INFORMATIONAL PANEL DISCUSSION

Paying the Price for a Long Life: What's Next for Long-Term Care Insurance?

May 7, 2013
State Capitol, Room 126 at 2:00 pm

ISSUE PAPER

For current long-term care (LTC) insurance policy holders, those considering long-term care insurance as a retirement planning solution, long-term care benefit plan administrators, and long-term care insurance industry stakeholders, recent news has mostly been disappointing. Sharp premium increases, higher long-term costs for long-term care, and poor actuarial assumptions, have made marketing and selling such policies a challenge. Recent announcements of gender-based pricing has raised eyebrows coincidentally at a time when state governmental policy makers have been warned about the accumulated impact of budget reductions upon women[1], and the existing dire economic outlook for long-lived women[2]. Rising long-term care costs, rapidly changing demographics and shrinking revenue resources have captured the attention of governmental leaders. Well planned solutions to managing the growing care needs and avoid dependency on public resources are needed now, and long-term care insurance is widely believed to be one important aspect of a multipronged strategy to do so.

Today's exercise is intended to bring clarity to a range of concerns identified by consumers, constituents, and organizations representing retired individuals, and to give voice to those constituents and consumers. It is intended that the result will be a constructive path of

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[1] Falling Behind: The Impact of the Great Recession and the Budget Crisis on California's Women and Their Families, February 2012, California Budget Project, funded by The Women's Foundation of California.

[2] "Fiscal Forecast for Older Women: Poor" Assembly Committee on Aging and Long-Term Care, Mariko Yamada, Chair, Assembly Committee on Human Services, Jim Beall, Jr., Chair. December, 2011

open dialogue and creativity. Great frustration underlies the vast network of concerns and related questions. Nonetheless, as difficult as it may be, some of the highest ranking officials have made themselves available to participate today to answer concerns and questions; concerns and questions which are often the product of a series of related decisions made by previous officials and previous governmental entities. Blame and resentment will only slow the corrective actions. Moving forward means correcting the past mistakes, and improving our processes so that mistakes are reduced or eliminated. Although jurisdiction for public retirement and jurisdiction for insurance policy subjects lie with other policy committees, this committee is interested in the impacts of the rapidly changing long-term care insurance markets, the impact those changes are having on the aging populations, and what the ramifications are to programs and services that are within this committee's jurisdiction.

What is Long-Term Care Insurance? Long-term care insurance may be purchased from a large number of companies through insurance agents, or a variety of groups or employers. Some private employers sponsor LTC insurance and public employers such as the California Public Employees' Retirement System (CALPERS) and the Federal Employees Long-Term Care Program (FLTCP) sponsor their own LTC programs. California state employees, and others covered in the CalPERS system, may purchase coverage through the CalPERS Long-Term Care Insurance Program during periods of open enrollment. Long-term care insurance primarily pays for supervision or assistance with "activities of daily living:" eating, bathing, dressing, toileting, continence, and moving about inside one's home. When you have a physical impairment (usually brought on by age), and need supervision of these activities, or when you have a cognitive impairment such as Alzheimer's disease, or complex but stable medical conditions, benefits are triggered after a deductible period, typically 90 days. Benefits are generally meant as reimbursement for LTC services which can be in the home, in a community program, in an assisted living facility, or in a nursing home. Since long-term care services can be triggered over a long period of time, benefits are usually intended to help support a beneficiary in the least restrictive environment. LTC services are often provided by family members and typically do not require the skilled care that nurses and doctors are licensed to provide. Policies offer daily benefit amounts to pay for home care, and other needs. LTC insurance benefits may be part of a life insurance or annuity policy, or contained in a freestanding LTC policy.

