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OPM Announces Premium Increase in the Federal Long-Term Care Insurance Program

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On July 16, 2016, the U.S. Office of Personnel Management (OPM) announced a premium rate increase for long-term care insurance policies purchased through the Federal Long Term Care Insurance Program (FLTCIP). The new rates were established following an open competitive bidding process. That process awarded a new seven-year contract to the prior insurer and sole bidder, John Hancock Life & Health Insurance Company, to continue providing coverage. According to OPM, the higher premiums are based on an analysis that used updated assumptions of industry trends and claims experience. The analysis determined that current FLTCIP premiums were not sufficient to meet projected costs and benefits. Most federal workers enrolled in FLTCIP are affected by the premium increase (an estimated 264,000 of the 274,000 enrollees).

During OPM's 2016 Enrollee Decision Period, enrollees affected by the rate increase have until September 30, 2016, to decide whether to (1) keep their current coverage and pay the increase; (2) reduce coverage in order to maintain their current premium; or (3) allow their policies to lapse (i.e., drop coverage in the program). Rate increases are scheduled to take effect November 1, 2016.

While premium increases will vary by enrollee, the amount of the increase is based on a combination of

- the age when the policyholder applied and was approved,
- the plan purchased, and
- the benefit package.

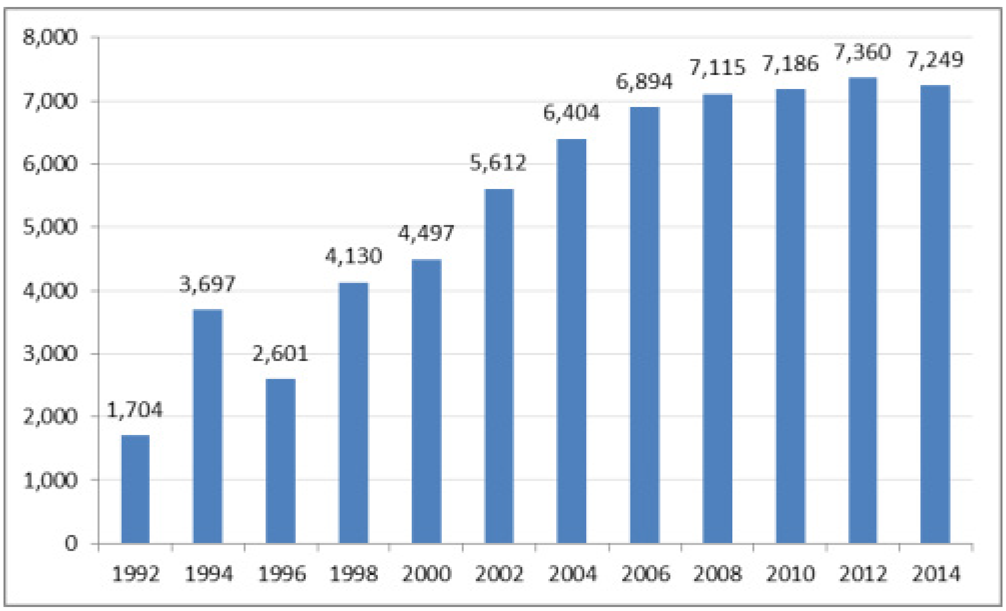
According to news sources, premiums are expected to increase by 83%, on average. Some Members of Congress have expressed their concerns to OPM leadership and John Hancock about such dramatic increases, calling for more time for enrollees to assess options as well as for congressional hearings on the issue.

What Is Long-Term Care Insurance?

Long-term care insurance (LTCI) is designed to finance future long-term care needs. LTCI covers services and supports that assist individuals with activities of daily living (such as bathing, dressing, and eating). Services covered may include personal care, home health, respite care for caregivers, homemaker and chore services, and medical equipment, and may be provided in a variety of settings (such as a private home, assisted living facility, or nursing home). LTCI policies reimburse the policyholder a limited, daily amount for such services. Costs for LTCI policies are based on the policyholder's age at the time of purchase. Policyholders must decide the type of coverage, the dollar amount of coverage and annual inflation adjustments, the length or duration of coverage, and the waiting period prior to benefit coverage. LTCI policies are guaranteed renewable; in other words, they may be cancelled only for non-payment of premium.

The private LTCI market has changed significantly over the past three decades. The employer-sponsored insurance market has grown as a share of total LTCI sales, and the overall market has become more concentrated, with fewer companies selling the product. However, from 2002 to 2014, overall growth in the market remained relatively stagnant (see **Figure 1**). In 2014, 7.2 million individuals had an active LTCI policy (often called "in-force"). Of the 7.2 million in-force policies, about 70% were individual policies and 30% are group policies.

Figure 1. Long-Term Care Insured Lives (Thousands)



Source: Nordman, Eric. C., *The State of Long-Term Care Insurance: The Market, Challenges and Future Innovations,* National Association of Insurance Commissioners and the Center for Insurance Policy and Research*,* May 2016*,* p. 9*;* data from NAIC Experience Reports, 2000–2014.

Employer-sponsored LTCI is distinct from employer-sponsored health insurance in that employers typically do not contribute to LTCI premiums. Unlike LTCI purchased in the individual market, employer-sponsored LTCI has the advantage of a larger risk pool and generally lower premiums. Among employers offering LTCI, the federal government is the largest employer offering group LTCI.

Background on the Federal Long-Term Care Insurance Program

Established under The Long-Term Care Security Act (P.L. 106-265), the legislation authorized OPM to offer a federal long-term care insurance program designed for eligible federal workers (including retirees) and family members. FLTCIP premiums may be deducted from an individual's salary or pension benefit, but they are not pre-tax contributions and workers pay 100% of the premiums. OPM regulates the FLTCIP, and workers receive no premium assistance from the federal government. Since enactment, amendments to this legislation have primarily addressed eligibility.

This is not the first time premium rates in the FLTCIP have increased. In 2009, OPM announced that premium rates for current federal workers enrolled in the program who had purchased automatic compound inflation protection would increase 25% for most policyholders. These rate increases were a result of a new negotiated LTCI contract for federal workers that included a new benefit package with increased home health care reimbursements, new benefit periods, and higher daily benefit amounts. However, enrollees whose premiums increased were provided the opportunity to maintain their current premiums by changing their benefit package.

Rate Stability and Long-Term Care Insurance

Federal workers are not the only policyholders to face LTCI premium increases. Over the past two decades, annual LTCI premiums have increased significantly overall for both current and new policyholders. Higher average premiums reflect increased demand for more comprehensive benefit packages (including inflation protection) and higher daily benefit amounts. Premium increases have also been driven by inadequate medical underwriting, premiums that were initially set too low, and insufficient growth in reserves to cover future claims. Thus, premium or rate stability depends largely on the ability of insurers to adequately predict future claims. Most policies issued before the mid-2000s have incorrectly predicted claims, necessitating changes to key pricing assumptions. For example, rising claims, lower mortality rates, lower-than-predicted voluntary termination (lapse) rates, and lower-than-predicted rates of return on investments have been cited as key reasons for LTCI premium increases. Nevertheless, large rate increases, such as those proposed by the FLTCIP, are likely to have a continued effect on consumer confidence in these products, possibly leading to further reductions in consumer demand.