MILLIMAN REPORT

2022 FLTCIP Market Analysis Study

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I. OVERVIEW

Per Combined Synopsis / Solicitation Number 24322622R0014 (Solicitation), the United States Office of Personnel Management (OPM) requested assistance to assess the current state of the long-term care insurance industry and trends, the current state of the group long-term care insurance market, unused flexibilities in the Long-Term Care Security Act, and the Federal Long-Term Care Insurance Program (FLTCIP).

FLTCIP is insured by John Hancock Life & Health Insurance Company (John Hancock) and administered by Long Term Care Partners, LLC (doing business as FedPoint). Federal employees, postal workers, uniformed service members, and retirees from the federal government may be eligible for FLTCIP provided they meet the criteria for program eligibility outlined at www.ltcfeds.com/program-details/eligibility. FLTCIP currently covers approximately 260,000 enrollees. The most recent iteration of FLTCIP is designated as FLTCIP 3.0; prior offerings of the benefit design, identified as FLTCIP 1.0 and FLTCIP 2.0, are no longer offered to new applicants.

On June 3, 2022, OPM published proposed regulations for FLTCIP amending when abbreviated underwriting will be offered to prospective enrollees; finalizing technical corrections for the sake of clarity and removing redundancies; and providing notice of an anticipated suspension period. Effective November 16, 2022, OPM issued a final regulation publishing these program changes as final rule. Please note, while this report addresses this regulation, most of the supporting research, focus groups, and stakeholder interviews were conducted prior to the publication of the final rule.

Milliman, Inc. (Milliman) was engaged to perform the services below in support of the Solicitation. Milliman utilized two subcontractors, Eileen Tell and Marc Cohen, to assist with market research and stakeholder interviews / focus groups. The tasks completed under this contract include:

- Comparison of the products, including FLTCIP, in the current long term care insurance market in general, and the group market specifically.
- Tracking of the current trends of major insurance companies offering long term care insurance in the market.
- Assessment of current long term care insurance market to the current FLTCIP statute, codified as Chapter 90 of Title 5 of the U.S. Code.
- Analysis of current FLTCIP concerns, including evaluation of the program's structure and competitive position.
- Analyze the broader statutory and regulatory environment to identify factors that may be inhibiting demand for long term care insurance.
- Assessment of the value to the Government of offering long term care insurance as a group benefit to the eligible population consistent with the Government's desire to be a model employer able to attract and retain a skilled workforce in a competitive labor market.
- Provide recommendations on how the most innovative industry ideas can be incorporated into the federal program, for both current enrollees and prospective enrollees, and provide recommendations for short- and long-term changes including contractual, legislative, and / or regulatory changes necessary to carry out these recommendations.

The remainder of this report is divided into Sections II through VII. A brief description of each section is provided below:

- **Section II: Benefit Design Benchmarking.** Section II compares the FLTCIP benefit design to other public and private-sector designs. We discuss both where FLTCIP might be an outlier relative to other programs, as well as where FLTCIP is in line with those programs.
- **Section III: Financing and Risk Management.** Section III focuses on comparing the financing and risk management framework between FLTCIP and related public and private-sector LTC programs.
- **Section IV: Factors Affecting LTCI Demand.** Section IV reviews the barriers to purchase and factors driving demand for LTC insurance in greater detail, with a focus on implications for FLTCIP.
- **Section V: Key Findings and Considerations.** Section V presents key findings which cover all facets of the program, from marketing to product innovations to policy considerations, based on our data collection and analysis.

- **Section VI: Summary for Current and Prospective Enrollees.** Section VI distinguishes between recommendations and findings aimed at current enrollees or prospective enrollees. This section also includes final conclusions and next steps related to these recommendations.

- **Section VII: Caveats and Limitations.** Section VII includes important caveats and limitations related to the purpose and use of this report.

II. BENEFIT DESIGN BENCHMARKING

In this section, we compare the FLTCIP benefit design against the private insurance market, select large employers (public sector plans, such as the California Public Employees Retirement System (CalPERS) and State of Minnesota, and private sector plans), and public social insurance programs (such as WA Cares). Note, when referring to FLTCIP in our commentary below, we are specifically talking about the FLTCIP 3.0 product unless otherwise noted.

Overall, we found the plan design offered by FLTCIP to be competitive and comparable to other similarly structured group LTC products. In some cases, we found FLTCIP 3.0 offered unique product features beyond what is typically seen in other group plans, including:

- International coverage
- Benefit payment available to informal care providers
- A calendar day elimination period

A grid comparing FLTCIP 3.0 to other LTC insurance coverage and products across various dimensions is included in Exhibit 1. We include additional background and commentary below for key program comparisons.

PUBLIC SECTOR LARGE EMPLOYERS

We studied two public sector large employer plans for this actuarial study: the CalPERS Long-Term Care program and the Minnesota Public Employees' Long-Term Care Insurance Plan (M-Pel). Around early 2000, roughly half of the states offered LTC insurance to their employees and (in many cases) retirees. Many of those plans no longer accept new applicants, but we believe the CalPERS and M-Pel programs serve as a good source of benchmarking for public sector large employers.

CalPERS is a self-funded, not-for-profit program administered by Long Term Care Group, Inc. (LTCG) available to all full-time or part-time public employees and retirees of the state of California, (as well as their spouses, parents, parents-in-law, and more recently extended relatives such as siblings and adult children). During its initial 18-month enrollment period which began in 1995, roughly 40,000 members enrolled in the program. At each annual three-month application period from 1998 through 2003, roughly 15,000 additional lives were added to the program. Due to program lapses, program participation declined from 152,000 in 2011 to roughly 110,000 insureds currently in the program. Enrollment into the CalPERS LTC program is currently suspended until further notice due to uncertainty surrounding litigation and future experience.[1]

M-Pel is fully insured by Continental Casualty Company (a division of CNA Financial Corporation) and sponsored by Minnesota Management and Budget (MMB). The program is open to all full-time or part-time employees and retirees of the state of Minnesota (as well as their spouses, parents, and parents-in-law). At its inception, of the 61,000 eligible state employees in 2000, more than 18% opted into M-Pel.

Below we provide summary commentary on how FLTCIP 3.0 compares to CalPERS and M-Pel for key program design features. Exhibit 1 provides additional details for each program's product design.

Benefit period and lifetime maximum benefits

FLTCIP 3.0 allows enrollees to choose from a two-year, three-year, and five-year benefit period (BP). CalPERS offers a wider range of choices, including a 10-year benefit period. CalPERS also has a LTC Partnership Program Plan that (by mandate) must offer a short, one-year benefit period, among other coverage differences. M-Pel's offering is similar to FLTCIP (except it replaces the 3-year BP with a 3.4-year BP). M-PEL's initial offering included a 13-year option that was not widely promoted. In contrast, CalPERS' initial offering of Lifetime coverage was widely promoted and well-adopted, similar to FLTCIP 1.0. All the plans utilize a pool of dollars design for the lifetime maximum benefit, calculated as the benefit period multiplied by the daily / monthly benefit amount.

Elimination period

FLTCIP 3.0 is comparable to CalPERS in offering a 90-day elimination period (EP) plan. CalPERS also offers a 30-day option, but only within the Partnership Plan (as required). M-Pel's current documentation related to the EP is unavailable, but based on prior research we believe M-Pel provides a comparable 90-day EP.

[1] https://ltcpolicyhub.com/calpers/

Daily / monthly benefit

While generally comparable with CalPERS and M-Pel, FLTCIP 3.0 offers a $450 daily benefit option, which is the highest among the three programs. CalPERS initially had limited benefit amounts to simplify plan choice, but more recently offered options up to $400 and M-Pel up to $200. All three programs use a reimbursement structure for paying out benefits (rather than cash or indemnity) and reimburse expenses daily, though CalPERS employs monthly reimbursement for home health services. FLTCIP and CalPERS reimburse costs up to the same benefit maximum for all three main places of care (home health, assisted living facility, and skilled nursing facility). This benefit information was not available for M-Pel's current product offering.

Inflation protection

FLTCIP 3.0 is generally aligned with the public sector large employers in offering standard inflation protection options: 3% compound inflation or a Future Purchase Option (FPO). CalPERS initially automatically included a FPO for any coverage that did not select the 5% compound inflation protection and had only those two options. Over time, CalPERS expanded the choices available, including the option to have no inflation protection, 5% simple, or 3% compound.

Benefit trigger

CalPERS, M-Pel, and FLTCIP 3.0 all are tax-qualified plans utilizing the Health Insurance Portability and Accountability Act of 1996 (HIPAA) benefit trigger (i.e., unable to perform 2-of-6 activities of daily living, where the condition is expected to last at least 90 days, or severe cognitive impairment).

Underwriting

FLTCIP 3.0, after the recent change to the regulation effective November 2022, and CalPERS are aligned on underwriting requirements as both require long-form underwriting for employees, spouses, retirees, and other family members. On the other hand, M-Pel is less strict than FLTCIP 3.0, offering guaranteed issue for newly eligible employees.

STAND-ALONE LTC PRIVATE MARKET

More than 6 million individuals nationwide are covered by stand-alone private LTC insurance (LTCI) policies (all statistics as of 2020). The top five private insurers (based on in-force premium) are Genworth, John Hancock, Northwestern Mutual, MetLife, and Unum, and they are responsible for nearly half of the almost $13 billion in annual claim payments in the stand-alone private market. The average size of a claim is roughly $170,000.[2]

While most private LTCI sales come from the individual market, it is also available to some employees through their employer. Per the LIMRA 2022 Workforce Benefits Employer Benchmarking Study,[3] 23% of employers with 10 or more employees offer LTCI to their employees. This number increases by employer size, with only 19% of the small employers (10 to 49 employees) and 47% of the largest employers (100+ employees) offering LTCI to their employees. Of eligible employees, 44% elect to enroll in an employer offered LTCI plan, which varies depending on the level of employer contributions to premiums.

The following sections compare the profile of the products being purchased today from selected stand-alone LTC insurance carriers with the main features of the FLTCIP 3.0 product.

Unless otherwise noted, the information on the stand-alone market used in the following sections is sourced from Broker World's "2022 Milliman Long-Term Care Insurance Survey"[4] and "2022 Analysis of Worksite LTCI."[5] These articles include LTC insurance sales information from 2014 through 2021. It is important to note that 2021 was not a typical year for sales in the private LTCI market. Because the Washington State LTSS Trust Program, now known as WA Cares Fund, included a provision whereby individuals who purchased private LTC insurance by November 1, 2021 would be exempt from the program's 0.58% payroll tax. A large number of private LTC insurance policies sold in 2021 were issued in Washington state. The sales statistics appear to suggest individuals in Washington generally bought lower coverage amounts and at lower premiums than would otherwise be typical of sales in a given year, presumably due to individuals seeking to avoid the payroll tax.

[2] https://www.milliman.com/en/insight/impact-of-covid19-on-the-size-of-the-ltci-industry/
[3] https://www.limra.com/siteassets/research/research-abstracts/2022/benchmarking-employer-survey-benefits-penetration/0828-2022_benchmarkingemployersurveyinfographic-1.pdf
[4] https://brokerworldmag.com/2022-milliman-long-term-care-insurance-survey/
[5] https://brokerworldmag.com/2022-analysis-of-worksite-ltci/

Benefit period

FLTCIP 3.0 offers two-year, three-year, and five-year BP options, and 84% of private stand-alone LTCI sales in 2021 fell into one of these options (with 56% coming from 3-year BPs). When examining worksite sales only, an even larger proportion of sales (95%) are concentrated among those options. The average BP sold for plans in the worksite market (3.0 years) is slightly lower than in the total market (3.2 years).

Generally, private market sales in the individual market have BPs ranging from less than 2 years to more than 10 years, with 0.2% of policies sold having a lifetime BP.

Elimination period

FLTCIP 3.0 uses a 90-day (calendar day) EP. This is the most popular private market EP length, with 90% of private stand-alone LTCI sales in 2021 having an EP between 84 and 100 days. Of the 10% of sales outside of this range, 4% of sales were for lower EPs and 6% were for higher EPs (although, a larger-than-normal percentage of higher EPs in 2021 seems attributable to the WA Cares Fund's private market exemption process, which ended in November 2021). It is common for worksite programs to only offer a 90-day EP, consistent with FLTCIP.

FLTCIP 3.0 falls more outside of the norm in terms of the definition of the EP; however, with only 17% of private stand-alone LTCI sales in 2021 associated with calendar day EPs (note, the concentration was higher in years past, with 39% of sales having calendar day EPs in 2020, where 2021 sales were likely influenced by the WA Cares Fund). Service day EPs continue to be more commonly sold in the private market than calendar day EPs. Some carriers include ways to accelerate the service day EP, for example by giving credit for seven days of the week in which three days of service are counted.

Daily / monthly benefit

FLTCIP enrollees have the choice of daily benefit amounts ranging from $100 to $450 (in $50 increments). Most policies in the stand-alone private market (73% of sales in 2021) have monthly benefit determinations instead of daily. The average maximum monthly benefit at issue in the stand-alone private LTCI market was $4,888 in 2020 (which translates approximately $163 per day). Note, the average maximum monthly benefit at issue was $4,045 in 2021 (or approximately $135 per day), but that appears to be driven lower compared to recent historical patterns due sales influenced by the WA Cares Fund's private market exemption process.

Figure 1 displays a comparison of benefit amounts adjusted to be on a maximum monthly basis between FLTCIP enrollees and 2020 sales from the stand-alone LTC market. FLTCIP enrollees tend to have a larger monthly benefit amount compared to the stand-alone private market.

Figure 1
Distribution by Benefit Amount

Maximum Monthly Benefit	FLTCIP	2020 Broker World Sales Data
Less than $3,000/month	2%	8%
$3,000 to $4,499	37%	31%
$4,500 to $5,999	42%	32%
$6,000 to $7,499	14%	17%
$7,500 to $8,999	2%	5%
$9,000 and above	3%	6%
Average Monthly Benefit	$4,355	$4,045

Coverage under FLTCIP 3.0 is comprehensive, with nursing home care, assisted living facility, home care, and adult day care covered up to 100% of the daily benefit amount. This is consistent with the offerings in today's stand-alone market, where the vast majority of comprehensive policies sold in both the worksite and non-worksite market offer home care maximums equal to the facility maximum.

In addition to the care settings listed above, under FLTCIP 3.0, informal care provided by a friend, relative, or private caregiver (as long as that person did not live in your home at the time you became eligible for benefits) is covered up to 100% of the daily benefit amount. Informal care provided by family members is covered up to 500 days, while care provided by non-family members is covered for the whole benefit period.[6] Many current sellers in the private

[6] https://cdn.ltcfeds.com/planning-tools/downloads/Book-2.pdf

stand-alone market do not cover informal care provided by family or others. Some policies do, however, allow "independent providers" approved under the policy to provide in-home care either under a specific provision in the policy or under an Alternative Plan of Care Provision. Whether or not this can include a family member depends upon the language of the policy.

Inflation protection

FLTCIP 3.0 offers two benefit increase options: 3% compound inflation or a FPO indexed to CPI. Sixty-three percent (63%) of 2021 stand-alone private market LTCI sales were comprised of 3% compound inflation or FPO policies. Stand-alone LTCI FPO sales include both fixed and indexed options, where indexed options are slightly more popular than fixed options.

Prior to 2021, the sales concentration in policies with 3% compound inflation or a FPO was even higher. However, in 2021 the popularity of people buying coverage without any provision for benefit increase rose (up to 24% of sales compared to 15% in 2020). When looking at worksite plans only, the concentration of sales of plans with no benefit increase is even higher at 34%. The increase in sales of no benefit increase plans in 2021 appears to be influenced by the WA Cares Fund's private market exemption process. FLTCIP 3.0 does not have an option for eligible individuals to purchase a plan without any option for inflation protection, however, once enrolled they are not required to exercise the future purchase options.

Unlike private LTCI plans, FLTCIP has an exemption from the tax-qualified requirement to offer 5% compound inflation protection (and non-forfeiture).

Benefit trigger

Stand-alone LTCI sales are comprised almost entirely of tax-qualified plans (which are required to use the HIPAA trigger definition). Only 0.1% of stand-alone LTCI sales in 2021 were of non-tax-qualified plans. The FLTCIP 3.0 tax-qualified plan offering is consistent with the stand-alone LTCI sales.

Underwriting

FLTCIP 3.0, after the recent change to the regulation effective November 2022, requires full underwriting (using a long-form application) for newly hired employees (within their first 60 days). Spouses and retirees are subject to the same underwriting requirements.

The underwriting approval rate for all applicants using the abbreviated form for underwriting is roughly 97%. The underwriting approval rate for all applicants using the long-form underwriting is roughly 57%. Prior to the November 2022 regulation, FLTCIP offered an Alternative Insurance Plan to employees and spouses who apply with abbreviated underwriting, but who are denied standard insurance coverage. These individuals, and any other applicants who were denied standard coverage, could have also elected a non-insurance service package.

