more broadly about shared public and private insurance models.

For example, given that the private insurance market is not willing to provide products any longer that cover the catastrophic tail risk, one might consider whether and how States or the Federal Government might do so. Such an approach could provide a basis—a base that the private insurance industry could supplement or wrap around, and it would likely encourage more insurers to get back into the market, broaden the risk pool, and lower the cost of insurance products.

In the interest of time, I will stop here, but would be happy to answer any questions that the committee might have. Thank you.

[Prepared statement of Mr. Cohen follows:]

Written Testimony Before the
Subcommittee on Government Operations of the Committee on
Oversight and Government Reform

Hearing Entitled:

Federal Long-Term Care Insurance Program: Examining Premium Increases

Testimony on

Challenges in the Long-Term Care Insurance Market: What can be done?

Presented by:

Marc A. Cohen, Ph.D.
Clinical Professor of Gerontology, UMass Boston
Director, Center for Long-Term Services and Supports

November 30, 2016

Thank you, Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee. I am Marc Cohen, Director of the Center for Long-Term Services and Supports at the McCormick Graduate School of Policy and Global Studies at UMass Boston and a former Founder, President and now advisor to LifePlans, Inc., a Boston-based long-term care research, consulting and risk management company.

I appreciate the opportunity to testify on this important topic, in large part because it raises important public policy questions that encompass not only issues related to rate increases, but also those affecting the private insurance industry as a whole as well as the potential public role in addressing long-term care financing needs.

In my testimony today, I will draw upon my more than 25 years of research on the growth and development of the private long-term care insurance market. This research has been supported by the Department of Health and Human Services, the SCAN Foundation, America's Health Insurance Plans, and the Robert Wood Johnson Foundation. I would like to make three broad points today:

1. First, the rate increases that we are discussing today should be viewed within the broader context of the long-term care insurance market, and the challenges faced by all insurers in that market; these rate increases are occurring across almost all blocks of long-term care business as actuaries learn how the product is performing and make appropriate adjustments to their initial pricing assumptions;

2. Second, these current marketplace challenges do not diminish the need for an insurance-based solution for middle class Americans, many of whom will face catastrophic costs and financial impoverishment in the absence of insurance-solutions;

3. Finally, without public action, the private long-term care insurance market alone is unlikely to play a meaningful role in financing the nation's long-term care needs. More specifically, an insurance-based public/private partnership stands the best chance of moving the needle on protecting middle class Americans from significant costs that threaten their retirement.

Let me begin by making a number of key observations to frame some of our subsequent discussion today: First, Americans are ill prepared for the financial consequences of aging and the risk of disability and needing long-term services and supports. Moreover, due to the increasing liabilities associated with long-term care other policy priorities are being crowded out. Second the lack of financial preparation for possible functional impairments in the future can force people to compromise their lifestyles in order to pay for necessary services and supports in a time of need. Third, the private market for long-term care insurance has a role to play in helping American absorb the risks of needing long-term services and supports. However, the data suggest that long-term care insurance has played too small a role. It has clearly under-achieved and experienced significant stress over the last decade and a half.

Currently fewer than 10% of Americans have insurance protection -- about 7 to 8 million people -- and far fewer people today are purchasing policies than 20 years ago. In fact, annual sales are

less than a quarter of what they were in 1995. Most disturbing is the fact that a growing number of insurance companies have left the market. In the year 2000, a study by AHIP found that more than 100 companies were selling LTC insurance to consumers. By 2014, less than 15 companies were selling a meaningful number of policies. Put simply, the market is shrinking rather than growing, and this at a time when more Americans are facing long-term care risks and costs.

There are a number of reasons why so many insurers have stopped offering policies. First, selling costs are typically very high in the individual market, which still accounts for most sales. Given consumers lack of knowledge and understanding about long-term care risks and costs, confusion about what and how public programs pay for long-term care, a general mistrust of insurers, a wariness about making decisions that are costly to reverse, and the difficulty of considering the future implications of today's uncertain and unpleasant choices selling this product is costly and challenging.

Second, insurers have faced a variety of unpredictable risks that affect the pricing of policies including needing to estimate inflation and interest rates, people's behavior regarding their desire to maintain the insurance, and changes in mortality and disability. Many of these risks are hard to spread because they are common to the whole population. Thus, insurers have had to deal with this by de-risking the product – for example, no longer selling policies that cover the catastrophic long-duration or lifetime risk -- and also by charging higher premiums.

Let me provide a concrete example. Interest rates and investment yields. The current structure of almost all policies, including the Federal LTC Insurance Program is a level funded premium. The idea is that premiums collected today are invested so as to create an accumulated fund that will support future claims payments. In essence insurance companies estimate what they think interest rates or bond yields will be for the next 20 to 30 years. Because the U.S. economy has been operating in a close to zero interest rate environment for close to a decade, and it is difficult to find long term high quality high yield corporate bonds, all insurers have been unable to earn the required return on invested premiums to support future claims and their initial pricing. If an insurer assumed a roughly 5% interest rate when it priced a policy for a 55 year old, which was in line with historical returns, and the actual interest rate was closer to say 1%, then if every other actuarial assumption was correct, the premium would need to be increased by more than 50% to support the future pay-out of claims.

Insurers have also been challenged in accurately estimating how services actually will be used in the context of insurance. Across the industry, actual to expected cumulative claims experience is running at 107% and just between 2010 and 2014, the actual to expected incurred ratio has increased from 111% to 124%. This again suggests that claims experience is unfolding in a manner that is worse than anticipated, which again puts pressure on premiums.

The implication of these trends is that there has been a major exodus of companies from the market, as returns on the product have been significantly below expectations. Almost without exception, companies have had to go back to the insurance departments, which reviewed and approved their rates in the first place, and request rate increases. In this regard, the actions of the insurer underwriting the Federal insurance program are consistent with what is occurring in the rest of the market. That said, what we do know, is that when given a choice, consumers would

prefer small but more frequent adjustments to their premiums rather than infrequent and larger changes. A recent survey of new buyers of insurance showed that 71% preferred this latter approach compared to only 2% who preferred less frequent but larger premium adjustments.

It is worth mentioning, that even with these significant industry-wide rate increases, a 60 year old new insurance buyer who becomes disabled 20 years later, will recoup all of their policy premiums in roughly 5 months of paid care, and if they had a rate increase of 50% after 10 years of having a policy, there premiums would still be recouped within 7-8 months of paid care.

The challenge however, is that premium increases have put the product out of the reach of large segments of the public. In, 2015, the average premium of policies selling in the market was roughly $2,700 a year – an increase of 42% over the last decade. These premium increases have made the product too costly for a growing number of middle-income consumers and unless there is a way to improve the functioning of this market, the insurance will increasingly become a niche product for wealthier Americans rather than the middle class who only have personal savings and or safety net programs like Medicaid to rely on should they require significant amounts of care.