BACKGROUND: 85% CalPERS rate Increase and Gender Pricing:

Background on CalPERS: CalPERS, with origins in 1931 legislation to establish a public employment retirement system in California, is an agency that manages pension and health benefits for nearly 2 million California public employees, retirees, and their families. It is governed by a board. The CalPERS Board consists of 13 members who are elected, appointed, or ex officio members. The Board composition is mandated by law and cannot be changed unless approved by a majority of the registered voters in the State. There are six members elected by CalPERS system participants, two Governor Appointees (an elected local government official, and an official of a life insurer), and one public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee. Four ex officio members including the State Treasurer, State Controller, Director of the Department of Human Resources and a designee from the State Personnel board also serve. In addition to their regular duties, Board Members serve on permanent committees to review specific programs, projects or issues and make recommendations to the Board. The CalPERS Pension and Health Benefits Committee (PHBC) oversees all matters related to strategy, policy, structure, and actuarial studies and rate setting for pension, health, and long-term care program administration. Since 1995, CalPERS has offered its eligible members long-term care insurance policies. As of June, 2012, there were 150,330 such policyholders.

Recent Announcement of Premium Increase: Although a 5% rate increase was recently announced for 2013, what has captured most people's attention is an 85% increase on the horizon. The CalPERS Board of Administration approved a PHBC recommended Long-Term Care premium increase of 79% beginning in 2015, or at the policyholder's election, 85% levied over a two-year period in 2015 and 2016. The hike impacts about 75% of the CalPERS LTC insurance policy holders. The Board also approved plans to offer less costly long-term care insurance options for beneficiaries, if preferred. According to CalPERS, if the Board had not approved these premium increases, the Long-Term Care Fund may not have been able to cover the benefits for policyholders who will need them in the future. According to information provided to the committee by the CalPERS offices[3], the estimated amount of commitments within the CalPERS LTC insurance products is just over $7 billion, while the available assets to pay for these commitments are just under $3.5 billion. The difference, or unfunded LTC commitments is $3.585 billion. A range of assumptions lie at the source of these numbers, including: the length of life-spans, morbidity and mortality rates, rates at which policies will be lapsed, inflation, and many more. Similar to other long-term care insurance companies, the CalPERS LTC Program has experienced worse-than-expected claims, due in part to less stringent underwriting standards in the mid-1990s, higher-than-expected claims incidence, and lower-than-expected investment income. To receive benefits under a CalPERS policy, a person must be unable to perform any two activities of daily living without help, or have a severe cognitive impairment.

Consumer frustrations lie beneath growing layers of premium increases. In 2009 premiums were increased by 22% due to a then estimated $800 million deficit in the long-

[3] 2012 Actuarial Valuation of the California Public Employees Retirement System, Long-Term Care Program as of 6/30/2012. Prepared by: United Health Actuarial Services, Inc. Clark A. Heitkamp, FSA, MAAA, LTCP Consulting Actuary, Karl G. Volkmar, FSA, MAAA, FCA Principal & Senior Consulting Actuary

term care fund. In 2007 rates were increased 43.8% and in 2003, 30%. Some policy holders will have experienced increases of over 500% for life-time benefits (no limit on the amount of time benefits are paid) and inflation protection (an option that helps benefit values keep up with inflation), after the 2015 rate increases are in place. Additionally, reports that policies may have been marketed as having premiums that would never increase are rampant. Although no CalPERS material states that premiums would never increase, the method of marketing these policies in the 1990's consisted largely of administrative executives encouraging their employees to take advantage of an opportunity. The range of potential miscommunications and misunderstandings under such a scenario are apparent, and the temptation to latch on to it as the cause for today's frustration is understandable, but the true concern should be focused upon the range of assumptions made to establish the product pricing, why those assumptions have been repeatedly demonstrated to be so far off the mark, and what controls are in place to assure such misassumptions are not made again.

Gender Pricing: Last February, a large marketer and seller of long-term care insurance, Genworth Financial Inc., announced a new trend in long-term care insurance policies. They will begin charging premiums based on gender. Women will pay higher premiums than men reflecting that more claims are paid *for* women than for men. The announcement was that women would pay 20-40% more than their male counterparts. Regulators in 34 states have already approved this pricing method. In California, this practice is not prohibited, but not practiced by the industry. Other LTC insurance companies are likely to follow—thus placing women at greater risk to become more reliant on public social services, such as Medi-Cal at a critical point in their lives when medical costs spike. This may not be surprising given that women on average live longer than men, but in many relationships, women serve as caregivers thus delaying their husband's use of his LTC benefits. When women need long-term care insurance benefits, women may need benefits sooner because they are often single by the time they begin needing care, and have no convenient live-in caregiver. As a result, they are more likely to tap into any long-term care benefits sooner than a man. Women are already economically marginalized late in life. Women are more likely to live longer than their male counterparts, more likely to live alone, and more likely to live with incomes below $20,000, with 49% of women over the age of 65 subsisting on incomes below $20,000 compared to 28% of older men[4].