More underwriting tools are utilized in evaluating applications for the private individual LTCI market than are used for FLTCIP. For example, 93% of applications were evaluated using medical records and 78% were evaluated using phone interviews. In the private individual LTCI market, around 60% of applications were "placed" in 2021, with 25% of applications denied, and the remainder being suspended or withdrawn. In general, a benefit for active employees applying for benefits under a worksite plan is that they may not have to meet as many medical requirements to gain coverage. This makes FLTCIP underwriting requirements more consistent with other worksite plans, while the 60% of placed applications in the individual stand-alone LTCI market appears more consistent with the FLTCIP long-form underwriting results (57% of applicants approved).

Rating classes and discounts

FLTCIP 3.0 premiums are based solely on the applicant's age at the time of application, the premium rates in effect at the time of application, and the selected benefit package. FLTCIP does not offer health discounts, gender-distinct pricing, or separate discounts to spouses (though a spousal discount is built into the large group rates to benefit all enrollees).

While insurers began gender-distinct LTCI pricing in 2013 and it is now the norm in the stand-alone individual market, employer-involved LTCI programs continue to use unisex pricing (depending on the size of the employer). Because of this, FLTCIP's unisex structure is consistent with most worksite sales.

Figure 2 shows FLTCIP's gender distribution across enrollees compared to 2020 sales in the stand-alone LTCI market. The distribution of gender is similar between FLTCIP and the stand-alone market based on this comparison.

Figure 2
Distribution by Gender

Gender	FLTCIP	2020 Broker World Sales Data
Female	55%	54%
Male	45%	46%

Premium structure

FLTCIP premiums are based on the applicant's age and the premium rates in effect at the time of application (i.e., issue age rated).[7] This structure is consistent with how premiums are typically structured in the stand-alone private market (with the addition of other rating levers such as gender-distinct rates and health discounts, that are offered in the individual market).

Rate increases and benefit downgrades

In the private LTCI market, it is common to see insurers issue premium rate increases in order to maintain solvency for the block of business. Of the 20 respondents to Milliman's 2022 Long-Term Care Rate Increase Survey,[8] 19 filed at least one rate increase since 2016. Respondents reported filing rate increases between 5% to 102%, with an average of 42%. Some states require that larger rate increases be phased in over a period of two or more years. Seventy-four percent (74%) of survey respondents reported that a multiyear phase-in was requested by at least one state jurisdiction when filing for a rate increase.

Insurers typically provide benefit downgrade options as well for policyholders who cannot afford or who are otherwise unwilling to pay a premium rate increase. From the same Milliman survey, respondents reported their policyholders taking a 10.6% reduction to benefits on average to avoid paying a higher premium. These benefit reductions most commonly take the form of a reduced daily benefit, a reduced benefit period, an increased elimination period, or reduced inflation protection, according to survey respondents.

At the time of a rate increase, it is very important to have attractive and meaningful product change options available (commonly called "landing spots") for those who wish to maintain a level of coverage–even in the presence of increasing rates–at an affordable premium. Best practice is to allow insureds to decrease coverage in several possible ways to maintain premiums at a level that remain affordable. For example, providing an option whereby a policyholder could change the level of their daily benefit, reduce the duration of their coverage, or reduce the amount of inflation protection in their policy. This latter option may be particularly appealing to policyholders. As well, given the large impact on premiums of compound inflation options, the insurer may find that this option is particularly effective in reducing the chance of needing additional rate increases. An example would be offering policyholders the option of reducing their benefit inflation or freezing benefits at their current level.

HYBRID LTC PRIVATE MARKET

While FLTCIP currently continues to offer a stand-alone LTC product, OPM requested as part of this study to review hybrid LTC insurance products available in the LTC insurance marketplace. Hybrid LTC insurance products broadly refer to when LTC coverage is added as a rider to other insurance coverage, primarily life insurance or annuities.

The Pension Protection Act of 2006 (PPA) opened the door for combination products featuring LTC riders by addressing the tax treatment of LTC charges and benefits. In broad terms, the PPA clarifies that charges for tax qualified riders will not be taxable, but rather will reduce the basis in the contract. The PPA also clarifies that LTC payments from tax qualified LTC riders on life insurance or annuity contracts are tax-free to the extent they reimburse actual LTC expenses or are less than an annually adjusted per diem limit if paid on an indemnity basis.

Hybrid designs can address some of the concerns consumers have surrounding stand-alone LTC products, but at a cost. Most notably, hybrid products provide a cash value to the insured, avoiding the "use it or lose it" characteristic of stand-alone LTC. In addition, pricing synergies between the base plan and LTC rider with respect to lapse rates, mortality, and other factors may soften the negative financial impact of lower-than-expected interest rates, which can

[7] https://cdn.ltcfeds.com/planning-tools/downloads/Book-1.pdf
[8] https://us.milliman.com/-/media/milliman/pdfs/2022-articles/3-14-22-ltc-rate-increase-survey-2021.ashx

serve to help mitigate reduced carrier profitability that might otherwise have to be passed back to the consumer in the form of higher charges. Conversely, hybrid designs require consumers to purchase two types of insurance together. The bundling of insurance increases the price (compared to purchasing just one type of coverage on its own, all else equal) and may or may not fit the individual's needs.

The following sections provide a summary comparing hybrid products with the main features of the FLTCIP 3.0 product. Our comments are primarily limited to hybrid products where LTC is paired with life insurance, as sales data for annuity hybrid products indicates their market share is likely only a few percent of the LTC hybrid sales. The FLTCIP 3.0 stand-alone LTC product is difficult to compare directly against the hybrid benefit structure given the combination of benefits with other insurance coverage, so we instead provide general commentary for each feature below.

Benefit period and daily / monthly benefit

Hybrid products provide LTC benefits through two main design mechanisms:

- Acceleration of Death Benefit (ADB) - approximately 80%[9] of hybrid LTCI sales: The ADB design allows the insured access to LTC benefits by accelerating the death benefit once they meet certain eligibility requirements. For example, a common design would allow an insured who meets the LTC benefit eligibility to receive 2% of their death benefit per month over a 50-month period.

- Extension of Benefits (EOB) - approximately 20% of hybrid LTCI sales: The EOB design allows more benefits to be paid for LTC than just the death benefit. EOB riders continue the payout of LTC benefits after maximum accelerated benefits have been paid, subject to on-going LTC claim requirements.

The FLTCIP 3.0 BPs are difficult to compare directly against the hybrid benefit structure, but generally the length of time LTC benefits could be paid aligns with common designs in the hybrid market. The amount of benefit to compare against the hybrid market would vary depending primarily on the amount of life insurance protection chosen.

Elimination period (EP)

The FLTCIP 3.0 EP of 90 days is similar to the EP typically sold in the hybrid market.

Inflation protection

Inflation protection benefits for hybrid products may inflate payments during either the acceleration period or extension period. They are typically treated as an independent benefit that does not impact the base policy. Inflation protection is often sold as an option (typical inflation options include 3% and 5% compound for life) and only available at issue. The annual amount of FLTCIP 3.0 inflation protection offering is similar to the hybrid market options.

Benefit trigger

The FLTCIP 3.0 tax-qualified plan benefit trigger design is consistent with hybrid LTCI sales.

Underwriting

Hybrid LTC products require varying levels of underwriting. For single-premium hybrid LTC business, and generally 5-year-pay or 10-year-pay plans, companies have expedited underwriting that in many cases eliminates the typical requirements of blood testing or Attending Physicians' Statements. For longer BPs, where the amount at risk will be larger, companies can require additional underwriting.

Overall, we anticipate the FLTCIP short-form application may align more with observed hybrid LTC underwriting for the ADB design, while the FLTCIP long-form application may align more with observed hybrid LTC underwriting for the EOB design.

Premium structure, rating classes, and discounts

There is considerable variability in the charge or premium structure for accelerated benefits. Charges for the ADB rider can be assessed against the policy cash values or have separate premiums. Variations include a specific yearly renewable term (YRT) charge, percentages based on a base plan cost of insurance (COI), a level charge per $1,000

[9] https://www.limra.com/siteassets/research/research-benchmarks/individual-life-combination-product-sales/2021/2021-us-individual-life-combination-products-sales-review.pdf

of net amount at risk, or other variations. These amounts may vary based on issue age, gender, and / or underwriting class. In some cases, LTC charges are guaranteed at issue, while in others the carrier reserves the right to increase charges from the current level up to a specified guaranteed maximum. For EOB and inflation riders, premiums or charges must be level (at least beyond age 65), as is true for stand-alone LTC.

The FLTCIP premium structure is difficult to compare directly against the hybrid benefit structure, but generally has similarities with how premiums are typically structured for the hybrid EOB design (except the addition of other rating levers such as gender-distinct rates and rating classes that are offered in the hybrid LTC market).

PUBLIC SOCIAL INSURANCE PROGRAMS

We reviewed two public social insurance programs for this study: the proposed Well-Being Insurance for Seniors to be at Home Act (WISH Act) and the Washington Cares Fund (WA Cares Fund).

The proposed WISH Act (H.R. 4289) would create a new federal LTC social insurance plan financed by a 0.6% payroll tax on wages (0.3% from employees and 0.3% from employers). Revenue would be placed in a new federal LTC Insurance Trust Fund that would pay benefits to individuals for the "catastrophic" period of LTC needs. Covered benefits include a cash amount based on the government's calculation of the median cost of six hours per day of paid personal assistance, which is currently about $3,600 per month. Depending on one's lifetime earned income, payment of benefits would begin one to five years following the need for LTC and continue as long as a person needs LTC. Individuals with significant resources (i.e., the highest quintile of lifetime earnings) would therefore have to wait up to five years before payment of benefits began. When reviewing the comparisons below, please bear in mind that as of the publishing of this report, the WISH Act is not currently enacted legislation; it remains in the committee review stages of the legislative process.

In Washington state, the passage of the Long-Term Services & Supports (LTSS) Trust Act in 2019 established the WA Cares Fund (RCW 50B.04), which will provide a public LTC insurance benefit for workers, funded through a payroll deduction. The state-based program will provide a limited lifetime LTC insurance benefit, of roughly $36,500 adjusted annually for inflation. WA Cares Fund will be financed by a flat state premium assessment (not to exceed 0.58%) on all wages and self-employment income as applicable. Coverage is limited to workers and does not include spousal coverage. The program is due to start collection of premium assessments July 1, 2023, and benefits will become available for qualified individuals starting July 1, 2026. Federal employees are excluded from the WA Cares Fund,[10] meaning many individuals eligible to purchase FLTCIP will not also be eligible for WA Cares Fund benefits even if they are living in Washington state. That being said, family of federal employees (such as spouses) may be eligible for benefits under both programs and would need to consider how benefits could interact.

Below, we provide summary commentary on how FLTCIP 3.0 compares to the WISH Act and WA Cares Fund. Exhibit 1 provides additional details for each program's design. The FLTCIP 3.0 stand-alone LTC product is difficult to compare directly against social insurance programs, but the commentary below provides insights on key program features for the two sample programs. We do this in part because activity and interest in exploring social LTC insurance designs at both the federal and state level continues to grow. Note, the WISH Act is intended to be a catastrophic or "back-end" coverage program after an extended waiting period is satisfied. In contrast, WA Cares Fund is designed to be front-end coverage with a more immediate, but smaller lifetime benefit pool. In summary, neither program has an identical focus to FLTCIP.

Benefit period

The BP offered by the public social insurance programs generally differ from FLTCIP 3.0 offerings. While FLTCIP 3.0 offers multiple benefit period options, both social insurance programs do not offer a choice regarding BP. The WA Cares Fund offers a lifetime benefit pool of $36,500, which is likely to be used in less than a year. The WISH Act offers a lifetime BP. FLTCIP falls between these two offerings, with options of two, three, and five years.

Elimination period

The 90-day EP for FLTCIP 3.0 falls between the two public social insurance programs in terms of EP. The WA Cares Fund does not have an elimination period; however, benefits may take up to 45 days to be paid due to a benefit determination period. The WISH Act, on the other hand, offers an elimination period of one to five years, depending on the lifetime income earned. The WISH Act's EP uses a calendar day definition (counting days on which someone has a qualifying disability), similar to FLTCIP.

[10] https://wacaresfund.wa.gov/learn-more/#:~:text=Can%20I%20participate%20in%20WA,included%20in%20WA%20Cares%20Fund.

Daily / monthly benefit

FLTCIP 3.0 differs from the public social insurance programs in the benefits the programs offer. FLTCIP 3.0 offers a daily benefit up to $450. The WA Cares fund has no daily or monthly benefit maximums beyond the lifetime pool of money. The WISH Act proposes to start with a $3,600 monthly cash benefit, or roughly $120 per day.

Inflation protection

The WISH Act indexes benefits to wage growth, while the WA Cares Fund indexes benefits up to a regional consumer price index (CPI). FLTCIP 3.0 offers two benefit increase options: 3% compound inflation or a FPO indexed to nationwide CPI. If consumers elect to exercise the FPO, FLTCIP benefit growth could mirror the WA Cares Fund benefit growth (to the extent nationwide and regional CPI measures track consistently).

Benefit trigger

Both FLTCIP 3.0 and the WISH Act use the HIPAA standard 2-of-6 activities of daily living (ADLs) or severe cognitive impairment benefit trigger. The WA Cares Fund, however, has a 3 ADLs benefit trigger, but the type and number of activities considered has yet to be defined.

Underwriting

While FLTCIP 3.0 requires some form of underwriting for all participants, neither the WISH Act nor the WA Cares Fund require any underwriting. Both only require “vesting” into the program to qualify for benefit eligibility in lieu of underwriting. Vesting generally refers to the concept that individuals need to contribute to program revenue for a certain number of years before becoming eligible for benefits, creating a gap from the time of enrollment to when benefits can first be claimed.

Under the WISH Act, participants must work and contribute to the program for 10 years to be eligible for full benefits. Participants who are unable to fulfill the full work history requirement would be able to receive partial benefits.

Vesting requirements under the WA Cares Fund follow the same general structure as the WISH Act. Individuals must contribute by paying the premium assessment for either: (a) a total of 10 years without interruption of 5+ consecutive years, or (b) 3 years within the last 6 years from the date of application for benefits. Individual must have worked 500+ hours during each year from (a) or (b). One main difference is that under the WA Cares Fund, only “near-retirees” – that is, individuals born before January 1, 1968 (versus all individuals under the WISH Act) – will be eligible for partial, prorated benefits if they are not able to meet the vesting requirements to access full benefits.

Rating classes and discounts

The WISH Act and WA Cares Fund proposals do not include any distinct rating classes or discounts for certain individuals. A flat payroll tax (0.58% for WA Cares Fund and 0.6% for WISH Act) will be charged to all workers regardless of health status, gender, or marital status. Similarly, FLTCIP 3.0 does not offer discounts or distinct premium rates based on any of these characteristics.

Premium structure

Both the WISH Act and the WA Cares Fund plan to pay for program benefits and expenses by collecting a premium assessment in the form of a payroll tax. The WISH Act uses a 0.6% payroll tax on wages (where 0.3% would be paid by employers and 0.3% would be paid by employees), while the WA Cares Fund uses a tax on wages not to exceed 0.58% fully paid by employees. FLTCIP premiums are paid fully by employees and are based on applicant’s age and the premium rates in effect at the time of application (i.e., issue age rated).

While FLTCIP 3.0 premium rates are not guaranteed, the premiums will not change for any reason related solely to an individual (such as an individual aging or changing health status). This is a contrast to the WISH Act and WA Cares Fund programs, where the dollar amount individuals contribute to the program will change if their earnings change.

Since the WISH Act and WA Cares Fund revenue is collected via a payroll tax, workers only contribute during their working lives. With the FLTCIP 3.0 product, enrollees will need to continue paying the premium annually as long as they wish to stay covered under the policy (or until they go on claim, when a “waiver of premium” benefit is activated).

III. FINANCING AND RISK MANAGEMENT

From a financing and risk management standpoint, FLTCIP has many similarities and differences to the private LTC insurance market. The comparisons below are relative to the stand-alone LTC insurance market.

The private LTC insurance market and FLTCIP include the following similarities:

- They provide coverage for “long-tailed” guaranteed renewable products. Product details and comparisons are noted in Section II of this report.

- The premium structure utilizes pre-funding of future claims, causing a significant build-up of reserves and supporting assets.

- They include long-term projections that are sensitive to the underlying assumptions used to develop those projections.

- Insurers in the private sector and the carrier for FLTCIP are required to maintain reserves consistent with statutory accounting standards and in accordance with actuarial standards of practice.

- Insurers test the adequacy of the reserves each year using updated assumptions based on emerging experience. This is similar to the funded status analysis of FLTCIP.