Despite private sector challenges insuring this risk, LTSS has all the characteristics of an insurable risk. There is a relatively small probability of a long period of impairment and associated costs, and individuals lack the ability to predict in advance whether they will have such an event. While roughly half the population age 65 and over will never need substantial services, roughly one in five are expected to need substantial care for between two and five years and just over one in ten to need care for more than 5 years – which could cost upwards of $250,000.

The underdevelopment and growing unaffordability of private insurance, and the absence of public insurance presents a fundamental problem: people have no way to plan effectively for what is actually a perfectly insurable risk. Their current options are inefficient, unattractive or both. If people rely on savings, they will likely save too little or too much, since they cannot easily predict whether they will face catastrophic LTSS burdens. If they rely on Medicaid, they must first expend significant personal resources, and only then qualify for coverage that in many places still limits the availability of in-home care. Even when people have budgeted carefully through their working lives, they can still end up impoverished, because they receive little or no help if they need significant amounts of care.

Since current strategies have not worked well in assuring broad consumer appeal and insurer enthusiasm, what can be done? My sense is that without expanded public sector support designed to spur demand and supply, we will not be able to protect the majority of middle class Americans.

A number of concrete actions in this regard include: (1) simplifying and standardizing products with the aim of increasing the effectiveness of consumer choice and reducing selling costs which can be done by having a limit on the number of distinct products along the lines of Medigap; (2) changing the structure of premium payments so that there is some level of indexing which would likely address cost as well as premium stability issues; (3) making it easier for consumers to

purchase the product by having employers and other organized purchasers of insurance play a greater role in organizing opportunities to purchase LTCI. For example, making the insurance available in conjunction with the purchase of health insurance, other employee benefits, or even Medicare Advantage enrollment. This would reduce selling costs, the rigor of under-writing and offer consumers more convenient ways to learn about LTCI.

Even with these actions, without expanded federal and/or state support the needle is still not likely to move enough to protect the majority of middle class Americans. To reduce consumer confusion and increase awareness and knowledge of the long-term care risk, a federal educational campaign that is built on the lessons learned from successful public and private campaigns would help expand demand. These could include warnings that Social Security and Medicare do not cover LTSS.

In addition to an educational campaign we need to think more broadly about shared public and private insurance models. For example, given that the private insurance market is not willing to provide products covering the catastrophic tail risk, one might consider whether and how states or the federal government might do so. A public approach to covering the catastrophic tail risk, could provide a base that the private insurance industry could supplement or "wrap around". It would likely encourage more insurers to get back into the market, broaden the risk pool, enable the private insurance industry to fill gaps in public coverage, and lower the cost of insurance products.

It is interesting to note that there is growing support among researchers, practitioners, and stakeholders for examining this concept in more detail. In a recent survey of Americans age 50 and over that measured preferences for potential public and private insurance partnership roles, about three-in-five preferred a program where a private insurance policy would pay for roughly the first few years of long-term care services, and then public insurance would pay for more catastrophic liabilities. As well, when a group of individuals who had been offered a private long-term care insurance policy and chose not to purchase it were asked about such a program, nearly 40% indicated that if there were such a program, they would be more inclined to purchase a private policy to cover the up-front risk. Thus, what is needed to assure that more Americans come to rely on insurance to finance their long-term care needs, is a series of public and private actions.

The rate increase discussion discussed here is symptomatic of an industry in distress, one that could benefit from a number of the actions outlined above so as to expand the number of people who are insured. I appreciate the opportunity to testify about these important issues and would be happy to answer any questions that the Committee might have.

Mr. WALBERG. Thank you. And I thank the panel for your testimony.

And now I recognize the gentleman from Wisconsin, Mr. Grothman, for your time of questioning.

Mr. GROTHMAN. Interesting testimony. I'm going to ask Ms. Kastrup—is that right?—a few questions. I don't know if you're familiar with this product as opposed to other products, but whenever there's insurance, I don't care whether it's health insurance, car insurance, whatever, you always kind of wonder how much of that premium is going for claims and how much is going for overhead and commissions and that sort of thing.

Could you give me, the insurance industry in general, how much of, say, auto insurance, health insurance, and long-term insurance, how much goes for claims?

Ms. KASTRUP. I'm not an expert in all of those areas. Very few actuaries would cover all three of those areas. You know, it depends on the pricing structure. It depends on how the products were sold. So it would vary by carrier as well, whether it was sold with an agent or not. And so there's not really a guideline I can give on that, but I could research that and come back.

Mr. GROTHMAN. You can give me about. When you pay your auto insurance premium—you're an actuary, you must have some idea.

Ms. KASTRUP. I'm not a casualty actuary. I don't practice in car insurance.

Mr. GROTHMAN. Okay. Well, which type of insurance do you deal with?

Ms. KASTRUP. With long-term care insurance.

Mr. GROTHMAN. Okay. And the average long—do you have long-term care insurance? No, you're too young, right? Do you have long-term——

Ms. KASTRUP. I myself do not have a policy, no.

Mr. GROTHMAN. Okay. Do you know—I mean, guess, if your parents had a policy, how much do you think goes out average and how many—what percentage of the premium goes out in claims?

Ms. KASTRUP. Like I said, it would vary by carrier because it depends on how the product is sold and what costs go into it, whether it's a group policy or an individual policy. There's a lot of different factors that go into that. I don't know right offhand, but I could look into it and get back to you.

Mr. GROTHMAN. You must have some idea for some policies. Don't you? No idea at all?

Ms. KASTRUP. It would depend on your——

Mr. GROTHMAN. I know it depends. But, you know, they sell these things. I mean, is it 10 percent, is it 50 percent?

Mr. COHEN. I can maybe add something on that.

Mr. GROTHMAN. Sure.

Mr. COHEN. At least historically when these products have been priced, the idea was that somewhere between 60 to 70 percent of the dollars that were collected would eventually get paid out in claims.

Mr. GROTHMAN. Okay.

Mr. COHEN. Just to get for order of magnitude.

Mr. GROTHMAN. And can you compare that? Are you aware of any other kinds of insurance? Can you compare that to automobile insurance or some other insurance?

Mr. COHEN. I don't know. I will say that, as I mentioned in my testimony, the selling costs associated with long-term care insurance are pretty high because of the lack of information, confusion. It's not a sort of a one and done. It's agents sitting across the table from people and so on. And that's, you know, one of the ways that we are—have to think about making the insurance more affordable is how to reduce some of those selling costs. They can represent anywhere from 15 to 25 percent of the premium.

Mr. GROTHMAN. Okay. You mean for selling costs?

Mr. COHEN. Yes.

Mr. GROTHMAN. Okay. And could you compare it to any other kind of insurance or you don't know?

Mr. COHEN. I don't know.

Mr. GROTHMAN. I'll give you another question here. And—oh, Mr. Doughty, you must know, because doesn't John Hancock have other insurance other than just long-term care?

Mr. DOUGHTY. We do offer—the only other kind of insurance we offer is life insurance, which has—in terms of selling costs, et cetera, it's quite similar. In terms of the ongoing administrative costs, because you're paying out—when a client goes on claim, you're just paying out one death benefit, so that would be slightly lower than in long-term care insurance.

