

The Federal Long Term Care Insurance Program

A Statement for the
House Subcommittee on Civil Service and Agency
Organization
Committee on Government Reform
Congress of the United States

Washington, D.C.
March 24, 2004

Paul E. Forte
Chief Executive Officer
Long Term Care Partners, LLC

Good afternoon Madame Chairwoman and Members of the Committee:

I am Paul Forte, Chief Executive Officer of Long Term Care Partners, LLC (LTCP), the exclusive administrator of the Federal Long Term Care Insurance Program (FLTCIP), a long term care insurance program authorized by the Long Term Care Security Act of 2000 (P.L. 106-265). Long Term Care Partners is located in Portsmouth, New Hampshire, at Pease International Tradeport (formerly Pease Air Force Base), and employs 93 people from New Hampshire, Maine, and Massachusetts.

On behalf of Long Term Care Partners, and of our parent companies, John Hancock Life Insurance Company and Metropolitan Life Insurance Company, I'd like to thank you for this opportunity to participate in today's hearing and to comment on the Federal Long Term Care Insurance Program.

The FLTCIP is the result of more than three years of study into all aspects of long term care and long term care financing. During this time, the U.S. Office of Personnel Management (OPM) spoke with employees, retirees, and other stakeholders within the Federal Family, and then consulted with dozens of industry experts, from actuaries and underwriters to care managers and customer service specialists. OPM also consulted with large public and private sector employer sponsors of established group long term care insurance plans. The Request for

Proposal issued by OPM in June of 2001 was as challenging and thorough as any that has appeared, and the negotiations for the contract were tough. Since the statute allowed for the formation of consortia of insurers, who would bring diverse resources together, expectations were high. Emphasis was placed on both technical capabilities *and* price. The aim throughout was to secure not only the strongest possible plan design at the best possible price, but to ensure, through good administration, *that plan design would stay meaningful and rates would be stable into the future.*

The statute called for the contract to go to a single consortium of carriers. This was because participation in the FLTCIP would be voluntary, and therefore lower in relation to group health plans, and also because it was considered critical to establish a single credible risk pool. Such an approach was in keeping with insurance industry practice: virtually all employer sponsored group long term care plans have only a single carrier. After proposals were submitted and reviewed, and oral interviews were held, all competitors were asked to revisit their proposals and to sharpen their pencils. Best & Final offers were considered and a decision was made. This, in short, was the way the FLTCIP bid was structured and, I believe, the process was sound.

We are mindful of the privilege of having been awarded the first contract to administer the FLTCIP, which we believe is destined to become a critical development in the history of financial planning and an important resource to hundreds of thousands of Federal employees,

annuitants, and family members. I am happy to report that the FLTCIP has gotten off to a strong start. We have conducted a successful Open Season in 2002, developed policies and procedures for key functions, and begun paying long term care insurance claims.

I'd like to take a moment here to highlight the difference between conventional health insurance and long term care insurance. Most everyone understands the importance of health insurance. The need for it can arise suddenly, at any time. It is a cornerstone of financial security, and so it can be distributed without heavy marketing or promotion, although education about specific plan options is usually required. Long term care insurance, on the other hand, is relatively new and not fully understood. Many people think of long term care as something that will take place near the end of their lives, not in the midst of it. Further, they believe that Medicare pays for long term care expenses, fail to understand the eligibility requirements for Medicaid, and defer investigation of long term care insurance in favor of other or more pressing concerns. Successful distribution of long term care insurance requires education, repeat messaging, and personalized attention. It is hard to overestimate the importance of education to the promotion of the product. This is something that the framers of the enabling Statute recognized where they underscored the importance of "informed decision making" in FLTCIP marketing initiatives. See 5 USC Section 9008(d).

Accordingly, the 2002 FLTCIP Open Season featured a multi-phase, multi-media campaign on long term care and long term care insurance

—one of the most comprehensive education and marketing campaigns on the subject ever conducted. This campaign reached more than 4 million Federal and U.S. Postal Service employees, and members of the uniformed services, and an additional 4 million annuitants, including retired members of the uniformed services. The campaign was designed to help individuals access information, understand the risk of needing long term care, and consider their options for financing such care. Education efforts included a toll-free customer service line (1-800-LTC FEDS) that took over 1 million calls; a powerful web site that received more than 184 million hits; a five-month bulletin series that attracted 900,000 subscribers; and more than 2,300 program education meetings coast-to-coast. As a result of these efforts, more than 1 million people requested information kits. Of those who requested kits, more than 25% applied for coverage.