While the underlying risk associated with the policies in the private market and FLTCIP are similar, there are significant differences in how that risk is structured and managed:

- Insurer profit in the private market is based on the amount of revenue over benefits and expenses. As such, it is subject to benefit and expense experience and how that experience compares to projections used to develop premiums. Insurer profit under FLTCIP is based on three components. 1) A guaranteed percentage of premiums collected; 2) A percentage of premium that is based on performance meeting administrative standards; and 3) A percentage of assets in the program.

- In the private market, the ultimate responsibility for the policyholders' liabilities is the insurer. In FLTCIP, it is the program itself. If experience develops worse than expected in the private market, insurance carriers can file for rate increases or fund losses out of surplus. If the insurance carrier becomes insolvent, procedures are in place to assist in meeting at least a minimal level of policyholder benefits, including assessing other insurance carriers. In FLTCIP, if experience develops worse than expected, the primary recourse is to increase premiums.

- Private market insurance carriers need to maintain National Association of Insurance Commissioners (NAIC) risk-based capital (RBC) levels. Failure to meet those requirements results in additional oversight from state regulators and other actions. The FLTCIP contract does not require specific RBC levels.

- FLTCIP requires a separate asset portfolio for the program. While many larger LTC insurance companies also maintain a separate asset portfolio for their LTC business, they are not required to do so and often have a single asset cover portfolio covering all their insurance risks.

FUNDING APPROACH

FLTCIP is funded by policyholder premiums (where policyholder in this context refers to the individual certificate holders). The premiums are used to pay benefits and expenses. As premiums in early policy years are anticipated to be greater than expected benefits and expenses, the “excess” of premiums is set aside in the Experience Fund. Investment income on the Experience Fund combined with future premiums are then used to support future benefit and expense payments. The insurance carrier of FLTCIP produces a Funded Status Report that examines the assets of the Experience Fund relative to future claim liability and expense projections. This analysis determines the financial health of the program and determines if future premium increases are needed.

RESERVE REQUIREMENTS

FLTCIP has no “explicit” reserve, but in practice the Experience Fund is established to function similar to a reserve. There is a requirement that the carrier hold reserves consistent with statutory requirements of its state of domicile. Therefore, it is possible that statutory requirements may be greater than what is held in the Experience Fund in some cases. However, if the program is transferred to another carrier, only the Experience Fund is transferred.

CAPITAL REQUIREMENTS

FLTCIP does not include explicit capital requirements. However, as part of the Funded Status analysis, the current carrier, John Hancock, includes a margin in the analysis of the Experience Fund. In our discussions with John Hancock, we understand they hold additional capital under NAIC requirements based on the claim reserves that would be applicable to FLTCIP.

RISK MANAGEMENT LEVERS

Managing LTC insurance requires skill and expertise to properly underwrite and adjudicate claims. From a financial perspective, the primary risk management lever is premium rate increases. Premium rate increases have been necessary for FLTCIP as experience has emerged with higher claims than the initial actuarial assumptions. This result is not inconsistent with many private stand-alone LTC insurance plans.

The regulatory environment for stand-alone LTC insurance continues to evolve. The framework for a carrier to file for a rate increase is established by state regulation. Typically, carriers can file for a rate increase when morbidity or persistency are different than originally expected. The amount of the “actuarially justified” rate increase is a function of the historical and future loss ratio experience for the block of business and may include future considerations of moderately adverse experience. However, the level of premium rate increases for existing policyholders approved by regulators often has been significantly smaller than the full increase that is actuarially justified. The actual rate increases have been less than the full amount for a variety of reasons, such as a regulator’s general view toward rate increases or a carrier’s rate action strategy. The current regulatory environment has tended to lead to inconsistency in achieving actuarially justified rate levels across states and carriers.

FLTCIP, however, is unique in the carrier’s ability to adjust premiums rates for current policyholders. Three notable differences include:

- The amount of margin on claims (10%) is explicitly spelled out in the FLTCIP master contract. The carrier could adjust rates if this level of margin is not achieved through a prospective valuation of the Experience Fund.
- The prospective valuation of the FLTCIP Experience Fund reflects current expectations for all modeling assumptions, including investment income. This contrasts with the state regulatory environment, which typically only considers deviations due to morbidity and persistency.
- In the event there is not consensus between the carrier and OPM (as the FLTCIP regulator) on the level of the rate increase, a clause in the master contract allows the carrier to potentially adjust rates to the extent FLTCIP does not have a new carrier to provide coverage.

COMPETITIVE BIDDING PROCESS

The FLTCIP contract has been open to bidders three times over the history of the program – 2002, 2009, and 2016. The current seven-year contract is set to expire in 2023. As noted by OPM, the 2016 contract bidding included a response from one carrier.

Per our discussions with OPM, we understand the bidding process was designed to encourage competition among carriers. If successful, the competitive bidding would help keep program costs for administrative expenses and profit charges lower, which in turn would help keep premium costs for policyholders lower (all else equal).

At the time of the first contract award, the market for carriers participating and selling stand-alone LTC insurance was near its peak. Annual sales topped one billion dollars in new premium and over 100 carriers were selling products. The market size today is about one-tenth of the size of the market 20 years ago. The contraction in the private market has likely contributed to the lack of competition in recent FLTCIP bidding.

Another possible factor influencing the number of competitors during the bidding process is the unique accounting structure of FLTCIP through the Experience Fund. A carrier interested in bidding on FLTCIP would want to understand the level and pattern of how cash flows and profits emerge over the remaining lifetime of the business, and the amount of financial risk under different sets of conditions / modeling assumptions.

PREMIUM STABILIZATION FEATURE IN GENERATION 3.0

The Premium Stabilization Feature (PSF) is unique to FLTCIP and not found in any other group, stand-alone LTC insurance offering (based on our annual survey of LTC carriers). Per the benefits booklet for FLTCIP 3.0, the PSF is “designed to reduce the potential need for future premium increases.” We understand emerging experience has caused John Hancock to reduce the PSF percentage from 35% to 20%, and it is yet to be seen whether the PSF structure will ultimately help reduce the need for future rate increases.

All else equal, initial premiums for a block of policyholders would need to be higher to cover the costs of a benefit such as the PSF. Benefits in the stand-alone LTC market that share some characteristics with the PSF have been tried previously, such as riders that return a portion of premiums paid upon death. In general terms, LTC coverage that later returns a portion of paid premiums later in an individual’s life must “pay for” the benefit in the form of higher initial premiums. This structure results in tradeoffs from both the carrier and consumer perspective.

From the carrier perspective, higher initial premiums help to build up additional cushion in the form of higher reserves. However, additional benefits such as return of premium on death and premium offsets create new benefits and potential uncertainty / risk that must be considered in pricing (e.g., estimating the frequency at which the additional benefits are used, or the investment income earned on the additional build-up of reserves).

From the consumer perspective, higher initial premiums require more of an investment up front with the potential tradeoff of premium rate stability later in a policyholder’s life. This type of tradeoff may be welcomed by some individuals, especially those with concerns about income sources post-retirement. Conversely, other individuals may be concerned about the value of the PSF benefits (e.g., no adjustment on premiums for investment income) or the discretion the program has to modify the PSF percentage.

The unique aspect of the FLTCIP accounting structure through the Experience Fund appears to offer one key difference compared to the private LTC insurance market when increasing rates to add margin / cushion. If a carrier charges higher premiums initially to help add cushion to the premium rate, in the private market that cushion would potentially be realized as profit to the carrier in the event the cushion is not needed. Under FLTCIP, if the cushion is not needed the extra amount would remain in the Experience Fund to help support obligations of the program.

FULLY INSURED COVERAGE AND PROFITS

Per U.S. Code, Title 5, Part III, Subpart G, Chapter 90, Sec. 9002, OPM’s contract with the qualified carrier providing coverage for FLTCIP must be fully insured. However, the law does not define what insurance structure satisfies "fully insured,” except to note that the funds for FLTCIP must be kept separate from other funds of the carrier.

Per our review of the current contract and discussions with OPM and John Hancock, the insurance coverage under FLTCIP differs from fully insured coverage typically offered to groups for stand-alone LTC insurance. Under FLTCIP, the Experience Fund is used as the accounting structure to keep funds separate from other funds of the carrier. The Experience Fund reflects the past accumulation of revenue (premiums and investment income) and expenditures (benefits, administrative expenses, and profit charges). The Experience Fund at a given point in time is compared against a prospective valuation of future revenue and expenditures as a measure of the adequacy of the current fund. As noted above, the inclusion of the profit charge as part of the FLTCIP “reserve” makes it unique compared to other fully insured coverage.

In a typical fully insured group plan, a carrier’s profit materializes to the extent actual experience conforms to expectations. The shape of how statutory profit “emerges” annually over the lifetime of a block of business is dependent on two “factors”:

- Yearly revenue and expenditures
- Yearly changes in statutory reserves / required capital (which reflects some margin above best estimates), where reserves are needed for both claims already incurred and the future mismatch of yearly revenue and expenditures

The profit a carrier observes in a given year is the net result of both factors. Profit will be different than expected if either of these factors deviate from expectations. For example, consider a situation where current year revenue and expenditures are consistent with expectations, but the change in reserves is larger than expected due to a reserve adjustment for future investment earnings. If this larger-than-expected reserve change exceeds the expected margin, profit will be negative for the year, all else equal. In other words, yearly profit is dependent on both *current* year cash flows and *future* expected yearly cash flows. This differs from FLTCIP Experience Fund accounting.

FACTORS AFFECTING COMPETITIVE POSITION AND PROFITABILITY

Based on our review of the program structure (including relevant federal regulation and the current contract with John Hancock), interviews with various staff at OPM and John Hancock, and our observations of the private LTC insurance market and broader LTC financing approaches, we identify below some key factors affecting the competitive position and profitability of FLTCIP.

Deterioration of key modeling assumptions

The assumptions used to project and price FLTCIP have generally exhibited adverse deviations compared to original expectations. The deviations observed in FLTCIP modeling assumptions generally share many of the same characteristics observed by carriers for their stand-alone LTC business. Carriers for stand-alone LTC insurance have had emerging experience demonstrating higher morbidity (e.g., more claims and claims lasting longer), higher persistency (e.g., more people reaching key ages when LTC is needed due to lower mortality / lapses), and lower investment returns (e.g., lower yields on bonds / assets).

Similar to some of the challenges faced by FLTCIP, the deterioration of modeling assumptions had led to higher rates for new policies and rate increases on existing policies over time in the stand-alone LTC insurance market. The deterioration of the modeling assumptions has been particularly challenging given the insurance product relies on “level premiums” to finance claims where the benefit usage increases significantly as policyholders age, also similar to FLTCIP. The level premium approach, all else equal, produces a decreasing amount of annual premium for the block as policyholders die or lapse. This shrinking “base” of premium can require large adjustments when assumptions deviate from expectations given increasing claims as policyholders age. This has potentially important implications for closed blocks of business, where there are no new policy sales that could possibly be used to help offset in-force policies performing at a loss.

Lack of active live reserves in FLTCIP accounting

While the FLTCIP Experience Fund can be thought of as a reserve fund to pay future benefits, the program does not include active life reserves (ALR) as found in the private market in its annual accounting. This differs from typical requirements for insurance products, where insurance accounting rules require evaluating and recording a reserve / liability on a company’s balance sheet reflecting the mismatch of future premiums versus future benefits and expenses. For LTC insurance products that are funded by premiums intended to be level for a policyholder’s lifetime, the ALR can have a significant impact on the annual profitability of a carrier.

The ALR is required under statutory and GAAP (for public companies) accounting rules and is also required to be evaluated at least annually. When a carrier changes its expectations of future assumptions, the ALR likewise changes to the extent the new ALR exceeds prescribed or locked-in reserve levels. This change in ALR would then affect the profits earned by a carrier in a given year.

Potential bidder understanding of FLTCIP profits

As noted earlier in this section, the way the insurance carrier realizes profit under FLTCIP differs from how profit emerges in private LTC insurance. In addition, the level of profits under the current contract are not shared publicly. The different FLTCIP structure using the Experience Fund compared to an insurance company’s “typical accounting” and lack of public reporting may be contributing to the low number of carriers bidding on the program.

Current FLTCIP carrier no longer actively sells stand-alone LTC

FLTCIP’s current carrier, John Hancock, no longer sells stand-alone LTC insurance products. Per our stakeholder interviews with John Hancock, much of their focus regarding FLTCIP centers around managing current policyholders rather than developing new strategies for adding new policyholders, which is consistent with their decision to exit from selling the stand-alone LTC business. This focus differs from the perspectives of some other stakeholders and staff at OPM, where there was interest expressed in growing the number of individuals covered by FLTCIP.

Limited number of carriers actively selling group LTC

As of the writing of this report, there are very few carriers (less than 10) actively selling stand-alone group LTC business. The lack of carriers currently participating in this area limits the potential pool of carriers that might bid on the FLTCIP contract. This limited pool differs substantially from when the first FLTCIP contract was awarded in 2002, when the market was roughly 10 times larger. The smaller potential number of interested carriers limits the “universe” of potential carriers that might consider entering a competitive bid for the FLTCIP contract.

More broadly, insurance companies currently do not exhibit a strong interest in taking on more business that has the risk profile of stand-alone LTC insurance business. When we have discussed with carriers the reasons for a lack of interest, they typically cite factors such as uncertainty in financial performance, difficulty in setting assumptions (e.g., interest rates being lower than expected), a challenging regulatory environment, and more attractive opportunities with other insurance products.

IV. FACTORS AFFECTING DEMAND FOR LTC INSURANCE (LTCI)

In this section, we review the barriers to purchase and factors driving demand for LTC insurance in greater detail with a focus on implications for FLTCIP. Our review considers insights gained from:

- Buyer and non-buyer studies of individuals approached to purchase LTC insurance
- The Federal Employee Benefits Survey (FEBS)
- Stakeholder interviews and focus groups

The barriers identified that seem to have the largest effect on LTCI demand across all populations are awareness and cost. Awareness includes individuals' awareness related to LTC risks and needs, how LTC is paid for, and the value that LTC insurance can provide. Additionally, particularly in the group market, individuals need to be aware that the product exists and that they are eligible to obtain it. This emerged as a unique factor in limiting enrollment in FLTCIP relative to our analysis of other group LTCI. As an example, the FEBS data showed the most prevalent reason non-buyers cited for not applying is because the individual did not have enough information about the program to know whether it was suitable for them. Another common reason cited for not applying to purchase coverage is that the product is perceived to be too expensive. While cost typically emerges in all "non-buyer" research, "not having enough information" on a program is not typically a barrier to purchase that we see in the research data.

The discussion in the remainder of this section provides more detailed information on individuals' purchasing decisions generally related to LTCI and specifically LTCI offered through FLTCIP. This section also presents best practices for marketing group LTCI, and how FLTCIP marketing practices compare.

INSIGHTS FROM BUYER AND NON-BUYER STUDIES

Since 1990, leading LTC insurers have participated in a series of surveys to inform critical issues from the consumer perspective regarding the LTC insurance marketplace. These studies have been conducted every five years by LifePlans, Inc., with financial support from America's Health Insurance Plans (AHIP).[11] These studies provide important insights into why consumers seek out LTC protection, how they make purchase decisions, and what obstacles impede the sale. The motivations and concerns consumers have expressed over more than two decades – regarding risk awareness, the value proposition for planning ahead for LTC needs, and the channels through which they prefer to obtain coverage – provide guidance for the effective marketing and sales of other variations of private LTC protection.

The surveys provide important insights into consumers' attitudes about insurance, knowledge of LTC risks and costs, and motivators and impediments to purchasing coverage. They include a consistent set of important questions that identify whether there have been changes over time in these dynamics. The survey was completed by three groups of individuals:

- Buyers – Individuals that purchased LTC insurance
- Non-buyers – Individuals that expressed an interest in LTC insurance, but did not buy
- General population – Surveyed individuals over age 50 excluding the groups above

LTC awareness

Over the decades, the decision to buy LTC insurance is grounded in an acknowledgement and understanding of both the risks of needing LTC and the understanding that neither Medicare nor one's health insurance will pay for LTC. As shown in Figure 3 below (based on data from the most recent survey completed in 2015-2016), buyers correctly understand that, without coverage, they or their family would have to self-pay for care until they are eligible for Medicaid (64% of buyers versus 48% of non-buyers). Even though non-buyers are somewhat more aware of these facts compared with the general population (48% versus 38%), they are not as well-informed as the buyers. Similarly, buyers are more likely to understand that they might need LTC, while non-buyers and particularly the general population are less likely to acknowledge the risk as shown in Figure 4.

[11] LifePlans, Inc. Who Buys Long-Term Care Insurance? Twenty-Five Years of Study of Buyers and Non-Buyers in 2015–2016.

Figure 3: Who Pays for LTC?