Mr. GROTHMAN. Okay. I'll give you another question. I've always wondered about this on long-term care insurance. With any insurance there's a degree of moral hazard, okay, and it's your behavior changes because you're insured. People have to make a decision, families, in life, as to whether you're going to allow somebody to go to a home or not. And I think sometimes families do extraordinary things due to the huge cost of long-term care.You know, they can take care of grandpa for years and years, because they don't want to pick out, whatever, $8,000 a month or something. And therefore, I've always kind of thought that if you have long-term care insurance, maybe people are quicker to send grandma to the home than they would be without insurance.

Do you feel there's that degree of moral hazard when people buy long-term care insurance?

Mr. DOUGHTY. Yeah, I believe that that is absolutely a reality that people that don't have coverage are far more likely to take care of mom and dad for longer. I also think in the context of this broader discussion about the future of long-term care, and I think we're all in agreement that we need to do better. That one of the risks of that reliance in the past on families taking care of people is that families are becoming more spread out. There's more divided families. So I think in the future, it's going to continue to pose a problem in terms of overall support for people requiring long-term care.

Mr. GROTHMAN. Can I ask one more quick question?

Mr. WALBERG. The gentleman's time has expired. We'll have to move on.

Mr. GROTHMAN. Okay.

Mr. WALBERG. I thank the gentleman.

I recognize the gentleman from Virginia, the ranking member, Mr. Connolly.

Mr. CONNOLLY. I thank the chair. And this conversation is why I requested this hearing and I'm so glad we're having it.

But first, just, Mr. Doughty, are you from Baltimore, Philadelphia, or Canada?

Mr. DOUGHTY. I am from Canada.

Mr. CONNOLLY. Yes. You speak with a diphthong. O–U-T.

Okay. So, Mr. Doughty, Hancock got out of the private sector provision of this kind of coverage. Is that correct?

Mr. DOUGHTY. Yeah. Just to be perfectly clear on that front, we recently decided that we were going to stop selling standalone retail long-term care insurance policies.

Mr. CONNOLLY. Right. Why?

Mr. DOUGHTY. Primarily because, well, we recognized a growing and increasing need. I think as Dr. Cohen noted, it was becoming increasingly difficult to actually develop enough critical mass in sales to make it a worthwhile business venture.

Mr. CONNOLLY. So it wasn't because people are living too long or getting older. It wasn't even the expense, if I'm hearing you correctly. It was that you just couldn't get the critical mass in terms of making it worthwhile as a marketable product?

Mr. DOUGHTY. Yeah. I think the two are related, though. I mean, we have been for a long time a player in the private long-term care insurance market. We continue to provide service in——

Mr. CONNOLLY. I understand. But, I mean, if 50 million customers knocked on your door tomorrow saying we want this insurance, would that change your posture in terms of providing it?

Mr. DOUGHTY. It would. And primarily because we actually had come up with a new product that we thought provided some rate stability and things like that. So, yes, it would have. Definitely.

Mr. CONNOLLY. All right. And just, what's the chicken and the egg thing here? Is the reason for the drop in the popularity of the product or the demand for the product because of the pricing or is it just we're just not that interested in long-term care?

Mr. DOUGHTY. I think it's both of those issues. I would say the primary issue because if you see sales have come down, it's because of the pricing.

Mr. CONNOLLY. Yeah.

Mr. DOUGHTY. I do believe that there's still a reluctance for younger people to think about long-term care.

Mr. CONNOLLY. Right. Got it.

So, Dr. Cohen, is this a nonviable product given what's happening in the market?

Mr. COHEN. I don't—I don't think it's——

Mr. CONNOLLY. We cannot hear you.

Mr. COHEN. Oh, I won't touch that.

Mr. CONNOLLY. Okay. Go.

Mr. COHEN. Sorry. No, I don't think that it's unviable. I think that there can be changes, changes in the structure of the product. There can be much greater education. Just to your last question also. When we look at the primary reason why people who have been approached to buy this insurance don't, it's a cost issue. They don't see the value proposition. And if you don't believe you're at

risk, if you believe that public programs are going to cover you, then why would you lay out the money? There's a lot of work that needs to get done in that regard.

And I also think that these types of products work best in the context of a broader public role. And that was one of the things I mentioned.

Mr. CONNOLLY. And real quickly to get it on the record, because you suggested that in your testimony, is there a precedent for that in terms of the Federal Government getting involved directly in sort of trying to fix holes in the market, in the insurance industry?

Mr. COHEN. Sure. I mean, there are—the Federal Government has been involved in, for example, organizing risk pools for, you know, flood insurance.

Mr. CONNOLLY. There you go. Flood insurance. The Federal footprint is quite considerable. Right?

Mr. COHEN. I mean, in—when there are issues that are—especially when it relates to insurance, if there are common shocks that affect the entire industry, then you can't—you know, you can't spread the risks adequately, no matter what you end up doing.

Mr. CONNOLLY. Right. I'm only establishing on the record, because I'm anticipating arguments in our next Congress on this subject matter that this would be an unprecedented role for the Federal Government. Not true. In fact, the Federal Government has been involved in the insurance market in various and sundry ways, including flood insurance especially, which may be a model—I'm not slavishly devoted to that model, but a model.

Mr. COHEN. Right. On that point, I would like to say that it's likely—there's no magic bullet here. It's a combination of both demand and supply.

Mr. CONNOLLY. We understand.

Mr. O'Brien, my final point. So OPM, other than weeping and gnashing its teeth over what's happening to your constituents, my constituents, Federal employees, and retirees in terms of cost, has OPM come up with any ideas in terms of how we can solve the problem or address the problem or make it easier for those constituents to avail themselves of this kind of coverage at an affordable price?

Mr. O'BRIEN. Yeah. We do not have any proposals to bring before the committee right now. However, we are very interested and committed to working with anyone on ideas that might work. We appreciated some of the ideas that are shared in their testimony and we look forward to working with people to figure out what we can do moving forward.

Mr. CONNOLLY. Well, that's quite a piece of testimony. Thank you.

Mr. WALBERG. I thank the gentleman.

I recognize myself for my 5 minutes of questioning.

Ms. Kastrup, in your testimony, you indicated that there continues to be a high level of uncertainty in the long-term care market that affects premium rates. Can we ever expect long-term care insurance premiums to stabilize as more claims experience becomes available?

Ms. KASTRUP. Thank you. I think I also mentioned that it's a long projection period and any time you have a projection period,

like a 50-year projection period, you're always going to add more uncertainty as you spread that out. I do think we have more stability and assumptions than we did in the initial years. Every new bit of experience, more bit of credibility gives us a better basis to project out.

I don't think we'll ever have perfect—we don't have perfect in life insurance, and we've been doing that a lot longer than long-term care insurance.

Mr. WALBERG. But is there any reasonable guess when it might stabilize?