Less than two years after Open Season, the FLTCIP has over 200,000 enrollees, two-thirds of whom are active Federal civilians, U.S. Postal Service, and uniformed services personnel and their spouses, one-third of whom are annuitants and their spouses, and other qualified relatives. This makes the FLTCIP the largest long term care insurance program in the country – larger than the program sponsored by CalPERS (now in its 8th year), and constituting roughly 15% of the total employer group long term care insurance market in the U.S. Thanks to the passage of legislation in the last session of Congress, several newly eligible groups have been added, including Grey Reservists, DC Government employees with Federal Benefits, separated

employees with title to a deferred annuity, and Navy Personnel Command non-appropriated funds personnel. These groups will be contacted in the coming weeks and are eligible to apply for coverage now.

The FLTCIP offers a wide range of options to accommodate different budgets, including several “pre-packaged plans.” There are, in fact, some 528 different plan designs available, all of which can be modeled on our web site (www.ltcfeds.com). During Open Season, most enrollees elected comprehensive coverage, which covers all levels of home health care as well as facility-based care. The most popular Daily Benefit Amount was \$100 per day, followed by the \$150 per day option. Almost half choose the 3 year benefit period, and a majority chose the 90-day waiting period. It is worth noting that a full two-thirds of enrollees decided to address inflation by buying Automatic Compound Inflation vs. one-third who chose the Future Purchase Option. This was largely due to special efforts made to explain the effect that inflation can have on benefits down the road. Those purchasing the Automatic Compound Inflation option will see their Daily Benefit Amount increase by 5% compounded each year, even if they are in claim status, and without a corresponding increase in their premium.

Reception of the FLTCIP has been positive from the beginning, both among Federal Family members and mainstream media. Articles and news briefs have appeared in the *Washington Post*, *Federal Times*, *New York Times*, *Wall Street Journal*, *CNNfn*, and *CBS*

Marketwatch.com. underscoring the appeal of the Program and its potential to serve as a model for employers throughout the country. The FLTCIP has also benefited the insurance industry, which has cited the FLTCIP rollout in 2002 and 2003 as instrumental in the growth of both the individual and employer-sponsored group markets. See LIMRA International, *U.S. Group Long Term Care Insurance Executive Summary*, 3Q 2003, p.1. Indeed, long time industry observers view the FLTCIP's success as an important step in demonstrating the way that the public and private sectors working together can help individuals to become responsible for their long term needs, without relying on taxpayers and already strained government programs like Medicaid.

Long Term Care Partners is receiving very high marks for Customer Service. Based on recent customer satisfaction surveys, over 90% of those contacted have rated us good to excellent in customer service responsiveness. I should add that all LTCP Customer Service Representatives are well versed in the FLTCIP and in competitors' products.

It is important to note that the FLTCIP requires that certain underwriting conditions be met by prospective applicants. The Statute stipulates that no issue is "guaranteed," and that insurers have latitude as to how to provide a "fully insured" contract. See 5USC Section 9002 (d). During Open Season, active employees had to answer seven health-related questions; spouses of active employees had to answer an additional two questions; annuitants, spouses of annuitants, and

other qualified relatives had to furnish more detailed health information. After Open Season, all active employee applicants and their spouses must go through full underwriting, unless they are new or newly eligible. Annuitants and qualified relatives must go through full underwriting. For those applying with full underwriting, or for anyone applying for the unlimited benefit period, LTCP reserves the right to obtain medical records from attending physicians and to conduct telephone and face-to-face interviews to determine physical, functional, and cognitive health. The aim of FLTCIP underwriting is not to insist on perfect health – many persons with a medical condition requiring treatment are approved for coverage – but rather to accept people who have average health for their age group. Our overall approval rate for underwritten applications is 85%, which is in line with the industry.

Underwriting is required to ensure the stability and future growth of the FLTCIP. Since enrollees pay 100% of the premium (there are no Federal appropriations), it is critical to guard against the risk of anti-selection. Otherwise the Program would attract persons whose health is on average poor for their age, claims would mount, rates would have to be increased significantly, and the healthier enrollees would either not apply for coverage, or would terminate their coverage, leaving only the unhealthy people in the Program and causing the familiar rate spiral.

As of March 1, 2004, we have received about 500 claims, and have approved more than two-thirds for benefits. A significant number of

those not approved for benefits are the result of people recovering faster than expected, or people dying. Only about 12% of claimants have been actually denied. Of the claims that were denied, some 50% have been the result of people not understanding what the FLTCIP is designed to cover. The FLTCIP is designed to cover *long term care*, as opposed to *short-term care* (also known as acute care). We define long term care as being in need of personal assistance with at least two of the six activities of daily living (bathing, dressing, moving from bed to chair, toileting, maintaining continence, and eating) and requiring such assistance for an expected period of at least 90 days, or having a cognitive impairment arising from a degenerative condition such as Alzheimer's disease. Some claimants have acute muscular or skeletal problems resulting from injury but are not expected to be dependent in daily activities for 90 days. Others file claims upon receipt of a serious diagnosis like cancer that is not yet resulting in impairment. These people usually resubmit claims later and are often deemed eligible for benefits. Thus far we have not had any claimants who have availed themselves of the Third Party Appeals process. This unique provision allows for the submission of a claim to an independent board-certified physician specialist in cases where a claim determination is disputed. LTCP must honor the finding of the appeal reviewer if LTCP's denial is found to be incorrect.