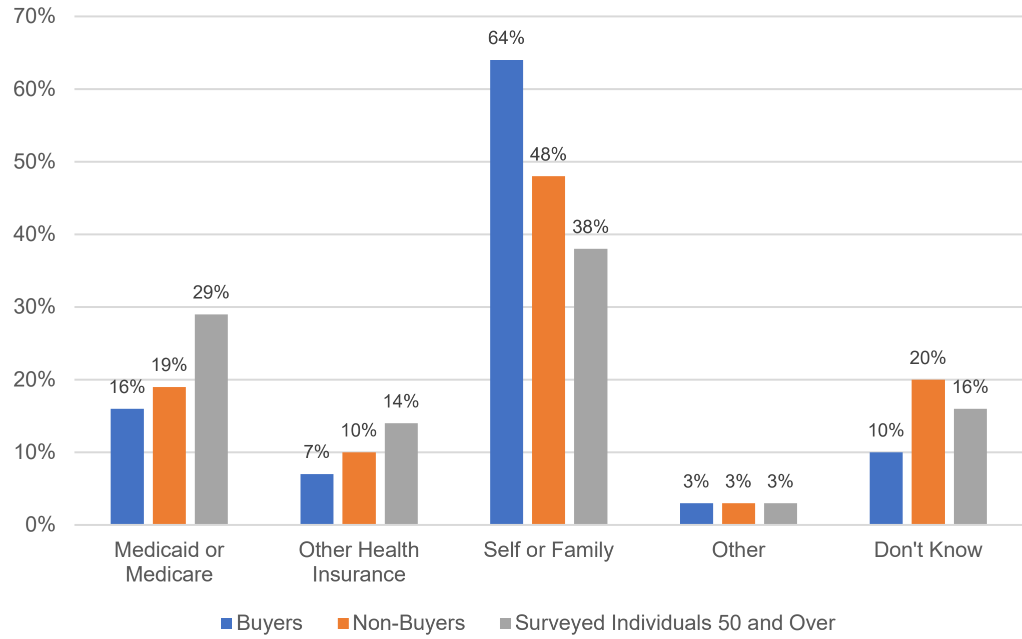
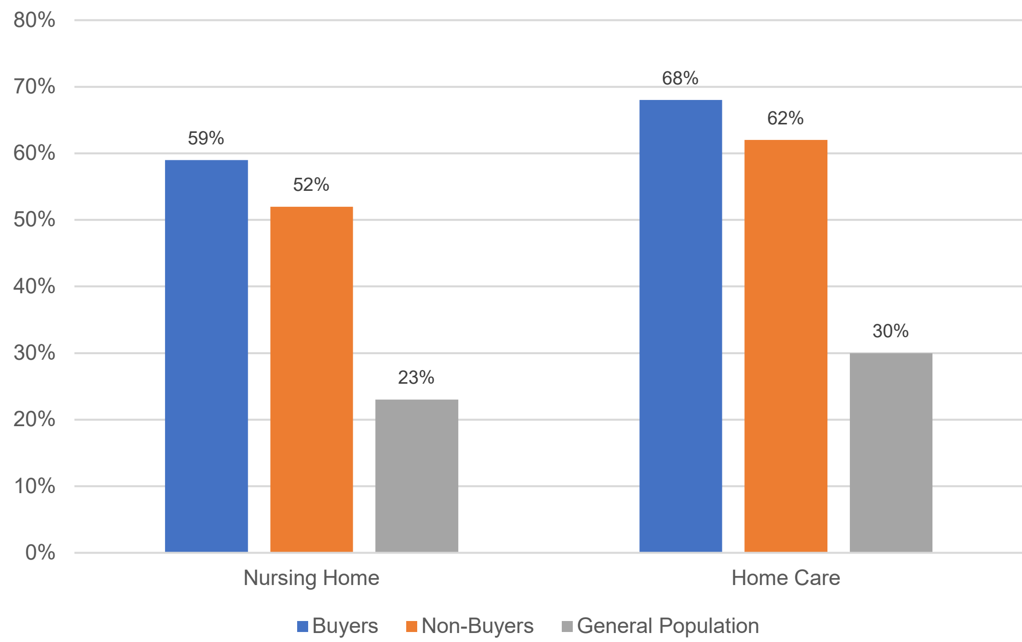


Figure 4: Percentage Who Believe Greater Than 50% Chance of Needing Care

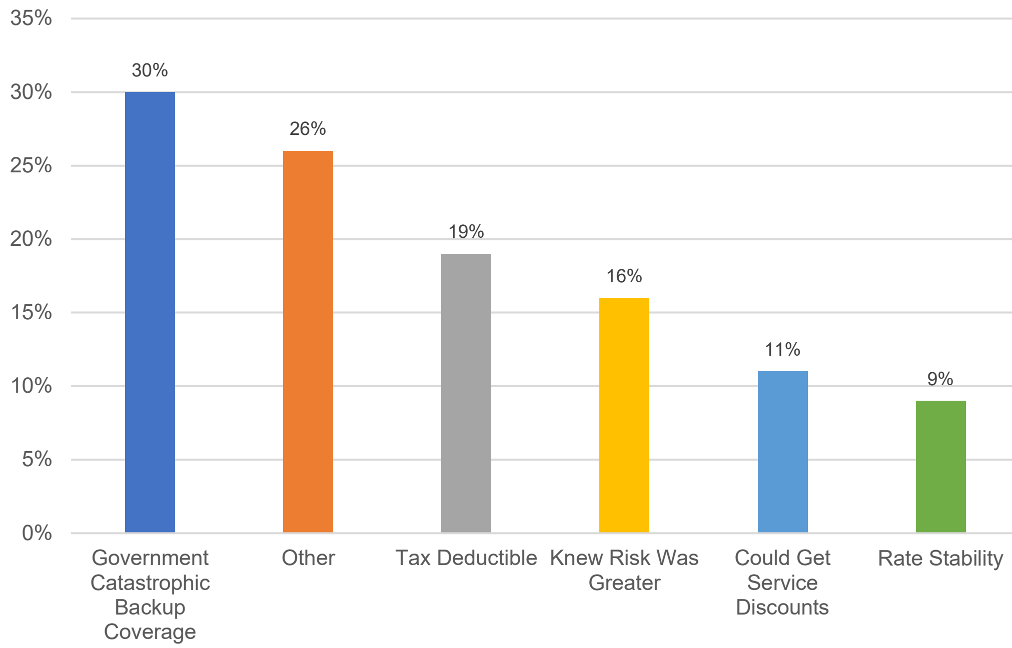


About the non-buyers

Approximately half of all non-buyers have cited "LTC insurance costs too much" as a very important reason for not buying. While other purchase objections have declined over time – with fewer non-buyers citing confusion over what to buy, concerns with benefit triggers, or distrust of insurance companies as reasons they chose not to buy – the perception that the product costs too much has sustained as a prime factor. The surveys also measure non-buyers' estimates of how much they would be willing to pay with typical age-related premiums. On average, across all respondents ages 55 and older, only 24% of the non-buyers expressed a willingness to pay a premium amount equal to the average monthly premium for coverage currently being sold. This, plus the persistence of high cost as a reason for non-purchase seems to suggest that many of the non-buyers do not see the value of the coverage relative to its price.

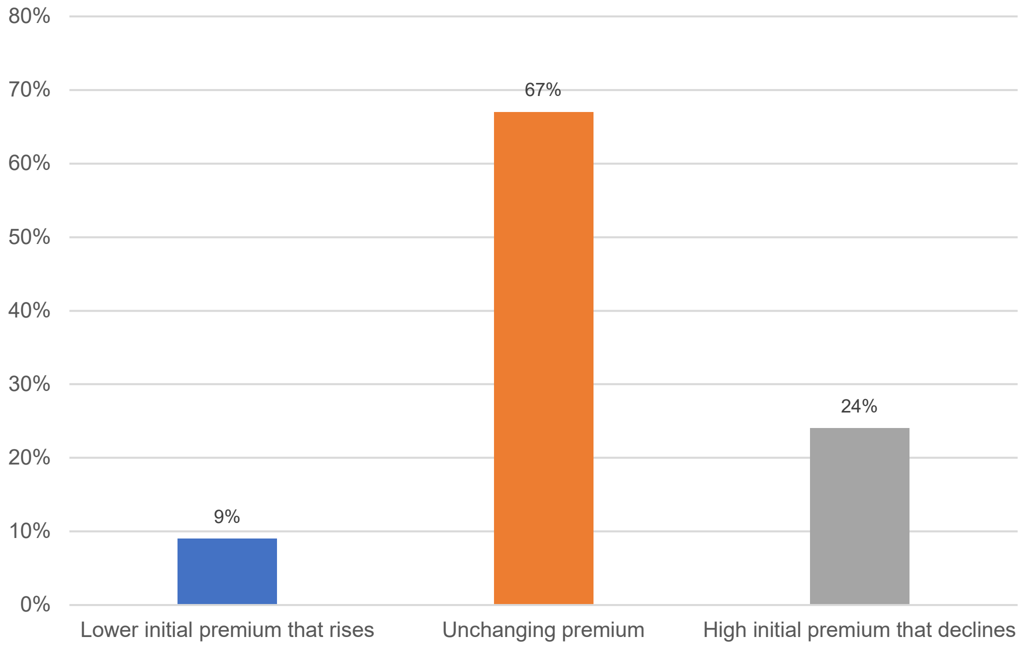
Across survey years, we see that non-buyers are not fully closed off to the idea of buying coverage at some future point in time. While 31% indicate that they do not plan to buy at all, 44% are undecided and 26% do plan to buy coverage closer to or after retirement. Figure 5 shows some of the factors that non-buyers said would lead them to consider buying LTC coverage. As shown below, learning that the product is tax deductible (or expanding favorable tax treatment), understanding the risk of needing LTC, being able to get discounts on services, having rate stability, and having a government program for catastrophic risk are all important. Many of these are either current features of FLTCIP 3.0 or items under consideration by federal policymakers.

Figure 5: Factors Important to Motivate Non-Buyers (2015 data)



Non-buyers were also asked if different premium structures might influence their purchase decision. Figure 6 shows that the majority (67%) would still prefer an unchanging premium. However, about one-quarter of non-buyers (24%) would be interested in paying a higher initial premium that includes some element of premium reduction in the future.

Figure 6: Premium Structure Preference of Non-Buyers (2015 data)



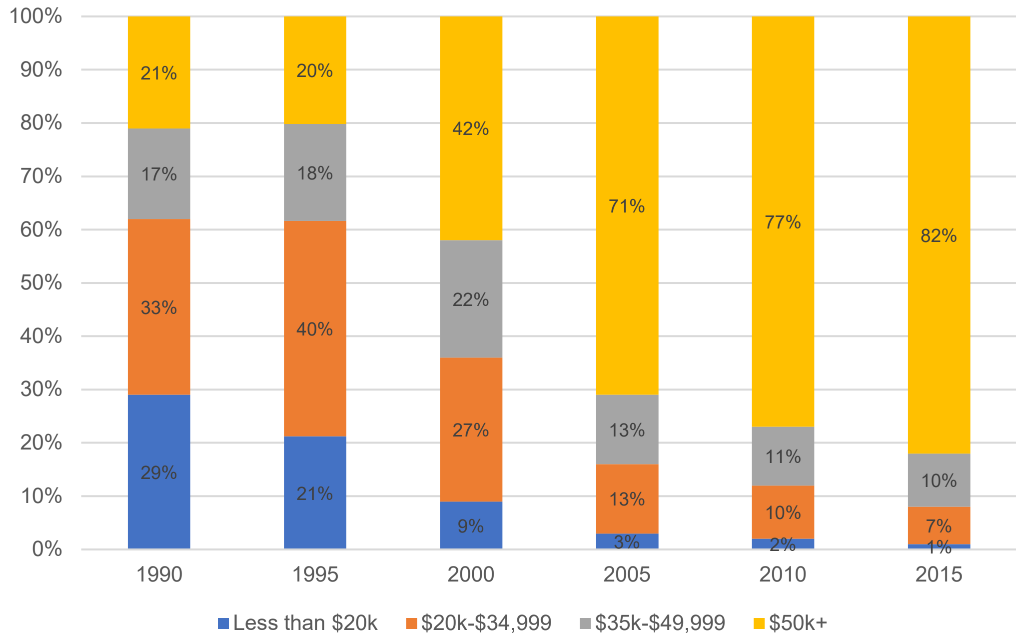
When examining combination products, about half of the non-buyers in the 2015 study also indicated that they might be more likely to buy a combination product than stand-alone LTC insurance. However, the features and costs of those alternative product options were not presented in the survey, so this estimate of behavior should be viewed with caution.

About the buyers

People who buy LTC insurance are more likely to be married and / or female, compared with both non-buyers and the general older adult population. Both buyers and non-buyers have greater financial well-being, in terms of income and assets, as compared to the general population. The gender mix among those who buy LTC insurance was 54% female versus 46% male in the latest survey and represents a contrast to earlier years were females were almost twice as likely to buy as were males. Products with gender-distinct premiums that offer lower premiums for males and products with more robust marital discounts may account for this shift over time (note, these product features are typically not available in the group LTC insurance market).

The distribution of buyers by income level has changed over time. As Figure 7 shows, over 80% of buyers in 2015 had incomes of $50,000 or more, nearly double the percentage in that income category (42%) in 2000. The trend toward higher incomes may be influenced by the trend of higher premiums found in more recent LTC insurance policies for the same or similar amount of coverage.

Figure 7: Income of Buyers by Purchase Year



The surveys show people buy LTC insurance for different reasons. For many, protecting assets is the most important reason cited. But ensuring the affordability of LTC services and being able to avoid being a burden to loved ones are also cited as important. Buyers also seem to be paying attention to point-of-sale information about past and potential future rate increases. About 20% of buyers in 2015 were aware that the company from which they bought their policy had increased rates in the past. And just under 40% say they expect to see a rate increase in their coverage at some point in the future. In the event of a future rate increase, most buyers would like to see smaller increases over time rather than a single large increase in their premiums.

Barriers and factors in demand specific to FLTCIP and the group market

Many themes from the buyer / non-buyer surveys carry across to the broader group market and what we know about buyers and non-buyers of FLTCIP from earlier analyses. Some of this is discussed under *Insights from analysis of the Federal Employee Benefit Survey*. In this section, we focus on the barriers to non-purchase and drivers for purchase specifically related to FLTCIP as compared to the group market overall. This information derives from a 2004 study of just over 1,200 FLTCIP buyers and non-buyers compared with a sample of 665 buyers and non-buyers in the private group market (across nine employers) and 1,823 survey respondents in four public sector (state-sponsored) group programs.[12]

In Figure 8 below, we see the critical importance of knowledge of the risks and costs of needing LTC as motivating the purchase decision. Non-buyers are less likely to have thought about LTC and are less likely to understand that they would need to pay for care on their own (if they do not have insurance).