Ms. KASTRUP. Well, one of the issues that makes that hard is that care delivery has changed a lot from the initial policies. If you think about it, the initial policies were sold as nursing home insurance and the thought being no one wants to go to a nursing home. And, you know, assisted living facilities didn't even exist. Today, there's assisted living facilities. There's home care, and the policies cover these as well, even though they were maybe not even around when the policy was written. And so it would be hard to ever foresee future care delivery changes and know those perfectly, but we can get a lot better feel on things like mortality, mortality improvement, some of those assumptions.

Mr. WALBERG. That could change prediction, ultimately, of——

Ms. KASTRUP. There's a lot of assumptions, and some of them we will have more certainty on and know more about. There will always be some things that we won't know.

Mr. WALBERG. That's comforting for me to know, having bought long-term care. So thank you.

Mr. Doughty, recently, John Hancock announced that it was going to discontinue selling new standalone, long-term care policies because there's limited demand for the product. Why is there limited demand for the product?

Mr. DOUGHTY. I think the primary reason, I think it may have been touched on a little bit today, is one has been this price increase that has sort of happened and the other has been a general lack of understanding that people need to actually think about this very important event that could happen to them in the future. I will say on that point, however, that when you—you know, all of the things that we've talked about both in the—in terms of prices going up in the FLTCIP but also in standalone retail insurance, the prices are going up because the costs are going up.

And so people still have to consider these products in the context of what alternatives do they have? They can stay in that kind of a program. They can try to buy something on the private marketplace or they can try to fund it themselves. And, generally speaking, insurance, although sales have gone way down, insurance still can for many people provide a very attractive alternative in that context.

Mr. WALBERG. Any other factors, specifically for your company, go into making the decision——

Mr. DOUGHTY. The decision to stop selling?

Mr. WALBERG. The decision to discontinue selling.

Mr. DOUGHTY. No. But that would—the primary factor and really the overwhelming factor was—I mean, there's questions about how long you tie up capital, et cetera, in this kind of a product. But,

really, the number one factor was really just a pretty simple business discussion around can you sell enough of it to cover the infrastructure you need for your sales teams, for your, you know, negotiating with each State, all those kinds of things.

Mr. WALBERG. Did you consider what that means for individuals who have purchased standalone policies?

Mr. DOUGHTY. Yes. And thank you for asking that question because I want to be very clear on that point. We have not stopped—we continue to be in the long-term care business. We have 1 million customers that we continue to provide service to, pay claims for. We continue to be providing insurance for the Federal program. And we also provide long-term care insurance as an accelerated benefit on their life insurance policies, which is an increasingly popular way to—for consumers to get their long-term care insurance coverage.

Mr. WALBERG. Will there be substantial premium increases for these individuals?

Mr. DOUGHTY. On our—which individuals?

Mr. WALBERG. On standalone, those that have purchased it.

Mr. DOUGHTY. Our in force long-term care insurance has been experiencing really the very same trends that we have been discussing as part of the Federal program. Yes.

Mr. WALBERG. Okay. Well, thank you for your testimony.

I yield back and recognize Mr. Lynch for your 5 minutes of questioning.

Mr. LYNCH. Thank you, Mr. Chairman, and thank you and the ranking member for holding this hearing.

I want to welcome our witnesses. Thank you for the important input you've had and the advice. I read through your papers; very, very helpful.

This is a thorny issue, and as someone who's an advocate on behalf of Federal employees, this was a shocker. I do understand that the real issues behind this, though, I've had some experience sitting as a trustee on pension funds where we assumed years ago that would always have, you know, our target rate was 7 or 8 percent interest on our funds and actuarially we could sort of stay within those guidelines and we could provide the fine benefit pensions to people and we could project that out. Now, we're in an interest rate period where it's half that.

And so, Mr. Doughty, is that the core issue for you here in terms of—you're trying to project over a very long period of time. I know you're experience rating is different. You know, the expectations on long-term morbidity and all of that, but the fact that you can't—if you're putting this money in the market and getting return on your investment and it's so low, even over a long period of time, you cannot pay the benefits. Is that the crux of the problem?

Mr. DOUGHTY. That is one of the major issues with the problem, not the only one. I think some of the other issues were raised around people living longer, being on claim longer, all of that kind of experience. But investment expectations have significantly changed because of the prolonged low-interest rate environment, and that represents a very significant portion of the problem. Absolutely.

Mr. LYNCH. I notice, unlike John Hancock, a lot of other insurers have just gotten out of the business. They've exited. I think in the majority memo they said there were 100 companies doing this business not too long ago. And now they're down to 12 that are doing individual policies, and maybe a similar amount doing group policies.

So it's not an area where people are flocking to it. And as I understand it, the Federal contract that you've signed prevents you from getting any additional profit as a result of increasing the premiums. Is that correct?

Mr. DOUGHTY. Yes, that's correct. And—but we are quite happy to do that. I mean, we——

Mr. LYNCH. Well, I'm sure you weren't happy. But——

Mr. DOUGHTY. Well, no. But one of the reasons—one of the reasons you referenced, all the people that have left the industry, and why is that?

Mr. LYNCH. Yeah.

Mr. DOUGHTY. Because we've talked already about the need is going up.

Mr. LYNCH. Right.

Mr. DOUGHTY. The truth is, it's a very difficult business to be in. When you—John Hancock has been around for 150 years. We're very proud of our brand. Nobody likes to raise the price on customers. And I think that that's been a big challenge, so it's made it very difficult for people to stay in the business.

Mr. LYNCH. I understand.

Mr. DOUGHTY. But we negotiated not to make any additional fee off of the fact that we had to raise rates on these.

Mr. LYNCH. Let me thank you for that. I understand you came forward, your company came forward and agreed to that. I think that at least eliminates the possibility that, you know, that there's gouging going on or anything like that, since you're not getting any additional profit by raising the premiums. But it doesn't help my constituents, the Federal employees who have to pay these premiums. And, you know, I hear the stories of Mr. Thissen and it puts a human face on this.

Let me just shift. Mr. Cohen, thank you so much. I love UMass Boston. They wouldn't let me in, but I jog around the bank along the water there. I actually did take a few courses there before I went to law school, so I appreciate it.

Let me ask you. You know, Mr. Connolly raised the issue of flood insurance. It's intriguing. And to encourage more—there are some key differences here, but to encourage more insurers to get into this line of business, would it be helpful to have a government backstop like we do in the flood insurance field where we—you know, we actually buy our subsidy. We do provide a lot of assistance to families who would otherwise not be able to afford flood insurance.

Mr. COHEN. Well, I mean, there are different ways to think about it. One is that you could imagine either the State or the Federal Government organizing a pool——

Mr. LYNCH. Right.

Mr. COHEN. —among insurers where right now they have a premium tax that goes maybe to a guarantee fund. Maybe it goes to an reinsurance backstop.

Mr. LYNCH. Yeah.

Mr. COHEN. And they all agree to a set of principles in the way that they operate. And if either one company, or whatever, has losses above that, then that's spread across the companies.

Mr. LYNCH. Okay.