The FLTCIP has already been of help to people with a serious life threatening illness that may be terminal in nature, as well as to those for whom the program is principally designed: people with chronic and debilitating conditions requiring custodial help with the activities

of daily living. In addition, we are providing care coordination services to the qualified relatives of those who enroll. As of February 29th, 2004, the Care Coordinators have handled 5,881 calls for services. These calls consist of evaluating the needs expressed by the enrollees or qualified relatives, assisting them to set up a plan of care to answer those needs, identifying and referring to appropriate local services and informal care providers, or simply answering questions about their coverage under the FLTCIP. The enrollees especially like the personalized service they get as they speak to the same Care Coordinator each time they or their qualified relatives call in. This facilitates a relationship with one nurse who will know their particular situation. As their needs change, the consistency of that nurse becomes a highly positive factor in their long term care plan.

With respect to financials, the FLTCIP is strong. All Program funds are put into separate accounts managed by John Hancock and MetLife. These separate accounts track all amounts received, as well as all investment income earned, separately and apart from other insurance company funds. The FLTCIP receives some \$67 million in premiums each quarter, with an average of roughly \$1,300 from each enrollee per year. The intent is to build up significant reserves in the early years of the Program to allow for large numbers of claims down the road. The assets backing these reserves are invested in a mix of bonds and other qualified securities matched to the expected commencement and duration of liabilities.

I would like to make a comment about the competitiveness of the FLTCIP. The current offering is the result of a bid submitted jointly in August and October of 2001 by John Hancock and MetLife, two of the market leaders in long term care insurance, with sizeable numbers of large group accounts. The bidding process attracted some of the best and largest carriers in the insurance industry. John Hancock and MetLife were awarded the contract on a combination of technical merit and net cost. Other criteria included the marketing expertise of the carriers, their ability to implement large national programs, and their financial ratings, as established by independent financial rating agencies. The FLTCIP is designed to be soundly underwritten. The assumptions that go into rates are conservative, following the National Association of Insurance Commissioners 2000 Model Act and Regulations on Pricing Stability. Nevertheless, the premium rates for the FLTCIP are competitive with those of any long term care insurance policies on the market, once varying benefit provisions are accounted for. Indeed, they appear more competitive each day, as insurers who in the past have offered heavily discounted policies and experienced losses are forced to withdraw those policies from the market in favor of new policies with higher rates.

Before I close, I'd like to take a moment to talk about marketing. During Open Season in 2002, we marketed the FLTCIP through Agency Benefit Officers, email, and direct mail, where we have home mailing addresses. We also set up a telephone unit staffed by specially trained and certified consultants. This unit is available five days a week to help prospective buyers determine the options that

might be best for their expected long term care needs, the benefits of certain features, and the choices that are right for their budget. We are currently receiving close to 1,500 phone inquiries per week.

In 2003, we began two new initiatives that are already bearing fruit.

- *Retirement Seminars* – 40% of the Federal workforce is eligible to retire in the next seven years. We communicate the importance of long term care insurance as a component of retirement planning. We are participating in more than 50 agency retirement seminars each month. These seminars are designed to help attendees understand the impact that long term care can have on retirement security and to explain the advantages of the FTCIP.

- *Outreach to National Associations* – There are a number of large national associations geared to the careers and special interests of Federal employees and retirees. We are working with senior officers of these associations to promote the FLTCIP. We maintain a close working relationship with NARFE, and will be continuing our outreach to NARFE members via magazine articles, exhibition booths at state and national conventions, and joint marketing initiatives.

As Federal Family members look forward, they can take comfort in the assurance that the FLTCIP is well poised for stability and future growth. Those of us who have been involved in the industry for a long time believe that the full potential of the FLTCIP has not yet

been tapped, that there are tens of thousands, perhaps hundreds of thousands, who may, one day, enroll. We plan to take our message first to the many baby boomers who are beginning to plan their retirements, and then to the annuitants who are now shopping for long term care insurance but have not yet made a decision. As we do, we will be sure to emphasize the FLTCIP's generous and flexible informal care benefit, care coordination and information counseling services to enrollees and family members, third-party claims appeal process, international benefits, absence of a war exclusion, and other features that make the FLTCIP what we strongly believe is the best value in long term care insurance today.

Thank you again for your invitation to participate in this hearing. I would be happy to answer any questions that you may have.