[12] A Comparative Analysis of the Socio-Demographic and Attitudinal Characteristics of Active Buyers and Non-Buyers of Long-Term Care Insurance in the Federal, Private and Public Sectors. Data Brief #8. Department of Health and Human Services. August 2004. https://aspe.hhs.gov/reports/comparative-analysis-socio-demographic-attitudinal-characteristics-active-buyers-non-buyers-long

Figure 8: Retirement Concerns for FLTCIP Buyers Versus Non-Buyers

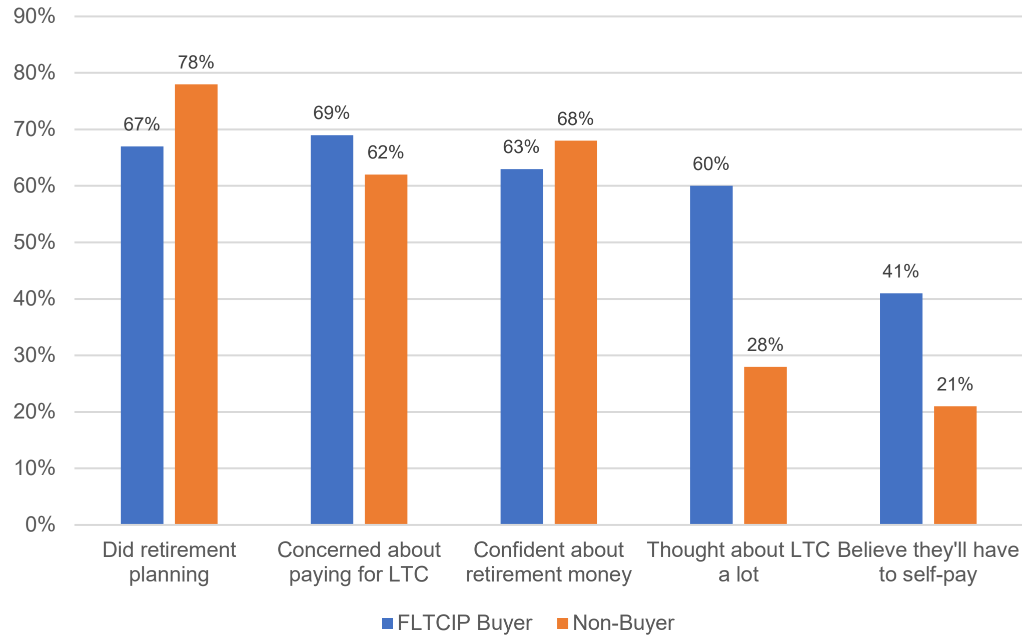
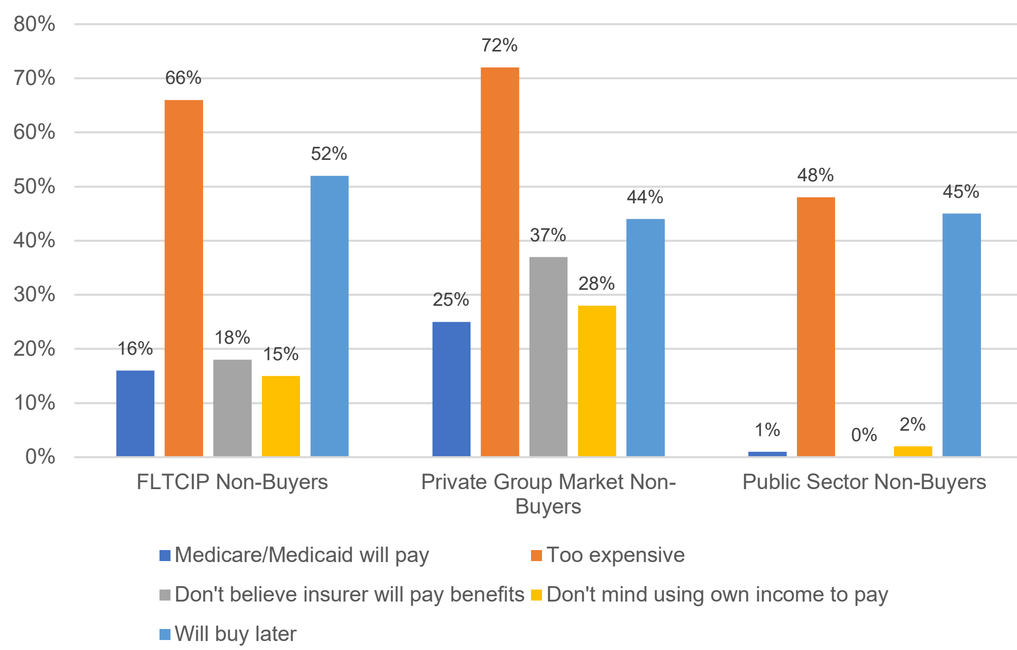


Figure 9 compares the reasons survey respondents gave for not buying coverage. Consistent with findings in the individual market, the leading response is "too expensive," which again may reflect not seeing the value proposition the product offers. It is worth noting that about half (52%) of non-buyers indicate they will buy later. In this analysis, FLTCIP non-buyers were more likely to be open to the possibility of buying later than non-buyers in the other market segments as shown in Figure 9.

Figure 9: Reasons for Not Purchasing a Policy by Market Segment (2003 data)



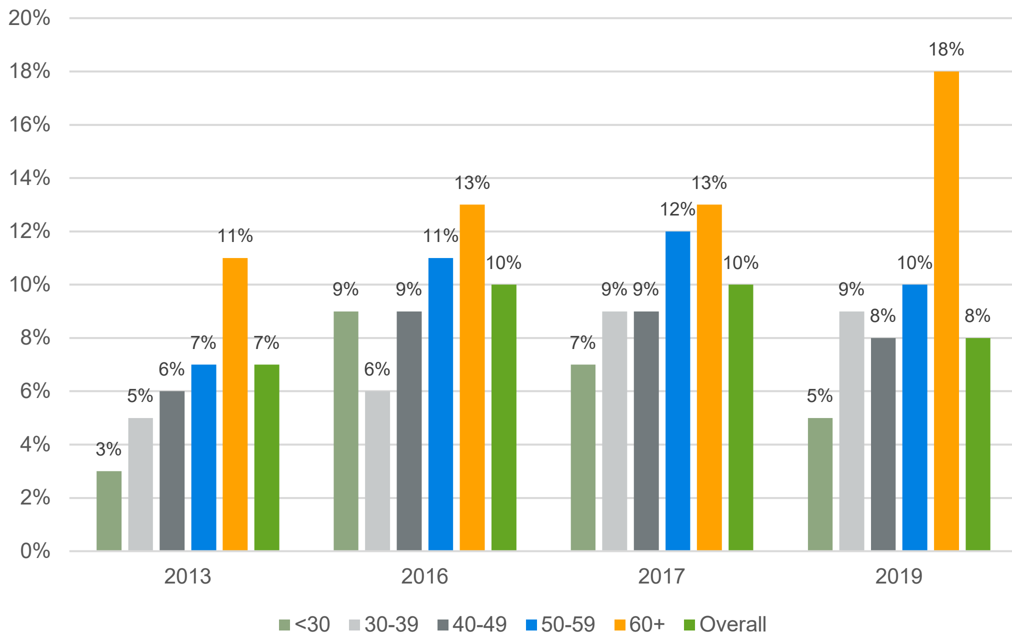
INSIGHTS FROM ANALYSIS OF THE FEDERAL EMPLOYEE BENEFITS SURVEY

Data on enrollment of civilian federal employees in FLTCIP by a variety of demographic and workplace characteristics was obtained from the Federal Employee Benefits Survey (FEBS) from the years 2013, 2016, 2017 and 2019.

We were not able to obtain data on the market penetration rate among retirees or across the total block of business. Traditionally, in the group market, participation rates are derived by using a numerator that represents the number of enrollees and a denominator that represents the specific outreach or target market (e.g., all individuals who received brochures or in-home mailers). This can also be thought of as the conversion rate (i.e., the number of "leads" generated through marketing activities that converted into enrollments in the program). We were not able to obtain that information because FLTCIP does not employ a strictly direct mail campaign or maintain and record all leads. Many individuals are free to download information brochures on the website without providing contact information for follow-up. The data source available for our analysis was the FEBS, which covers a portion of the federal employee population, thus making a conversion rate difficult to estimate accurately.

Figure 10 shows overall enrollment participation rates for surveyed employees consistently meet or exceed the experience of other group LTC plans. Since 2013, the program has maintained an overall market penetration of 7% to 10%, based on those surveyed. Participation is measured by the percent of employees in the sample who responded "yes" to the question "are you enrolled." This differs from the overall participation rate for FLTCIP when enrollment of retirees and other eligible employee groups are considered. Note, we do not have data on those populations; however, it is typical for group LTCI to have lower participation among retirees as direct access to the population for marketing purposes is often limited, program cost to the participant is higher at older ages and underwriting declines are higher.

Figure 10: FLTCIP Enrollment Penetration by Age and Year for Surveyed Employees



Based on the data for the employee population segment that was surveyed, participation in the program, for the most part, increases with age. This increasing pattern by age is consistent with overall purchase trends in the group LTC market. The spikes in participation rate at some of the younger ages may be explained by the active marketing and availability of short form underwriting for new employees, typically offered within 60 days of new hire.

For comparison, Figure 11 below shows the age distribution of current FLTCIP enrollees by original age when coverage was purchased. Overall, FLTCIP enrollees are obtaining LTC coverage at similar ages of purchasers in the private market (2020 sales).

Figure 11
Distribution by Issue Age

Issue Age Band	FLTCIP	2020 Broker World Sales Data
Under 29	2%	1%
30 to 39	6%	3%
40 to 49	16%	10%
50 to 59	35%	40%
60 to 69	28%	42%
70 and up	14%	5%
Average Issue Age	57.1	57.7

Over the survey years, there has been little difference in enrollment rates between males and females (as shown in Figure 12 below) for surveyed employees.

Figure 12: Enrollment by Gender for Surveyed Employees

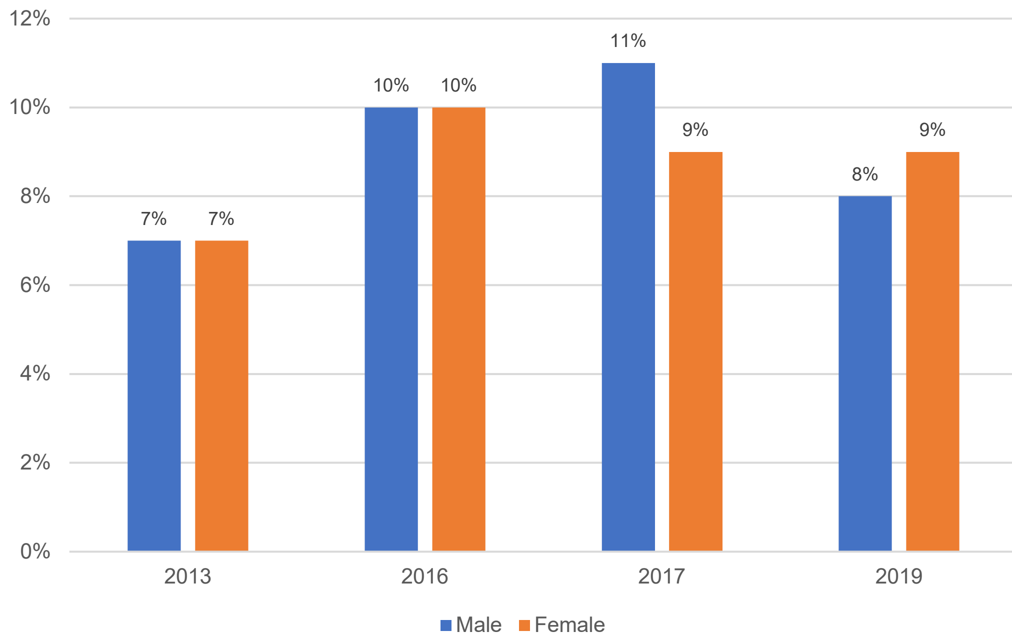


Figure 13 indicates that, for most years, participation is slightly higher among surveyed employees that identify their work location as "Headquarters" as opposed to "Field."

Figure 13: Enrollment Penetration by Location for Surveyed Employees

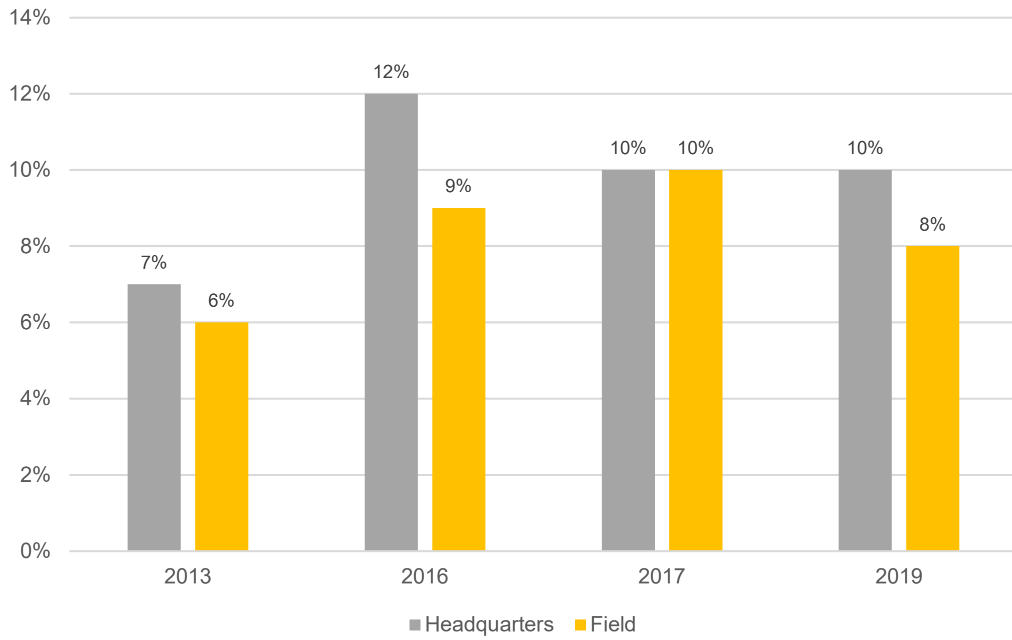
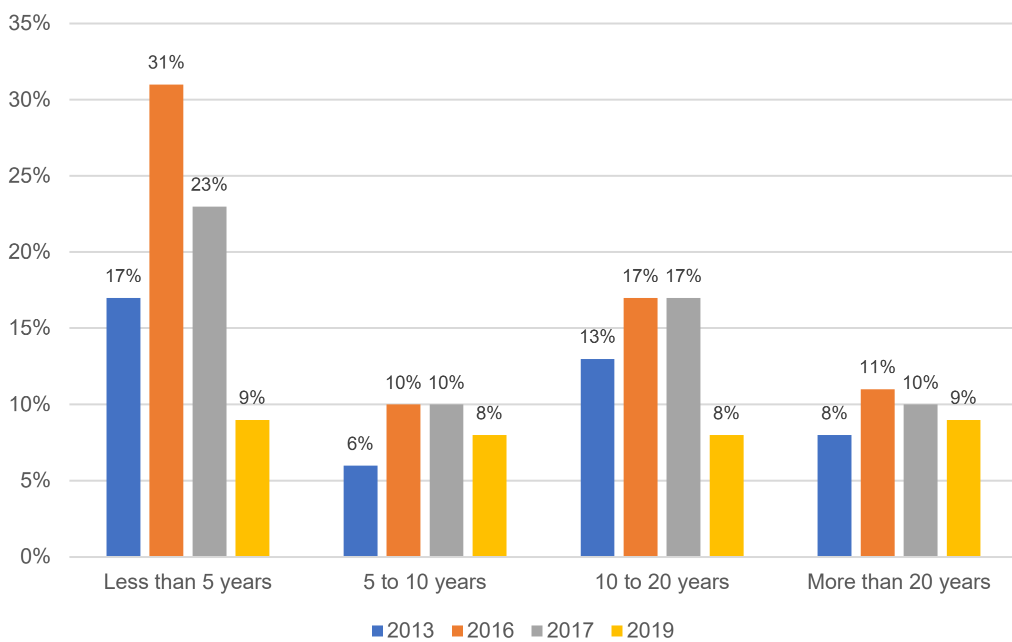


Figure 14 also shows the market penetration results the program achieves with new hires – employees with less than five years tenure – based on the employees surveyed. The high market penetration among those surveyed with 10 to 20 years' tenure is also likely influenced by those employees being at an age that is more salient for the purchase of LTC coverage and likely having also attained a pay grade that enables them to better afford coverage. It may also reflect greater exposure and awareness of the existence of the program over time.

Figure 14: Enrollment Penetration by Government Tenure for Surveyed Employees



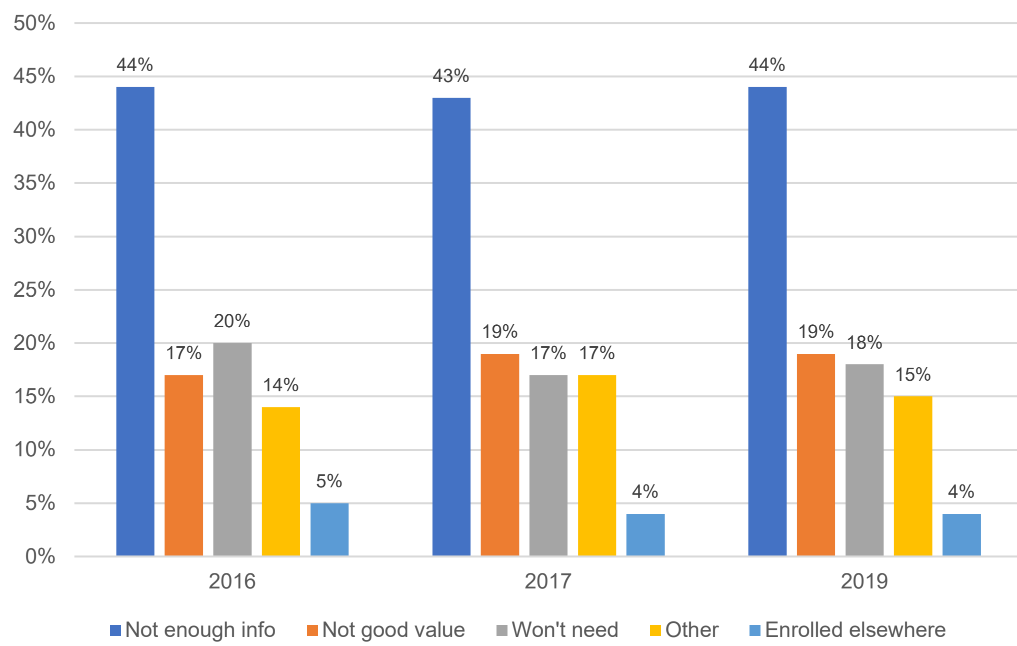
Finally, we reviewed the FEBS responses given for why surveyed individuals did not enroll. The survey sample included both individuals who considered and declined purchase (non-buyers), as well as those who did not seek out or were not even aware of the program (non-responders). We make this distinction because most of the group market research on reasons for purchase or non-purchase has focused on buyers and non-buyers (people actively engaging with the decision of whether to purchase the product).