Mr. COHEN. That's one way to think about it. You know, one thing that I wanted to make sure that got out there, and that is that when you look at, for example, people who are on claim, you know, it is—it is true that right now, even 22 years of premium payments would be made up in about 5, 6 months of actual long-term care expenses. And so I have to say that if even—and even in the presence of rate increases, that means it's closer to 8 months.

If you turn out to be one of the people who become disabled for a significant amount of time, meaning 2 to 3 years, you're getting a lot of benefit—a lot of benefit out of your policy. And I just want to make sure that that's understood here.

Mr. LYNCH. That's a good point. Thank you.

Mr. LYNCH. Mr. Chairman, I know I've exhausted my time. I yield back.

Mr. JORDAN. [Presiding.] I thank the gentleman for yielding.

And I now recognize the gentlelady from Virginia for her 5 minutes.

Mrs. COMSTOCK. Thank you, Mr. Chairman. And I thank the committee for holding this hearing.

You know, when my constituents, seeing as I'm in Virginia and have many Federal employees also, were notified by OPM on July of these large premium increases, they were understandably concerned, and we certainly did hear a lot from them. And that's why I had joined folks in requesting the hearing. So I appreciate you all being here and taking a look at this issue.

Walt Frances, a health economist and an expert on these programs, is quoted in the Washington Post as saying, quote, "This never should have happened. The long-term care estimate should have been actuarially sound and accurate, taking into account far more carefully both the possibility of low interest rates, the low rate of return on premiums invested in bonds, and thirdly, the average selection by persons most likely to need long-term care."

Could Mr. Doughty and Mr. O'Brien address the industry assumptions that were here as well as just the general statement? And maybe some others would like to join also, but why don't we start.

Mr. DOUGHTY. Maybe I can start. Certainly, referencing the quote, which I'm not that familiar with but, you know, looking back, we clearly got it wrong, and there's no question about that. And it's creating a big issue, as you referenced, for your constituents.

The question is, could you have done better? And what we do know is that our actuaries use the information—we talked about this is a relatively new product. Experience is emerging. They use the best—they're trained to use the best estimates that they can

at the time, set the best assumptions that they can at the time. And we weren't alone in doing that. You know, we vetted those. We had outside actuarial firms. OPM used their experts to look at them and I know used outside actuarial firms. So it is a very challenging question.

And specifically on the interest rate one, that is a big driver. You know, a small—as someone mentioned earlier, a relatively small change in your long-term projection around interest rates can have a significant impact when you're assuming that to—you know, you're losing that revenue year after year after year.

Ms. COMSTOCK. I think you've addressed it a little here, but would the premium increases shorten the contract period if it went from like 7 to 3 years? Would that help? Is that something, OPM, that you're looking at?

Mr. O'BRIEN. Honestly, we do not think that shortening the contract——

Mr. CONNOLLY. Please use the mic.

Mr. O'BRIEN. Sorry about that.

Honestly, we don't think that shortening the contract period from 7 to 3 years—we can make adjustments during the contract periods if we desire to. So a shorter contract period does not necessarily solve any problem.

Ms. KASTRUP. I would like to jump in here and say that, you know, when the product was first priced, it was new. It was a new product. So you had to look at other things, like population data, because there was no insured data. And you had to look at other products.

I'll give an analogy. It's that time of year. College football, if you think about the preseason top 10 football polls, it's based on last year's teams. You don't really know. You're trying to project this year. You know, now that we're all into December, you have a lot more information, and that top 10 has changed. It's kind of a similar situation here. So we have a lot better data now.

Another thing to remember is the product was priced as a guaranteed renewable product, meaning that premium rates can be reset. If it had been priced as a product with level premiums that couldn't change, the initial prices would have been a lot higher to start with.

Mr. COHEN. One other point on that with respect to these actuarial assumptions, part of the challenge that the whole industry has faced is the issue of waiting until you get what you perceive to be credible experience. And so that means that if you've waited 10 years and all of a sudden you're now certain because you have all of this credible experience, you've got about 10 years back to make up.

And I think one of the ways that we could improve the functioning of this market is to have insurers certified on an annual basis based on actual—what actual assumptions are operating in the marketplace. For example, you see what's happening with interest rates. You know that. You don't have to wait 5 years to know that this year you're earning 1 percent or so on.

And so we just completed a study and asked a question about that, and overwhelmingly, people would prefer—if there have to be rate increases, people would prefer more frequent, smaller in-

creases, similar to health insurance, than, you know, infrequent, large, you know, one-time hits.

Ms. COMSTOCK. Okay.

Mr. Thissen, did you want to—did you want to comment at all?

Mr. THISSEN. No.

Ms. COMSTOCK. Okay. I see my time is about to expire. So thank you.

Mr. JORDAN. I thank the gentlelady for yielding back.

We now recognize the gentleman from Virginia, Mr. Beyer.

Mr. BEYER. Thank you, Mr. Chairman. Thanks for allowing me to sit in on the hearing today.

You know, this is something that affects many of my constituents. I think I have more Federal employees than Federal retirees than any other Member of Congress. And, believe me, we have heard from them. The phone rang off the hook.

Mr. CONNOLLY. Wait a minute. I'm not sure about that. Barbara and I might compete with that.

Mr. BEYER. Mr. Ranking Member, thank you for requesting this hearing.

For example, Rebecca Cuddy shared this story of her mother and her unaffordable premiums. Sharon Reynolds wrote about how she feels completely untrapped with the unaffordable premiums. Jim Real asked many effective probing questions. And I sent several letters to OPM requesting an explanation and a justification for why this is happening, what we can do to fix it, and at least how to plan to prevent this from ever happening again.

So, Mr. O'Brien, maybe Mr. Doughty, why during the interim actuarial reviews didn't you know that a premium hike was imminent and at least make this information available to the current enrollees? One of the big problems they had was sticker shock after 7 years. Or why not even perhaps interim rate increases at the 4- or 6-year period?

Mr. O'BRIEN. That's an excellent question, and I'd like to kind of go through the timeline. What we had found at the end of the last contract cycle, there were two sets of hard facts we had to deal with.

First, when we got the funded status report in June of 2014 was when the reevaluation of long-term cost projections by John Hancock indicated that the long-term care—long-term costs of the program were higher than we were originally projected.

Then in April, as part of the contract when they provided us with bids, they had done additional revisions of their assumptions, including revisions to their long-term projection of revenue returns. So we had—as I said in my testimony, we had the confluence of two unfortunate factors. We had higher long-term projected costs and we had lower long-term projected returns. So those two facts meant that we had a very huge increase coming on.

We then had a decision we could make. We could have made a decision where you could have phased in the increases over several years, but we knew what the magnitude of those increases were going to be.