[4] Alana Salganicoff, Kaiser Family Foundation, "Women and Long---Term Services and Supports." Presented at the National Conference of State Legislatures Pre---Conference. December 4, 2012. Accessed at: http://www.ncsl.org/portals/1/documents/health/ASalganicoffFF12.pdf).

Long-Term Care: Seventy percent of the U.S. population is predicted to need some form of long-term care services during their lifetimes, and this kind of care is expensive[5]. According to 2010 Health and Human Services figures, individuals can expect to pay:

- $83,580 per year for a private room in a nursing home;
- $39,516 per year for care in an assisted living (non-health) facility: and,
- $19-21 per hour for home care, or home health care.

Finding a way to pay for long-term care is a growing concern for consumers and policy makers alike. Though it is ideal when one needs long-term care to have a long-term care policy, most people rely on their own incomes and assets to pay for care when they need it, and often end up on Medicaid and other public and community social services when those funds are depleted. The high cost of long-term care insurance combined with screening out those likely to need care, and the future risk of higher premiums, prospects for gender-based pricing, may be limiting the number of people likely to have these benefits when they need care. Although long-term care insurance can be a valuable resource for those who can qualify for coverage and who have the means to pay for it over their lifetime, experts are beginning to suggest that it will not provide enough people with benefits to have a meaningful impact on a reduction in the reliance of public benefits. Since there are correlations between long-term care insurance and a reduced reliance upon public social services, the question of a public solution has been raised.

The Community Living Assistance Services and Supports Act (or CLASS Act) was a U.S. federal law, enacted as part of the Patient Protection and Affordable Care Act. The CLASS Act would have created a voluntary and public long-term care insurance option for employees, but in October 2011 the Obama administration announced it was unsustainable and would be dropped. The CLASS Act was repealed January 1, 2013. Key provisions included monthly premium through payroll deduction, guaranteed-issue, enrollees would have been eligible for benefits after paying premiums for five years, and enrollees would have received a lifetime cash benefit after meeting eligibility criteria.

The American Taxpayer Relief Act of 2012 (ATRA) repealed the CLASS Act. In its place, however, the ATRA calls for the President and Congressional leaders to create a new task force: The Commission on Long-Term Care, to come up with a bipartisan plan that will advise our nation's leaders on how to solve our growing need for a system of care and financing. Two California residents will serve on the commission, Laphonza Butler, President of the Service Employees International Union, and Dr. Bruce Chernoff, CEO of the

[5] California Health Advocates: Medicare information for California beneficiaries

SCAN Foundation, an independent, non-profit public charity devoted to transforming health care for seniors in ways that encourage independence and preserve dignity. The growing need for long-term care along with the question of coverage and how to pay for it is an on-going public health issue in need of much greater attention, discussion, creativity and planning.

RELATED PENDING LEGISLATION:

AB 373 (Mullin) Intends to demonstrate the sustainability, potentially increases the solvency of the LTC Fund and Improve the LTC Program risk pool by expanding eligibility for the LTC Program to include adult children and domestic partners of active or retired California public employees. (Currently in Assembly Appropriations Committee)

AB 821 (Yamada) Spot bill intended to address gender disparate pricing of long-term care insurance. The author has designated AB 821 a two-year bill and the measure currently resides with the Assembly Insurance Committee.

AB 1234 (Levine) Requires every insurer of long-term care in California to provide information about the California Partnership for Long-Term Care web-site, a non-profit site developed by the State of California that helps consumers navigate the complex, overwhelming and costly issue of long-term care, by providing honest, straightforward facts, costs, and emotional challenges of long-term care, while balancing solutions.

SB 241 (Gaines, Ted) Spot bill to address long-term care insurance.