In the FEBS data, the most prevalent reason for not enrolling is because the individual did not have enough information about the program to know whether it was suitable for them or not. This speaks to the importance of improving the dissemination of information on FLTCIP to existing employees who have not yet enrolled, highlighting its presence and its achievements, and the value it provides to those who have enrolled. Raising awareness and understanding of the program and product features would help address an important barrier to enrollment.

In most years, 17% to 19% of non-buyer respondents cited their belief that the program did not provide a good value for the cost. This is actually less than we typically see in non-buyer studies over roughly this same time period in the individual market (51%).[13] as well as from non-buyers in the employer group market in 2000-2001 that cited affordability / cost as the reason for non-purchase (52%).[14] Finally, looking back at the 2003 FLTCIP survey of non-buyers, approximately 50% of employee and retiree non-buyers cited "cannot afford" or said the program was "too expensive" as the reasons for not purchasing coverage. Interestingly, in that same survey, 52% of employees and 22% of retirees indicated that they would enroll in FLTCIP at a future time.

About one-fifth of the sample of federal employees indicated that they did not enroll because they did not believe that they would need LTC. This has consistently emerged in the research as a key factor driving non-purchase. Knowledge of the risks and costs of LTC and an understanding that neither one's health insurance nor Medicare pay for that type of care are both important reasons why people choose to buy the product. Based on the results of the 2003 FLTCIP survey, federal employees were less likely to correctly state that, without insurance, the costs of the LTC they might need would be borne by their own financial resources, when compared to other group LTC program non-buyers.

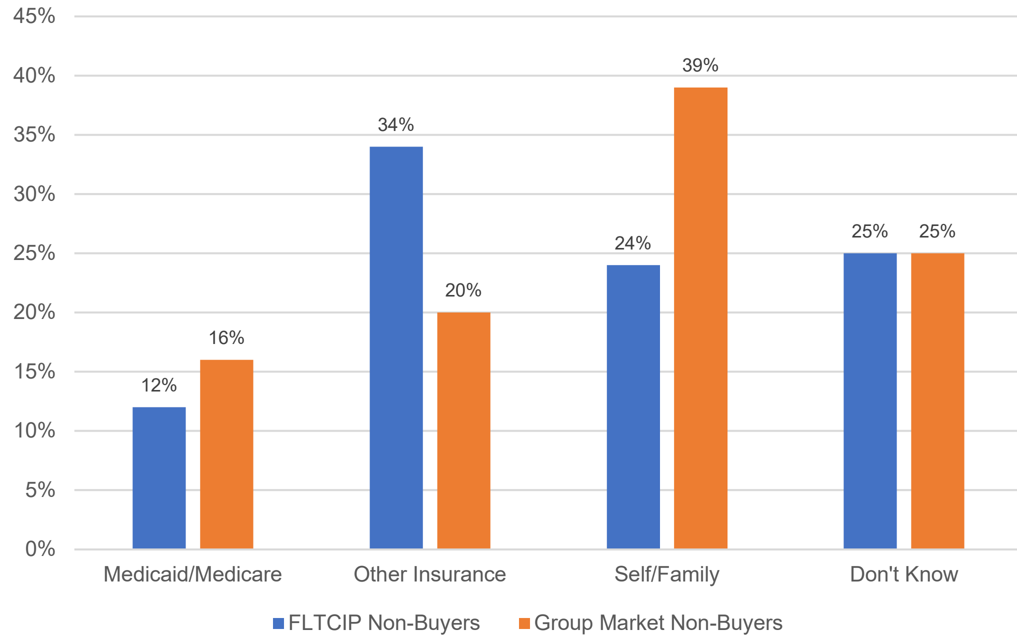
Figure 15: Reasons for Not Enrolling



Perhaps because of the comprehensiveness of federal health benefits, federal employees were more likely than other group market non-buyers to believe that their health or other insurance would pay for their LTC needs. Without a strong education campaign regarding the risks and costs and the likely financial exposure LTC poses, it is more difficult for a potential buyer to appreciate the actual value that can be obtained by enrolling in the program.

[13] LifePlans, Inc. Who Buys Long-Term Care Insurance? Twenty-Five Years of Study of Buyers and Non-Buyers in 2015–2016.
[14] Health Insurance Association of America. Who Buys Long-Term Care Insurance in the Workplace? A Study of Employer Long-Term Care Insurance Plans: 2000-2001. LifePlans, Inc. 2001.

Figure 16: What Non-Buyers Say About Who Pays for LTC Needs



INSIGHTS FROM STAKEHOLDER INTERVIEWS AND FOCUS GROUPS

We conducted a number of focus groups with randomly selected federal employees and retirees (who, at the time, were eligible for FLTCIP) to learn about their knowledge of and experience with the program. Stakeholder interviews were conducted with representatives from affinity groups and benefit/HR departments representing a broad range of agencies and membership groups (e.g., NARFE, WIFLE and others) within the federal family. The objective of the stakeholder interviews was to assess whether those individuals felt that FLTCIP program features were contemporary, competitive, and relevant–-adding value to the members and employees they support.

The main theme from the stakeholder interviews was that FLTCIP has done a great job of raising awareness of the program and supporting their ability to educate eligible members about the importance of LTC protection. However, stakeholders indicated that they would like to see more robust marketing and outreach, like how the program was previously offered. Feedback was very positive regarding benefit design and how insureds are supported through the claims process. Stakeholders understood the complexities and challenges of premium rate increases and mostly had provided positive reviews regarding the Premium Stabilization Feature in FLTCIP 3.0.

The focus groups illustrated the barriers to purchase that are observed in the literature–-lack of knowledge of the risks and costs of LTC and the importance of a strong educational component to the marketing of a LTC benefit for those individuals not seeking it out proactively. A number of focus group participants indicated that as a result of the focus group discussion, they were now more inclined to examine the program in more depth and consider enrolling. (Note, at the time of when focus groups were conducted, new sales for the program were not yet suspended.)

More detailed summaries of our stakeholder interview and focus group findings can be found in Appendices A and B, respectively, of this report.

MARKETING BEST PRACTICES IN GROUP LTC INSURANCE

This section summarizes the experience of and factors in marketing group LTC insurance, focused in particular on enrollment success.[15]

Participation levels are a key marketing concern in group LTC insurance. Enrollment must be sufficient to cover the risks of being selected against by higher risk applicants and hence exceeding anticipated claim costs. This is especially important when coverage is offered on a guaranteed-issue basis for active employees at mid-sized and larger

[15] Tell, Eileen J. "Employer Long-Term Care Insurance Market Participation Rates: Implications for CLASS," The SCAN Foundation, CLASS Technical Assistance Brief, No. 14. (2011).

employers. For these reasons, many carriers include assumptions about participation levels in their pricing models, and some vary their pricing to different employer groups based on assumed participation levels.

Virtually all group LTC insurance carriers struggle with this participation issue, both in terms of what an adequate participation level is, and also with how to improve their levels. Despite the anecdotal stories and sales claims, very little in the way of solid industry data exists on achieved participation levels by carrier. Here is what we do know:

- Based on our work with various companies, we observe average voluntary participation levels of roughly 5%.
- While averages are fairly consistent, participation can vary significantly by employer, from below 1% to over 40%. CalPERS' LTC Program had market penetration rates of roughly 9% to 10% from 1995 through 2003. Based on our analysis of data from the FEBS, total participation rates for surveyed employees in FLTCIP from 2013 through 2019 averaged roughly 10%, with a peak of 13% to 18% within some age cohorts.
- Differences in participation levels seem to be due to a combination of factors, including the employer's industry and other unique employer characteristics, the plan design, and the marketing and enrollment campaign.
- While some insurers have had experiences on the higher side of the ranges, most employers and insurers we observed experienced single-digit participation.

The factors most often cited as critical to higher participation in an employer-sponsored LTC program include the following:[16]

- Strong employer support and positive affinity between the employer and employees
- Favorable employment environment (e.g., lower turnover, no recent benefit "takeaways")
- A sound and affordable plan design, with reasonable and easy-to-understand coverage choices and various price points appropriate to the target market
- An employer that has good experience with other voluntary benefits at the workplace
- A reasonable portion of employees within the desired age, income, and education levels typically interested in purchasing LTC
- Strong and varied communications plan
- Worksite meetings with time off for employees to attend
- A "call to action" or "deadline" for enrollment

For a variety of reasons, certain industries seem to have shared characteristics that tend to make them prone to lower participation. For example, retail employers have historically experienced lower participation, perhaps influenced by average income and geographic dispersion.

Figure 17 below shows characteristics associated with group LTC enrollments with higher participation. It accounts for the characteristics of employees, as well as employer-specific attributes.

[16] Employee Benefit Research Institute. (2000). Voluntary long-term care insurance: best practices for increasing employee participation (Issue Brief No. 221). Washington, D.C.: Jeremy Pincus.

Figure 17: Characteristics Leading to Higher Group LTC Insurance Participation

Employees
Large proportion (50% plus) of employees are age 45-65, the prime buying ages for long-term care.
Employees are concentrated in a single geographic area (e.g., same state), reducing the need for complex variations in plan design to accommodate different market areas.
Large number of employees concentrated within a relatively small number of worksite locations (ease of enrollment meetings and communications).
Decent proportion of moderate, to higher income employees, e.g., high percentage of employees making $50,000 or more in salary.
White collar, non-union employees do better than blue-collar, union workers.
Decent proportion of employees with college education or beyond.
Positive and strong feelings of affinity with employer/sponsor (this can be measured by participation in other voluntary programs; low staff turnover; etc.).
Industries that typically have better experience with long-term care are law, government, higher education, insurance and financial services, biotechnology, pharmaceutical, high technology, etc.
Employers
Favorable experience with other voluntary benefits.
Enthusiastic support for long-term care program. Willingness to “own” the program and be visible in sponsorship.
Recognizes the importance of education and communications campaign. Allows multiple-touches and varied communications.
Supportive of the key components for a communications campaign specific to long-term care (e.g., workplace meetings, direct mail to home, payroll deduction).
Allows use of a specified enrollment period (60-90 days) with a deadline.
Keeps plan design options simple and limited to only a few key choices.
Willing to take a visible role in program endorsement and sponsorship.
Able to facilitate opportunities for communicating with employees (payroll stuffer, e-mail, web site, direct mail, company newsletters, workplace seminars with administrative time-off, etc.).
Positive management and professional environment (i.e., minimal workforce disruption due to lay-offs, divestitures, mergers, acquisitions, etc.) and stable workforce.
Willing to provide member database with mailing information.

Strategies to maximize enrollment results

In addition to the proper “environment” in terms of the employer sponsor and the characteristics of the workforce, the product design and marketing strategy are important. Both the plan design and the marketing communications campaign need to work for the specific employer situation. LTC insurance is not a “one size fits all” product. The campaign needs to focus on the messages that will get the eligible population(s) to act. We have observed the following key factors leading to increased participation:

- **Company support and endorsement**. As noted above, this factor is important to a successful enrollment.
- **Multiple-touches**. A “high-frequency multiple-touch” campaign during the enrollment period. Due to a tendency for denial of the need for the product, frequent contact with and varied messages to employees are critical to “build the need” and overcome obstacles.
- **Timing.** Avoiding enrollment campaigns during “distraction months” (i.e., holidays or summer) and avoiding negative corporate environments such as corporate downsizing.
- **Education.** Allowing sufficient time for building awareness and education. Typically, successful campaigns require three months, with one month for pre-education, a second for the actual enrollment and a third to close the enrollment and do underwriting. A “call to action” such as an enrollment deadline, or a limited period in which short form underwriting or some other “sign-up advantage” is offered is preferred.
- **Plan choices**. Minimizing complex plan choices yet assuring affordable and relevant coverage alternatives. Industry data suggests that successful plans need to offer alternatives that most employees perceive as

affordable yet meaningful. Too many choices cause employees to become overwhelmed and opt not to purchase. Choice parameters should focus on features that have distinctly different price points and varied consumer preference (e.g., lifetime maximum, inflation protection).

- **Materials.** Having simple, easy-to-read materials, and making the enrollment as easy and familiar as possible. Industry experience indicates that ease of enrollment is one of the key factors in successful enrollments. This includes having many ways one can learn about the program, having easily digestible information, having different “media” for different types of learners, and more. Testimonials from those already enrolled in the program, especially from claimants who have benefited from the program make it more “real and personal.”

- **Outreach to prior non-buyers.** The mailing list of inquiries is a very valuable tool. Prior research in the group market shows that these non-buyers, however passive their inquiry may have been, have a higher purchase rate than new inquirers. They warrant special outreach and attention.

V. KEY FINDINGS AND CONSIDERATIONS

Based on the data collection and analysis described above, Section V presents key findings which cover the main facets of the program, including marketing and enrollment, plan design, product innovations, and rate stabilization and rate increases. We also present considerations related to public policy, the value of FLTCIP to the federal family, and managing a closed block of business.

PLAN DESIGN

Summary

The plan design offered by FLTCIP is contemporary, competitive, and relevant to the needs of the federal family. This conclusion is based on our benchmarking analysis comparing current plans in the private and public sectors, analysis of responses from stakeholder interviews, and a review of best practices in marketing group LTC. In some cases, it offers unique product features, not typically seen in other group plans including:

- International coverage
- Benefit payment available to informal care providers – an important benefit given shortages of direct care workers
- A calendar day / disability-based elimination period

Stakeholders mentioned these coverage features as unique advantages of FLTCIP compared with other plans with which they are familiar.

Supporting analysis

Offering simple, distinct plan options and benefit choices can simplify the process of making plan choices and help to achieve better marketing results. Plan choices must differ in ways that attract the widest possible number of enrollees, and such differences need to be based on coverage preferences and price points. This is precisely what FLTCIP has done by limiting the consumer to three important choices: daily benefit level, coverage duration, and inflation protection type. These choices allow a wide range of price points, so if individuals have in mind a budget that they want to spend on the insurance, they can craft a policy to fit this budget, given the choices that FLTCIP has provided.

Our analysis of the results of our stakeholder interviews highlighted the fact that most respondents felt the benefits and coverage of FLTCIP were in line with coverage offered by private sector plans. Several cited the unique advantage of benefits for care provided internationally and from family/friends. Others said they felt that FLTCIP was more home-care oriented than other plans.

The potential improvements to product design identified throughout our research were limited. One focus group participant wanted to see the program offer a couple's discount or good health discount on premiums like what is available in the private market. When the conversation explored the topic of combination products, stakeholders understood that those were typically niche products with a steeper price tag that would not hold broad appeal for the federal family.

PROFIT STRUCTURE

Summary

The profit structure under FLTCIP is unique compared to stand-alone LTC private insurance accounting. This conclusion is based on our review of the current FLTCIP master contract outlining the formula for the Experience Fund compared to our knowledge of U.S. statutory and GAAP accounting standards. We also verified our interpretation of the FLTCIP master contract through stakeholder interviews with OPM and John Hancock.

To help assess the level of profits built into FLTCIP rates, we recommend performing projections over the entire lifetime of the policies that consider future experience under various scenario and sensitivity testing. Under each test, the results should clearly identify the amount of risk borne by the insurance carrier versus policyholders as dictated by contractual terms. OPM can then examine potential financial results for the insurance carrier across all scenarios and review the amount of financial risk the carrier has compared to the profit charges under the current FLTCIP structure. This can then also be aligned with the program's goal to be fully insured.

Supporting analysis

The uniqueness of the FLTCIP profit and accounting structure will likely cause the overall level of profits over the lifetime of the program and emergence of profit annually to be different than a typical LTC insurance carrier profits. The FLTCIP accounting structure is unique in the following key ways (we include additional discussion in Section III):

- FLTCIP explicitly includes a profit charge percentage as part of the Experience Fund “reserve” formula. Annual profits for the insurance carrier are primarily a function of annual premiums and current assets supporting the program.
- In the stand-alone LTC insurance market, an insurance carrier’s yearly profit is dependent on both current year cash flows and future expected yearly cash flows. The impact of both future benefit payments for claims already incurred and the future mismatch of yearly revenue and expenditures is accounted for using claim reserves and active life reserves, respectively.