So Mr. Cohen has made the thing that people would rather have more frequent, smaller increases, but I would put that in context, given the magnitude of the bad facts that we had to deal with, it's

different to say, yes, give me smaller increases rather than give me 30 percent this year and then follow it up with 40 percent next year. Because then you have the situation, long-term care that people can make the 30 percent increase and they stretch to make their budget, but they can't make the 40 percent increase. So they're in a circumstance where we have effectively made them pay additional money for a benefit they will not be able to take advantage, because they made the choice——

Mr. BEYER. Mr. O'Brien, I think you go right to the heart of this too. Because what I heard from so many people was they signed up in 2002 or sometime along the way with really expectations and guarantees that this was the premium, as long as the benefits—in fact, in the 2002 literature, I quote, "Premiums have been set to remain constant for life unless you increase benefits." And then in the renewal in 2007, the—I think you said that somewhere along the way that they signed a form indicating premiums may only increase from among a group of whose premium is determined to be inadequate. And basically, no one saw that.

In fact, the literature—the only thing that's different in the literature from 2002 to 2009 was you left out that line about premiums set to remain constant. Here, we're always guarding against binding arbitration hidden in the six-point type on the back of the contract.

What did you do proactively to make sure that people knew in 2009 that they could really get hit the next time around?

Mr. O'BRIEN. Well, I'm—we were criticized in hearings in 2009, and we took those criticisms to heart. Exactly the points you're making, Congressman.

Since 2009, the materials that are shared with enrollees have extensive information about the fact that premiums can increase. In fact, people positively attested they are aware of that. I'm happy to share with you in detail the information of how we've changed the materials and what information we now provide people since 2009 to clarify the possibility that their premiums will increase.

If we can improve on that and make it even clearer, we are happy to do so, but we think we made extensive changes to the materials to make that clear.

Mr. BEYER. Well, I confess if you talk to the people that you serve, they don't feel that way.

Mr. Thissen, you had suggested perhaps a Federal long-term care insurance oversight board. Is that still a good idea?

Mr. THISSEN. Well, I think that there should be a public/private, you know, partnership——

Mr. CONNOLLY. Turn on your microphone.

Mr. THISSEN. I'm sorry.

I think there should be a public/private partnership that looks at catastrophic protection; it looks at ways to encourage more individuals to purchase long-term care insurance, because the wider we can spread the risk and the wider we can spread the pool, it just—it helps everybody. And then I also think that if we can put something together like that, we possibly maybe even can save some money on Medicaid, because we've paid some of that up front.

Mr. BEYER. Okay. Thank you.

Mr. Chairman, thank you. I yield back.

Mr. JORDAN. I thank the gentleman.

Now recognize for additional round, the gentlelady from Virginia.

Mrs. COMSTOCK. I just have one more question, but what percent of policyholders—I'm sorry if missed it—have dropped their policy since this increase this summer? And what percent cut back on their coverage in some way?

Mr. O'BRIEN. Roughly 3 percent of policyholders chose to drop coverage so that they took the contingent nonforfeiture option. Of the 172,000 people who made a decision during the decision period, roughly a little over half, or 93,000 of those, took the option whereby they reduced their benefit to keep their premium the same.

Mrs. COMSTOCK. And could you—what exactly was the reduced benefit?

Mr. O'BRIEN. There were various options in terms of how you could reduce the benefit to keep the premium the same, so it wasn't a one-size-fits all.

Mrs. COMSTOCK. Okay. But half of them reduced their benefits?

Mr. O'BRIEN. Yes.

Mrs. COMSTOCK. Okay. Thank you.

Mr. JORDAN. I thank the lady.

Now recognize Mr. Connolly, the ranking member.

Mr. CONNOLLY. I thank the chair.

Mr. O'Brien, I ran out of time in questioning you, but if I understood your response to my last question to you, it was that OPM has given no thought to recommendations for how to resolve this issue, address the issue, ameliorate the issue. You gave consideration to, in response to Mr. Beyer's questions, parceling out the premium increases and decided against it because you didn't think it would—that would be particularly helpful.

But what about—I mean, we're listening to suggestions from NARFE and from Professor Cohen about some creative ways we could go about trying to address this problem and make it easier for Federal employees, Federal retirees to access this product. I want to give you the opportunity to respond, because is it really your testimony on the record that OPM hasn't given a thought to that?

Mr. O'BRIEN. I believe what I said is that we've given——

Mr. CONNOLLY. Please move that closer to you.

Mr. O'BRIEN. I'm sorry.

Mr. CONNOLLY. Thank you.

Mr. O'BRIEN. Okay. I believe what I'm saying is that we do not have a position that I can offer in terms of recommendations to this committee as far as what we think we should do to move forward in terms of addressing the problems in long-term care insurance. I have found this hearing very, very helpful. There's a number of ideas and proposals and ways to deal with the challenges of the program, and we are wide open to working with this committee and all of these individuals on how we can come up with solutions.

Mr. CONNOLLY. But, Mr. O'Brien, it's not my purpose to play Torquemada here, but surely you knew about this hearing, you knew we were planning on this hearing. This is not a new item in the press. It's gotten lots of coverage. You certainly have had feedback from Federal employees and Federal retirees. We certainly have, Ms. Comstock, Mr. Beyer, and myself. And yet you come here

emptyhanded. You're open to ideas. The hearing is fascinating, but we have nothing in our kit bag to offer the people we serve. That's your testimony?

Mr. O'BRIEN. My testimony is that we do not have a proposal that is ready for being shared with the committee at this time. The options and the discussion that has been offered around here goes in a number of different directions. We would like to evaluate those possibilities and come to this committee and this group with a proposal that we could really play out and we've weighed all the pros and cons, and we have not yet done that.

Mr. CONNOLLY. Any idea of the timeline when you will do that?

Mr. O'BRIEN. We are continuing to work. I cannot give you a timeline at this time, sir.

Mr. CONNOLLY. Well, then let me say this to you: I'm the ranking member of the subcommittee, and I'm going to use every influence I've got to make sure you are summoned back to this subcommittee. And at that point, we will expect specific proposals. You owe that to the Federal employees and retirees who count on this product. You're not a passive observer, just responds to the whims of the market with, oh, my. You have an obligation to the people you serve. And you have an obligation to this Congress to come here with concrete ideas about how to ameliorate and resolve this issue. And we will expect that next time we see you, sir.

I yield back.

Mr. BUCK. [Presiding.] The gentleman yields back.

Does the gentleman from Wisconsin have any questions?

Mr. GROTHMAN. Yeah, sure. First of all, a comment. I think any company could bid on this product, correct?

Mr. O'BRIEN. Yes.

Mr. GROTHMAN. How many different companies in the country offer long-term care insurance? Dozens?

Mr. O'BRIEN. I think about a dozen has been stated at this meeting.

Mr. GROTHMAN. About a dozen. Okay. So one would think that if somebody could offer this plan for less, they'd be given a contract in the future, and we've solved the problem. I think there are some underlying problems here with long-term care insurance I go into, and my guess is—well, I'll ask one question and I'll go on my soapbox again.

Have premiums for long-term care insurance gone up in general across the board—like if I go to my individual insurance agent or anything, is this an industry-wide phenomena?

Mr. DOUGHTY. Yes. I think it's safe to say that almost every insurance company offering long-term care has faced the need to raise premiums.