As part of the stakeholder interview process, we also had various discussions with OPM and John Hancock around the “ultimate responsibility” to pay benefits and expenses under FLTCIP, which affects the profits the carrier might achieve under FLTCIP. Based on those discussions and our review of the current FLTCIP master contract, the FLTCIP rating structure is unique in the following key ways (we include additional discussion in Section III):

- FLTCIP stipulates the insurance carrier can adjust existing premium rates and new business premium rates based on specified percentages of margin on claims (10% for existing premium rates and 20% for new business premium rates), with a requirement where the premium rates “must be based upon actual and projected FLTCIP experience and must reasonably and equitably reflect the cost of the benefits provided.” The premium rate calculation can take into account experience related to mortality, morbidity, lapse, investment results, and expenses, with OPM serving the regulatory role to approve rates. The ability for the insurance carrier to adjust rates can also be influenced by rules around when the master contract ends after seven years and whether there is a new carrier, In the case where the contract ends and there is no new carrier, the rates proposed by the existing carrier become effective when the contract ends.
- In the stand-alone LTC insurance market, an insurance carrier’s ability to change premium rates is governed by state regulation. New business premium rates are required to consider a minimum level of margin for adverse deviation (10% per the most recent NAIC regulation). To adjust existing rates, a carrier is typically allowed to take into account experience related to mortality, morbidity, and lapse, but generally not investment results and expenses such as allowed under FLTCIP. Historical rate increase filing data from states shows that often an insurance carrier does not fully receive the actuarially-supported rate increase.

MARKETING AND ENROLLMENT

Summary

FLTCIP marketing practices align well with observed best practices for marketing group LTCI. This conclusion is based on findings from responses to surveys of buyers and non-buyers completed with the FLTCIP population over the past two decades, comparative views of market penetration in other group plans, observations derived from key stakeholder interviews, and an analysis of federal employee benefit surveys (FEBS). Participation rates for surveyed employees in the program are on-par with, and in some cases, better than those seen in other employer group plans.

Supporting analysis

The analysis of the FEBS shows that enrollment participation rates of surveyed employees consistently meet or exceed the experience of other group LTC plans. (Please see Section IV for more information on the FEBS data and how participation rates are calculated.) The marketing success with newly hired employees (i.e., individuals with less than five years tenure) is particularly noteworthy, where we observed participation rates for surveyed employees of 9% to 31%, depending on the survey year. Higher participation rates for less tenured employees may be explained by the active marketing and availability of short form underwriting for new employees offered within 60 days of new hire.

For surveyed individuals with more tenure (i.e., between 10 and 20 years of work experience), market penetration is also in line with industry standards. For these individuals, the purchase of the product may not only be more relevant due to their higher age, but it may also be more affordable if their attained pay grades are higher. Longer tenure and higher age may also give them greater awareness of the program and their own increased potential of requiring LTC as they continue to age. Finally, the FEBS data suggests that the concern for protecting life savings rises with age—

even while competing spending priorities (e.g., paying for a child's college expenses or paying off a mortgage) decrease.

Our research (summarized in Section IV) highlights the following drivers for non-enrollment:

- **Program knowledge and awareness**

  Analysis of the FEBS data revealed one reason for non-enrollment was that many individuals did not have enough information about FLTCIP to know whether the program was suitable for them. This underscores the importance of raising awareness of the program to existing employees, as well as highlighting its purpose, value, and accomplishments in helping members of the federal family. Investing in such efforts could diminish an important barrier to enrollment.

- **Knowledge of the risks and costs of LTC**

  Another factor driving non-enrollment has to do with knowledge of the risks and costs of LTC. For example, just under one-fifth of the federal employees did not enroll in the program because they believed they would not need LTC. This has consistently emerged in the research as a key factor driving non-purchase throughout the LTCI industry. Knowledge of the risks and costs of long-term care and understanding that the government and one's health insurance or Medicare does not pay for that type of care are critical purchase motivators. When they do not exist, it is very difficult to drive enrollment. Additionally, research has indicated that, relative to other groups, federal employees do not fully understand they would have to pay for significant LTC expenses out-of-pocket, mistakenly believing their health benefits package covered them.

- **Cost and perceived value**

  Another major barrier is the cost or perceived value of the product (i.e., the belief that the program does not provide good value for the money). The influence of this barrier is observed to be lower for FLTCIP than what has been observed for the LTCI market as a whole. In the FEBS data, less than 20% of surveyed federal employees cited cost as a major purchase barrier for FLTCIP, while a higher proportion of non-buyers in the private individual and group markets (approximately 50%) cited affordability / cost as the reason for non-purchase.

Focus group participants echoed the themes described above and suggested interest in FLTCIP may increase with more information about the program and the underlying problem it addresses. A fuller understanding of the risks and potential costs of addressing LTC needs, and how the product addresses this, would likely change the value calculation for many people. Even as focus groups were in session, several participants went online to the FLTCIP website to order an information kit. Moreover, because of the discussion during the focus group, a number of participants indicated greater interest in the program.

PRODUCT INNOVATION

Summary

There are several product innovations that have been introduced in the LTC insurance market designed to increase sales by making the product more attractive to consumers. Such innovations might be offered alongside the current FLTCIP 3.0 product or incorporated within the product itself. **The following program innovations attempt to meet the objectives of either introducing lower cost / lower risk product options, overcoming sales objections commonly encountered, or offering contemporary and competitive coverage considering changing private market forces.**

- **Hybrid LTC insurance products**

  While FLTCIP currently continues to offer a stand-alone LTC product, OPM requested as part of this study to review the potential of offering a hybrid LTC insurance product. Hybrid LTC insurance products broadly refer to when LTC coverage is added as a rider to other insurance coverage, primarily life insurance or annuities. Such products could also benefit consumers by providing another choice, especially for those opposed to the "use it or lose it" nature of stand-alone LTC insurance. It is important to note, however, that these products are generally more expensive (all else equal) and are typically purchased by a more affluent buyer, so hybrid LTC insurance products may only appeal to a segment of federal employees. Additionally, we have observed some hybrid LTC insurance products may not include care coordination and assistance with managing care and finding care providers similar to FLTCIP features.

- **Other stabilization feature**

  A premium stabilization objective is to charge more premium in the early policy years to avoid rate increases or higher premiums in later policy years. Stabilization can be done through conservative premiums to build up an extra reserve or "slush fund." However, premiums could still experience volatility if the conservative premiums are returned to policyholders through promised benefits, such as a death benefit or premium offset dictated by contractual terms as included in FLTCIP 3.0. As an alternative, FLTCIP could consider an approach used by some public employers for their self-funded health insurance benefits. For example, FLTCIP could establish criteria where the amount of "extra" reserve is sufficient for a set of defined scenarios (e.g., the reserve is sufficient to X% of all scenarios modeled). If the extra reserve exceeds the established percentage, premium holidays could be implemented on a discretionary basis to lower the excess reserve. Further discussion of FLTCIP's current premium stabilization feature, as well as other potential premium stabilization features is included in Section III.

- **"Core plus buy-up" coverage**

  Under a "core plus buy-up" structure, the program would offer basic coverage (paid for by government) with the option for employees to buy additional coverage. The basic coverage offered under "core" typically has a shorter benefit period and / or smaller maximum daily benefit than standard LTC insurance. Such a structure may be appealing to consumers, but OPM should also consider any legal ramifications of such a structure, as well as the cost to the government money if they were to contribute to the "core" premium costs. Additionally, should employees leave their jobs, they would be required to pay for the core benefit upon separation from federal employment in order to maintain portability. There is the possibility of some adverse selection regarding who maintains coverage and who chooses to lapse.

- **Monthly home-care-only benefit**

  A monthly home-care-only benefit would reimburse monthly for LTC services administered within a home setting. This would be a less comprehensive product offering than FLTCIP 3.0, but it would also be more affordable and provide another choice to consumers. This type of benefit could also be utilized as a "landing spot" option for consumers downgrading coverage to avoid a potential rate increase.

- **Early enrollment discount**

  Extending the number of years between program entry and anticipated claim allows the program more time to collect premiums for investment and growing the experience fund. Currently, the average age at enrollment for FLTCIP is 57 years old. Exploring the possibility of different designs to offer an "early enrollment discount" for those who enroll prior to age 45, for example, could help encourage younger entrants into the program. This could be an ongoing discount or one that ends at a certain age assuming one's earnings potential continues to increase.

- **Other innovative products**

  A robust care coordination digital platform providing access to service and provider discounts and help finding suitable services is already a component of FLTCIP. It is a resource supporting the program care management team plus a component of the Service Package for applicants who are declined insurance but want to enroll in a Service Package. FedPoint conducted market testing to explore expanding this "Care Concierge" Service Package to the Federal Family for those who do not wish to purchase LTC insurance today, but may have an interest and need in caregiver support for parents or other family members.[17]

  Research has shown this to have favorable market demand and could also serve as an introduction to the value of having FLTCIP coverage for the vast majority of those who are "undecided" about the program. Since the basic infrastructure for the Service Package already exists, it could be leveraged to build this out as a free-standing product option. We are aware of an insurance carrier utilizing this approach in the private market.

[17] This has been put forward as a Service Package/Care Navigator subscription service.

Another possible offering deals with wellness and pre-claim interventions. Many private market insurers are using vendor relationships or in-house expertise to identify or predict high-risk claims and offer low-cost interventions to prevent or delay claims and enable insureds to remain safely in their own homes for as long as possible. Home modifications, home safety assessments, fall prevention, family caregiver evaluation and training, and strategies for addressing social isolation are some examples of pre-claim interventions. This may be more challenging to include since benefit dollars cannot typically be used for pre-claim interventions. Though, some insurers are working with vendors who are taking on the risk and being compensated through claim savings.

Supporting analysis

For each of the product innovations described above, we analyzed the issue they address, as well as the costs, benefits, and barriers involved in implementation. Figure 18 below presents a summary of the tradeoffs and considerations for each product innovation, where green represents the greatest potential benefits to the program and red represents the largest barriers to implementation.

Figure 18: Product Innovations – Tradeoffs and Considerations

Topic	Hybrid LTC insurance products	Other stabilization feature	Core plus buy-up coverage	Monthly home-care-only benefit	Early enrollment discount	Service Package
Issue Addressed	"Use it or lose it"	Rate increases / high premiums	High premiums / government contribution	High premiums	Low enrollment / awareness (particularly at younger ages)	Alternative to taking on insurance risk
Timeline for implementation						
Comprehensive-ness of benefits						
Understand-ability of design						
Impact on enrollment						
Consumer flexibility / choice						
Financial impact to participants						

Below we discuss the tradeoffs and considerations for each of the innovative product offerings listed above.

- **Timeline for implementation**

  The timeline required to implement will be longest for introducing new products (e.g., hybrid products) and shortest when making changes to existing products (e.g., introducing a new stabilization feature or an early enrollment discount). If a quick implementation is a priority, OPM may want to consider changes to existing products. Note, legislative pressures will also impact the timeline for implementation.

- **Comprehensiveness of benefits**

  According to the stakeholder interviews and plan design benchmarking, FLTCIP benefit comprehensiveness does not appear to be a cause for concern. As such, we offer no recommendations to improve the comprehensiveness of benefits. However, as shown by the red shading in the "Comprehensiveness of benefits" row of the grid above, offering a monthly home-care-only benefit would provide less comprehensive benefits than what is currently offered in FLTCIP 3.0. The idea here would be that such a design would be offered as an alternative to the current product rather than function as a replacement. If done in this way, the overall comprehensiveness of benefits would not be impacted.

- **Understandability of design**

  New products (such as hybrid products) would require a steeper learning curve and more education and awareness beyond what currently exists. Likewise, new stabilization features may be harder to understand as they are not common in the LTCI market. Given there is already a stabilization feature in FLTCIP 3.0, however, enrollees may be familiar with the concept. Though, OPM should emphasize while stabilization features are designed to stabilize premium, this does not entirely remove the risk of rate increases.

- **Impact on enrollment**

  Through our data collection and stakeholder interview process, we observed varying perspectives on the importance of growing enrollment in FLTCIP. As we observed in FedPoint enrollment data, FLTCIP has experienced diminishing enrollment over time, with only 5% of current enrollees enrolled in the most recent product offering, FLTCIP 3.0. While stakeholder interviews and focus groups suggested enrollment could also increase through improved marketing, we offer two potential recommendations for incentivizing enrollment depending on OPM’s priorities.

  - Offer “core plus buy-up” coverage. Under such a structure, employees would be incentivized to enroll in a “core” plan assuming the government contributed to premiums. As seen in LIMRA data, participation is often higher in programs that include employer contributions.

  - Offer an early enrollment discount to help incentivize enrollment at younger ages. A goal of this offering would be to reduce the average age at enrollment for FLTCIP from its current age of 57 years old.

- **Consumer flexibility / choice**

  We offer several recommendations to expand consumer flexibility and choice (under the assumption that these products are offered in addition to current offerings rather than as a replacement). Hybrid LTCI products would provide a choice to consumers concerned about the “use it or lose it” nature of LTCI. Caregiver support, wellness programs / pre-claim interventions, and monthly home care benefits are some other potential offerings OPM could implement to provide more consumer flexibility and choice beyond the traditional stand-alone coverage.

- **Financial impact to consumers**

  Most of the product innovations described above provide financial benefits to consumers, but in different ways. Hybrid LTC insurance products address the “use it or lose it” consequence of LTCI, which is a deterrent for many prospective enrollees. Other stabilization features can be designed to help mitigate the need for future rate increases. “Core plus buy-up” coverage subsidizes enrollee premiums with government contributions. Early enrollment discounts would allow younger enrollees to pay smaller premiums (though older enrollees may have to pay more in turn).

- **Actuarial risk issues / financial soundness**

  If priced appropriately, any of the product innovations discussed in this section could be actuarially and financially sound. Some of the product innovations would require certain actuarial considerations to ensure financial soundness. For example:

  - Programs that incentivize enrollment, especially enrollment at earlier ages such as the early enrollment discount, could help to mitigate the risk of adverse selection and introduce more healthy risk into the program. At the same time, in the case of an early enrollment discount, the resulting premiums for older ages (and resulting impact to enrollment at those older ages) would need to be considered if necessary to support the discount for younger enrollees.

  - “Core plus buy-up” coverage will not necessarily present additional actuarial risk, but it would cost the government money to help subsidize the program. Additionally, adverse selection may exist for those who choose to buy more coverage. OPM should consider if such a structure would need to be funded by higher premiums for older ages, for example, and if this would impact enrollment at those older ages.

- **Legislative considerations**

  Regarding hybrid LTC insurance products, US Code Title 5, Part III,[18] Subpart G, §9001(9) and §9002 (hereinafter, the "Act"), requires that OPM shall establish a program through which government employees and their relatives may purchase "long-term care insurance." While hybrid products provide long term care services through an attached rider, such arrangement *may* not satisfy the definition of "qualified long-term care insurance contract" under the Act because LTC services are not the only insurance protection provided under the contract. There may be some room to argue Internal Revenue Code Title 26, §7702B(e)[19] expands the definition of qualified LTC insurance contracts to include hybrid products, but it is unclear. If OPM decides it wants to provide an alternative hybrid/combination product, it should consider clarifying through a change to the definition of qualified long-term care insurance contract (§9001(9)) that such products meet that definition.

  Regarding "core plus buy-up" coverage, US Code Title 5, Part III, Subpart G, §9004(a) specifically states that "each eligible individual obtaining long-term care insurance coverage under this chapter shall be responsible for 100 percent of the premiums for such coverage." 5 CFR 875.301[20] further supports this prohibition, stating "there is no Government premium contribution toward the cost of long-term care insurance." Thus, a change to the law would be required before the government could provide premium contributions.

RATE STABILIZATION AND RATE INCREASES

Summary

Through our data collection and stakeholder interview process, we observed varying degrees of concern related to rate increases and rate stabilization. While this was not one of the main considerations highlighted by consumers in focus groups, rate stability is seen as a concern throughout the LTCI industry, as echoed by stakeholders at OPM with regards specifically to FLTCIP. Potential recommendations discussed related to mitigating rate increases include stabilization features; implementing smaller, more frequent rate increases; and expanding landing spots.

Supporting analysis

Premium increases did not emerge as a major barrier or concern in the consumer focus groups, but we did, however, explore these topics. When rate stabilization was discussed in the stakeholder interviews, those with whom we spoke understood the complexities of these issues. They also understood that rate stability issues were faced by the entire industry and not just unique to FLTCIP. Additional information about rate increase experience in the private stand-alone LTCI market can be found in Section II.

When discussing increasing rate stability and mitigating the need for rate increases, discussions included the following topics.

- **Stabilization features**

  Some stakeholders had member feedback on FLTCIP 3.0's rate stabilization feature and felt that it was favorably received and represented a step in the right direction to address the issue. For example, one focus group respondent stated the following about FLTCIP 3.0's Premium Stabilization Feature.

  [The new product feature for rate stabilization] "…was really just a very practical approach to it that they seem to have, and they were trying to hedge the future increases, which they knew it was no promises to be made but they were asking for it. I think they believe that they're trying to keep the program prices down as much as they can. But I was actually surprised and ready for a lot more surliness than we got, people basically seem to get it. It was very interesting to me, I was ready for more whining, that did not happen."