Mr. GROTHMAN. I thought so. And I think if any Congressman thinks you're doing a lousy job of running their company, they can apply to be the chief executive officer of any long-term care insurance company and make a boatload of money for you guys if they can do a better job than the free market can do.

But back to the last question. It is—nationwide, if I just go to my local insurance agent, how much can I expect my premiums to go up, say, every year for the last 5 years, you think about?

Mr. DOUGHTY. I think it's—it varies greatly, similar to this program, depending on the type of product that you've bought. But our—you know, and I'll just speak to John Hancock on the private insurance, the retail insurance that we've offered. And generally speaking, it's gone up by, you know, the same factors in similar amounts over time.

Mr. GROTHMAN. And that's true of your 11 competitors too, about?

Mr. DOUGHTY. Fairly similar, yes.

Mr. GROTHMAN. I would assume John Hancock, I mean, I would assume you guys know something about trying to offering insurance at the lowest price, don't you? And if you didn't, wouldn't one of your competitors undercut you and put you out of business?

Mr. DOUGHTY. Yes.

Mr. GROTHMAN. That's kind of something that everybody who graduates from high school should know by now, wouldn't you think?

Mr. DOUGHTY. I mean, I would think that one of the realities that the industry faces is that insurance—the cost of insurance as they go up have been going up, the same factors apply to all companies and——

Mr. GROTHMAN. You guys have been surprised in the amount of claims compared to where you all thought it was going to be 10 years ago, right? That's the underlying problem?

Mr. DOUGHTY. That's correct. The amount of claims and the investment environment that we talked about earlier.

Mr. GROTHMAN. Right. And as long as people maybe continue to live longer, be more likely to have diseases, Alzheimer's or whatever, that you have to put people in long-term care, premiums are going to have to go up, no matter how much a politician wants to grandstand and be critical of you, right?

Mr. DOUGHTY. Premiums will go up as claims go up and the need and costs of long-term care goes up. That's absolutely right.

We should—as someone pointed out earlier, this is a relatively young product. And we started with very little experience. So as we gather additional data, we should be able to get better but not perfect at predicting what those costs would be.

Mr. GROTHMAN. And if I yell at you some more and ask you to produce your costs, is that going to make any difference at all as long as more and more people continue to need long-term care, no matter how much I yell at you, no matter how many times I bring you back in this room?

Mr. DOUGHTY. Well, in terms of the Federal program and John Hancock, we obviously have an obligation to make sure that there are sufficient prices being charged to make sure that those claims can get paid in the future.

Mr. GROTHMAN. Right. It's not going to matter. I can't yell at you and say, keep coming back here until you lower your costs as long as more people need the insurance, right? I mean, you need a payout, right?

I'm sorry for the—for what you're having to put up with here.

I guess that's it.

Mr. COHEN. There are some countervailing trends, which advances in health care, for example——

Mr. GROTHMAN. Are we keeping people alive longer, too, right?

Mr. COHEN. Right. It may turn out that we're keeping people alive longer with less disability. I mean, that's—part of the uncertainty here is, frankly, it can go in both directions.

Mr. GROTHMAN. It can, but largely, the industry is hostage to the number of people who need long-term care, which they can't control. Right?

Mr. COHEN. Can they—I agree that they can't control the number who need long-term care. I don't know if they're held hostage to that, but——

Mr. GROTHMAN. Well, assuming they're not going to go through bankruptcy, they're hostage to it. Okay. Thanks much.

Mr. BUCK. The gentleman yields back.

The chair recognizes the gentleman from Virginia.

Mr. BEYER. Thank you, Mr. Chairman, very much.

Mr. Doughty, one of the things I've been confused—I did sign up for long-term care insurance. And when I got the notices, I show that my premium was just $325 a month, went to $483. And I got the three different options, which seem perfectly fair.

But the letters that we were getting in our office were from people 10 years older than I who had signed up for premiums at $180, $150, and $200 that went up to $1,200, that were up by factors of four, five, six. And I'm trying to figure out why was there such a difference in the increase in the premiums person to person? I felt like I got a relatively soft landing compared to the letters that I was receiving from constituents, who will probably have much less ability to pay it than I did.

Mr. DOUGHTY. So there definitely were differences in the amount of increase, depending on things like age, the type of benefit, et cetera. But I would be very interested in following up with—back to you, because the maximum increase that was required was 126 percent. So I think there must be some confusion around—you know, if people think their rates are going up by five or six times. And I would love to work with those constituents directly, if we can, to make sure that we're giving them adequate information to make sure we understand exactly what choices they're making.

Mr. BEYER. To be clear, unaffordability was what came home so hard to them. The other deal too is feeling cheated that they put in money for year after year after year and then all of a sudden it becomes unaffordable, and they have a choice of taking a much smaller premium that wouldn't cover them or getting all their money back, which doesn't do them much good at age 75 or 82.

Mr. O'Brien, just one—as a retailer of 40-plus years, we generally like to increase our labor rates like $1 at a time and hope people don't notice it rather than do it all at once and double it or 126 percent. You might take that into consideration going forward.

Mr. O'BRIEN. Would I had that option, it would have been great.

Mr. BEYER. And I know Mr. Connolly was very firm there at the end, and I think what came—what I heard from that is that we really need a commitment from you to have to do things differently, lest the 2016 hearing be like the 2009 hearing, and we're back here again in 2023 tearing our hair out again and asking you questions that you have a hard time answering.

Mr. O'BRIEN. I would like to avoid that as well.

Mr. BEYER. And I—on the notion of why we couldn't have made—I'm still not convinced that the actuarial things—you talked about the perfect storm, the low interest rates. Well, we've known that we've got low interest rates since the Great Recession. Or that people are living longer, we've known that for a long time too.

Was it only April of this year that we suddenly realized how off-balance we were, how out of sync we were with the premiums?

Mr. O'BRIEN. Again, what we had is we had, first, a revaluation by John Hancock in terms of their long-term cost projections, which we learned about in June of 2014. And that was when we knew that there were going to need to be rate increases, but those were the higher costs. Then later, as there were continued refinements to the assumption, including the revisions to the long-term investment returns, we got the new premium rates in April of 2015. And that's when we had the situation where we had 83 percent average rate increases that we rolled out.

It's a fair discussion about whether or not you would have done that incrementally, you know, did one increase followed by the other increase, and which would have been the least pain? The decision we made, which was—and the risk we thought we ran once we knew that there was going to be substantial rate increases needed over the period to keep the Experience Fund solvent into the future, which is our primary responsibility, is that if we had done it in what were going to be large increments no matter what we did, increments of 20 and 30 percent over several years, we thought we ran the risk of essentially having people stretch to stay in the program, and then a year later when they got the next increase be unable to do it, and they would have been paying an additional year's premium that they could not afford and have gotten no benefit from it.

What we decided—and it's fair to say there were other decisions that were possible—was to do the entire increase at this point based on the best information we have to take the fund, you know, on the best information we have into the future and provide these opportunities for landing spots, you know, as opportunities to maintain the current premium, cut your benefit a little and pay a little bit more premium or keep the same premium, if that's all you could afford. That was the decision we made, and I still feel it was the correct one.

Mr. BEYER. Okay, great. Thank you.

Mr. Chair, I yield back.

Mr. BUCK. The gentleman yields back.

Seeing no other questions, I'd like to thank our witnesses for taking the time to appear before us today. If there's no further business, without objection, this subcommittee stands adjourned.

[Whereupon, at 3:34 p.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

NTEU
The National Treasury Employees Union

Anthony M. Reardon
National President

National Treasury Employees Union

Statement for the Record

Subcommittee on Government Operations
House Committee on Oversight and Government Reform

U.S. House of Representatives

Federal Long Term Care Insurance Program: Examining Premium Increases

November 30, 2016

Chairman Meadows and Ranking Member Connolly, thank you for providing the National Treasury Employees Union (NTEU) with the opportunity to present a statement on the Federal Long Term Care Insurance Program. On behalf of the National Treasury Employees Union (NTEU) and our more than 150,000 federal workers at over 30 government agencies, I am pleased that our August request for a hearing on this matter is finally happening.

As you know, since its establishment in 2000, FLTCIP has been the largest employer-sponsored long-term care insurance program in the nation, with approximately 274,000 enrollees as of the end of Fiscal Year 2015. NTEU worked actively with your Committees on the authorizing legislation to create the program, and throughout the last seven-year contract renewal period and associated premium rate increase, as well as on needed program transparency and consumer items.

When the last contract was awarded in 2009, NTEU members were stunned to find that there would be large premium increases in the FLTCIP. At a hearing on this subject that year before two Senate committees, NTEU urged the Office of Personnel Management (OPM) to examine the relationship between claims and assumptions so that future premium projections would be reasonable. Instead, once again, FLTCIP enrollees were notified that owing to poor actuarial assumptions in the areas of claims, morbidity, mortality, and investments, that they must bear the responsibility of absorbing massive premium increases. While enrollees face an average 83 percent rate increase, some individuals are experiencing increases as large as 126 percent. As an example, one NTEU member from Illinois who contacted me upon receiving his individual FLTCIP packet will see his monthly premium rise from $325.84 to $736.40. While the program must be able to support paying current and future claims, this type of premium increase is not viable, and frankly will not be doable on the part of the vast majority of enrollees going forward. While individuals were given personalized options for lowering premiums, it is important to note that these solutions required enrollees to immediately reduce coverage levels, particularly by trading away inflation protection, which is the chief reason policy-holders purchase this type of insurance and the key component needed for adequate long-term care in the view of financial planners. I believe that many federal employees were forced over the summer to trade away core coverage levels and inflation protection to remain in the program. And, at one point are these individuals simply left in a situation where they have paid a fortune for an insurance product that will no longer provide any benefits?

At an OPM briefing earlier this year, John Hancock discussed their inadequate actuarial assumptions that miscalculated longevity, the length of claims, as well as the underperformance of their investments, particularly low bond rates that they claimed resulted in these needed premium increases. What I find difficult to understand is how all of this happened again. What happened to the required status reports of actual claims experiences and investment strategy and performance from John Hancock to OPM? How is it that the insurer, a major financial institution, was surprised by very low interest rates? And at what point does that become their problem, and not individual federal employees and retirees?

NTEU is concerned that if premium increases such as these happen yet again, at the next contract renewal, that there may not be a FLTCIP. We appreciate the Committee's attention in addressing needed oversight of FLTCIP on behalf of our federal employees, retirees, and their

family members, and we ask that you insist on regular reports from OPM on the status of FLTCIP. We would also ask that you direct OPM to revisit the structure of the program and redesign it in a way that will bring back reasonable premiums and inflation protection.

Thank you for holding this important hearing.

Testimony of Senator-Elect Chris Van Hollen
Subcommittee on Government Reform
Committee on Oversight and Government Reform
Hearing on "Federal Long-Term Care Insurance Program: Examining Premium Increases"
November 30, 2016

Chairman Meadows, Ranking Member Connolly, and Subcommittee Members, thank you for your response to my request for a hearing on the Federal Long Term Care Insurance Program (FLTCIP). Today, I want to give a voice to the hundreds of Marylanders in my district who are facing outrageous premium hikes without any warning. We must take action to reform this program so that we can protect working Americans from future spikes in premiums and improve the Office of Personnel Management (OPM)'s oversight.

As you know, in July 2016 the OPM announced that it awarded a new seven-year contract to the sole bidder, John Hancock Life Health Insurance Company (John Hancock), to once again administer FLTCIP. A total of 264,000 federal employees and retirees were faced with an unexpected and unacceptable average premium increase of 83 percent, and some even up to 126 percent, which went into effect on November 1, 2016. This is especially burdensome for retirees who are on fixed incomes. Enrollees bear the full cost of their premiums and were given just over two months to make the decision to reduce their benefits, drop their coverage that many have had since the inception of the program over a decade ago, or face significant financial hardship and pay the increased premium in order to maintain their benefits.

The FLTCIP, created in 2002, was designed to provide stable and affordable long-term care insurance to federal employees and retirees. In fact, a 2002 brochure provided by OPM stated that "premiums have been set to remain constant for life, unless you increase benefits. Your premiums can change only with OPM's approval and only on a group, not an individual, basis." Several enrollees purchased coverage based off of flawed actuarial predictions. It is alarming that this is the second contract cycle in which enrollees have faced an enormous increase in their rates. While actuarial predictions are never certain, there need to be additional oversight procedures to ensure that future projections are sound.

I have heard from hundreds of my constituents facing the outrageous premium spikes. They are angry and scared – many experiencing the maximum premium increase of 126 percent. Enrollees were blindsided, as OPM failed to inform enrollees until just before the start of the 11-week open enrollment period and did not give adequate justification for the increases. Along with my colleagues Congressmen Connolly and Beyer, I urged OPM to provide an extension of the open enrollment period while holding enrollees harmless to allow individuals more time to make their decision. This request was not granted.

One of my constituents who wrote to me after this contract was announced is a single retiree living on a fixed income. Her cost-of-living adjustment for next year barely increased but her FLTCIP premiums increased 126 percent. Since she is no longer able to afford her FLTCIP, she was forced to drop her plan – losing the money she spent paying into the program over the past 14 years. Another constituent's monthly premiums increased from $239.17 to $540.52, forcing

her to spend one-third of her monthly pension on her payments. Her husband's premium was also increased by an additional $316.02 per month. This elderly couple is now struggling to make ends meet in order to keep their benefits.

It is deeply concerning that federal employees and retirees have been faced with such shocking premium hikes without adequate notice or justification. I appreciate the Subcommittee's commitment to examine this urgent issue and look forward to working with all of you to examine the structure of FLTCIP and OPM's oversight of the program to provide clarity on the contracting process and the actuarial estimates to prevent unexpected premium spikes in the future.

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