  Overall, stakeholders agreed that there is a real challenge in correctly pricing LTC insurance and that the causes and solutions are complicated and difficult to communicate. Further discussion of FLTCIP's current premium stabilization feature, as well as other potential premium stabilization features, are included in Section III.

[18] http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title5-part3&edition=prelim
[19] https://www.govinfo.gov/content/pkg/USCODE-2012-title26/pdf/USCODE-2012-title26-subtitleF-chap79-sec7702B.pdf
[20] https://www.ecfr.gov/current/title-5/chapter-I/subchapter-B/part-875/subpart-C/section-875.301

- **Structure of rate increases**

  When discussing the structure of rate increases, several stakeholders felt that members would be open to smaller and more frequent rate increases – an approach whose appeal has been validated in other consumer surveys and something that regulators are considering. Comments related to rate stability, possible new approaches and the current rate stabilization feature in the new product include:

  "I think maybe people would just prefer smaller increments versus a big change might be harder for some people who have budgets, like maybe, you know, retirees or whomever."

  "It sounds appealing to me actually. I can see it being much better received than the big hikes, that you fear are coming so absolutely"

  Phased-in and multi-year rate increases is a topic discussed briefly in Section II of this report, as well as in more detail in Milliman's 2021 Long-term care rate increase survey.

- **Landing spots**

  At the time of a rate increase, best practice is to allow insureds to decrease coverage (commonly called "landing spots") in several possible ways to maintain premiums at a level that remain affordable. Additional information about landing spot experience in the private stand-alone LTCI market can be found in Section II. Stakeholders said that FedPoint does a good job explaining and counseling individuals as they look at ways to decrease coverage in the presence of rate increases, but that there needs to be a wide range of meaningful, appropriate, and easy to understand "landing spots." Another "outside the box" landing spot might be to have a plan option that pays a monthly maximum for home and community care. This gives flexibility for insureds to "stack services" on days when unpaid family care is not available, while at the same time, reducing the amount paid for family care to a lesser amount than the full daily benefit.

OTHER CONSIDERATIONS

Changing policy landscape

In the past, FLTCIP has served an important role as a model for other public and private employer group LTC plans. Given the current crisis facing states and the federal government in terms of Medicaid budgets and workforce challenges, there is a critical need for long-term care finance reform and programs that can provide protection for the middle market – both private and public sector initiatives. OPM can contribute to these efforts by continuing to offer a competitive product that is attractive to members of the federal family and is financially stable.

Recently a number of advocates for public financing reform are suggesting that a federal catastrophic long-term care insurance program would be desirable. If this were put in place, it would provide a safe harbor for private market plans including FLTCIP to address the up-front more manageable risk, leaving the tail risk to be covered by a public plan. Some proposals would limit private market plan exposure to as little as two years, enhancing the viability and sustainability of private LTC insurance including FLTCIP and making it more affordable and attractive to a broader market.

Additionally, as more states enact front-end plans such as WA Cares Fund in the State of Washington, FLTCIP may be able to modify coverage for those with state plan participation so that the state plan is the first payer and FLTCIP is secondary. In any of these scenarios, FLTCIP will continue to have an important role to play.

Value to the federal family

From both the stakeholder interviews and the consumer focus groups, there was a shared view that it is important to the federal family to have access to and the choice to obtain financial protection against the risks and costs of long-term care. They felt having LTCI be part of an OPM benefits offering is consistent with OPM's mission of providing relevant and competitive benefits to their employees and retirees, even with the recognition that it is a product that is not uniformly attractive or even top of mind across all ages.

Based on the analysis of the FEBS, across all age groups, over 40% of employees feel that it is either extremely important or important that FLTCIP be made available to the federal family. Importance ratings are even higher (over 50%) within certain wage categories of employees and among employees of color, or those of Hispanic, Latino, Asian and Pacific Island origin.

Managing a closed block

OPM suspended applications for FLTCIP coverage effective December 19, 2022 for 24 months while it assesses the benefit offerings and establishes sustainable premium rates that reasonably and equitably reflect the cost of the benefits provided. Given the suspension of new sales and relatively lower recent sales in the program (compared to the number of individuals currently with policies), the FLTCIP block of current insureds may come to resemble a "closed block" of business. This may pose certain risks that OPM should be aware of that have been observed in the private sector for some closed blocks.

First, in the private insurance sector, closed blocks may have limited resources to devote to claims adjudication, customer service, and compliance, as resources may be redirected elsewhere since legacy systems and products tend to receive less attention. Keeping up with claim best practices may not be a priority and attracting high level talent and resources may be more challenging.

Continued losses caused by increasing claims frequency and duration is one of the most serious problems of closed blocks. While to some extent these issues likely contributed to the decision to close the block, the fact that new sales and improved rate-stabilized products are not entering the block can exacerbate financial problems (if they already exist) over time. The levers available to improve financial performance could be limited without new sales.

In essence, blocks that are closed, or for which sales are not particularly encouraged, often face the following challenges:

- Loss or diversion of top talent staff, resulting in a low priority or inability to maintain best practices
- Reluctance or inability on the part of the company's leadership to invest in the personnel, training, and technology needed to serve insureds and properly manage business needs
- Reputation risk if claims, complaints, and customer service functions are not appropriately managed
- Increased financial strain from inadequately managed claim losses

Claims audit and fraud monitoring

Regular claims audits can help identify and remediate issues related to the accuracy and adequacy of claim adjudication and claim practices, such as benefit recertification timeframes. Claims audits are generally conducted with an independent third-party organization that has expertise administering LTCI claims. The client would randomly pull a requested number and type of claim (including approvals and declines but without identification) and the audit expert(s) would blindly review the claim request and determine whether it should be approved, declined, or "requires more information." For the approvals, the auditor would develop a general plan of care, reassessment timeframe, and more. The individual and aggregate results would then be compared and analyzed to understand whether and where the insurer may or not be applying criteria appropriately.

Fraud monitoring is another important risk management technique that should be considered. There are many new techniques and tools in the market, including artificial intelligence and other methods available to insurers. While there are factors that may inhibit insurers actions on fraud identification, prevention, and recovery,[21] it is important to develop a strategy in this area. One particular area vulnerable to fraud is claims for care from "independent providers" and / or family members or friends, a popular feature of FLTCIP.

[21] "Long Term Care Insurance Fraud, Waste, Abuse and Risk Management: A Survey of Industry Perspectives." Society of Actuaries. June 2019 (with Smyth and Eaton).

VI. SUMMARY FOR CURRENT AND PROSPECTIVE ENROLLEES

FINDINGS AND RECOMMENDATIONS FOR CURRENT ENROLLEES

Section V outlines our considerations and key findings, including examples of various program changes. Potential program changes and considerations that would impact current enrollees include:

- Factors affecting **competitive position and profitability**.
- **Rate stability considerations** including rate stabilization features, rate increases, and landing spots.
- **Closed block considerations**, especially relevant as FLTCIP temporarily suspends new sales.
- **Changes targeted at new enrollees** could also impact current enrollees if they change the underlying risk pool or add more stability to the block.

FINDINGS AND RECOMMENDATIONS FOR PROSPECTIVE ENROLLEES

Section V outlines our considerations and key findings, including examples of various program changes. Potential program changes and considerations that would impact prospective enrollees include:

- Factors affecting **competitive position and profitability**.
- Aligning with **marketing and education best practices** to diminish barriers for non-enrollment.
- New **product innovations** could provide more choice and flexibility to consumers, as well as increase enrollment. The benefit Impact to prospective enrollees is dependent on if the new products are intended to supplement existing offerings or replace them.
- **Changes impacting current enrollees** described in the subsection above could also have similar impacts on prospective enrollees.

Conclusions and next steps

As presented in Section V, every program change has different tradeoffs and considerations. For example, adding a combination or hybrid product to the program could take a longer time to implement, compared to other initiatives, but would increase choices and flexibility for consumers. The priorities and goals of FLTCIP should determine which initiatives should be acted upon. For example, if implementing changes quickly in the short-term is a priority of the program, adding a combination product might not be an appropriate next step.

We spoke to many stakeholders within the federal family, and while individual stakeholders expressed personal priorities and goals for the program, these were not always cohesive across organizations and stakeholders. Establishing cohesive program objectives for FLTCIP should be the next step taken. Examples of different priorities referenced during stakeholder discussions and our research are listed below.

- **Increasing rate stability and avoiding future rate increases**

  Some stakeholders cited rate increases as a concern for the program (and the LTCI industry as a whole). As discussed in Section III, rate stabilization features (similar to the Premium Stabilization Feature included in FLTCIP 3.0) could be used to mitigate (but not eliminate) the risk of future rate increases. Rate increase alternatives, such as expanded landing spots, are discussed in Section V.

- **Enrollment growth**

  Many of the potential program changes (specifically those targeted at prospective enrollees) could increase enrollment. Attracting new members and increasing enrollment was not a top priority for many of the stakeholders we met with, particularly those with OPM and John Hancock. It is worth noting that increased enrollment could help with some of the other concerns though, such as price stability if increased enrollment were to add stability to or attract a more profitable risk pool.

- **Retaining profits for policyholders / reducing risk borne by policyholders**

  Interviews with individuals at OPM highlighted concerns about how FLTCIP's profit and Experience Fund structure impacts policyholders (and could continue to impact them in the future). Some individuals questioned if the profit charge collected by the insurance carrier is appropriate given the level of risk they maintain for the business. More considerations related to FLTCIP's financing and risk management structure are included in Section III.

- **Increasing carrier competition**

  Several stakeholders pointed out that profit and product features for the program are impacted by the level of competition present during the carrier bidding process. As a result, some considered increasing carrier competition to be a priority for the program. Section III outlines the factors affecting FLTCIP's competitive position, including deterioration of key modeling assumptions, lack of active life reserves in FLTCIP accounting, potential bidder understanding of FLTCIP profits, the fact that the current FLTCIP carrier is no longer actively selling stand-alone LTCI, and the limited number of carriers actively selling group LTCI.

VII. CAVEATS AND LIMITATIONS

This information is prepared for the use of the U.S. Office of Personnel Management (OPM). The terms of Milliman's Purchase Order 24322622P0010 with OPM dated June 28, 2022, apply to this report and its use and distribution. We do not intend this information to benefit or create a legal liability to any third party. This communication must be read in its entirety.

This report presents our research and market analysis of FLTCIP based on the scope of work outlined in Purchase Order 24322622P0010. It may not be appropriate, and should not be used, for other purposes. In completing this analysis, we relied upon information provided by OPM and publicly available data. We accepted without audit, but reviewed the information for general reasonableness. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Actual results may differ from the findings in this report. Experience should be monitored as it emerges, and corrective actions should be taken when necessary.

Milliman has developed certain models to calculate reported values included in this report. The intent of the models is to summarize characteristics of FLTCIP. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Chris Giese, Al Schmitz, Annie Gunnlaugsson, and Evan Pollock are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses herein.

EXHIBITS

Exhibit 1
United States Office of Personnel Management
Benefit Design Benchmarking Grid

			Public Large Employers		Public Social Insurance Programs		Private Sector	
Category	**Examples of Design Options**	**FLTCIP (Federal) 3.0**	**CalPERS (CA)**	**M-Pel (MN)**	**WA Cares Fund (WA)**	**WISH Act (Federal)**	**Standalone**	**Combo / Hybrid**
1. Eligibility								
1a Eligible Employees and Retirees	(i) State employees only (ii) All public employees	Federal employees, postal workers, and uniformed service members	State employees	State employees	Mandatory for all workers in the state (with some exceptions for select voluntary populations)	Mandatory for all workers	Policy specific	Policy specific
1b Part-Time Requirements	(i) Level of part-time eligibility	Full-time or part-time employees	Full-time or part-time employees	Full-time or part-time employees	Individuals must work 500 hours in a year for that work history to count towards vesting requirements	N/A	Policy specific	Policy specific
1c Eligibility Subsequent to Open Enrollment	(i) Multiple open enrollment periods (ii) Level of underwriting	No annual open enrollment. If eligible for FLTCIP, can apply at any time with full underwriting.	Open enrollment has been suspended temporarily due to uncertainty in the long-term care market. Until further notice, new applications for coverage are not being accepted.	No new open enrollment planned. Newly eligible employees have 35 days from eligibility date to enroll with guaranteed issue. All other applicants must submit medical information and be approved for coverage.	N/A	N/A	Policy specific	Policy specific
1d Retiree and Family Member Offering	e.g., Spouses, siblings, parents, grandparents, children, other	Retirees; Qualified relatives (e.g., spouses and domestic partners, adult children, parents, parents-in-law, stepparents)	Spouses, parents, parents-in-law, siblings, and retirees	Spouses, parents, retirees	Benefits are only available to workers	Benefits are only available to workers	Policy specific	Policy specific
1e Issue Age Limits	i.e., Minimum and/or maximum issue age	Minimum age is 18; there is no maximum age limit	Minimum age is 18; maximum age is 79	None	Minimum age for benefits is 18	Minimum age for benefits is Social Security retirement age	Policy specific	Policy specific
2. Underwriting								
2a Level of Underwriting for Employees	(i) Guaranteed Issue (i.e., no underwriting) (ii) Modified Guaranteed Issue (can involve a short or long health questionnaire)	Full underwriting (long-form application)	Applicants must pass underwriting in order to be approved for coverage	Guaranteed issue for eligible employees who enroll within 35 days of first becoming eligible. Full underwriting (short form application) otherwise.	No underwriting	No underwriting	Policy specific	Policy specific
2b Level of Underwriting for Spouses	(i) Modified Guaranteed Issue (may include a few additional questions to put on the same basis as actively-at-work employee) (ii) Full underwriting (depending on age, may includes medical records, telephone interviews, and/or face-to-face interviews)	Full underwriting (long-form application)	Applicants must pass underwriting in order to be approved for coverage	Full underwriting (short form application)	No underwriting	No underwriting	Policy specific	Policy specific
2c Level of Underwriting for Family Members and Retirees	(i) Full underwriting (varying degrees)	Full underwriting (long-form application)	Applicants must pass underwriting in order to be approved for coverage	Full underwriting (long form application)	No underwriting	No underwriting	Policy specific	Policy specific
2d Underwriting Alternative	N/A	N/A	N/A	N/A	Individuals must "vest" in the program to be eligible for benefits. To vest, individuals must pay the premium assessment, for either: (a) A total of 10 years without interruption of 5+ consecutive years; (b) 3 years within the last 6 years from the date of application for benefits Individuals must also have worked 500+ hours during each year from (a) or (b). Individuals born before 1/1/1968 may receive 1/10 of benefit units for each year of premium payments up to 100%.	Individuals must "vest" in the program to be eligible for benefits. To vest, workers must work and contribute to the program for 10 years to be eligible for full benefits. Individuals who have worked between five quarters and 10 years are eligible for prorated partial benefits.	N/A	N/A
3. Benefit Design								
3a Basic Covered Care	(i) Nursing Home (ii) Home Care (iii) Assisted Living Note: Comprehensive plans include all 3; Facility Only plans include Nursing Home and Assisted Living	Comprehensive	Comprehensive and Facility Only	Comprehensive	Comprehensive	Cash benefit can be used at beneficiary's discretion.	Comprehensive, Facility Only	Comprehensive
3b Reimbursement Type	(i) Reimbursement (actual expense paid up to maximum daily or monthly benefit) (ii) Indemnity (insurer pays full daily benefit if member receiving qualified services) (iii) Cash (insurer pays full daily benefit once benefit-eligible)	Reimbursement	Reimbursement	Reimbursement	Reimbursement	Cash	Reimbursement	(i) Reimbursement (ii) Indemnity (iii) Cash (a.k.a. disability)
3c Reimbursement Frequency (Home Care)	(i) Daily (ii) Weekly (iii) Monthly	Daily	Daily for facility; monthly for home care	Daily	Daily	Monthly	Daily, Weekly, Monthly	Monthly, (some offer daily)
3d Daily or Monthly Benefit Amounts Available	Varies	\$100 - \$450 in \$50 increments.	\$150 - \$400 in \$10 increments (as of 2014)	\$100, \$150, or \$200	No daily or monthly maximums; \$36,500 lifetime benefit indexed up to WA CPI	\$3,600 monthly cash benefit indexed to wages	Range from: \$40 - \$400 / Day \$1,500 - \$15,000 / Month	Generally \$2,000 - \$10,000 / month
3e Home Health Care Reimbursement Level	50% to 100% of nursing home (sometimes greater than 100% for professional care)	100%	100% (as of 2014)	Unknown	100%	N/A	50% to 100%	100%
3f Assisted Living Reimbursement Level	50% to 100% of nursing home	100%	100% (as of 2014)	Unknown	100%	N/A	50% to 100%	100%
3g Informal Home Care	If made available: (i) Limited to a period of time (e.g., one year) (ii) Friend or family member not living with you	Available for 500 days as long as caregiver isn't living with you at the time you become benefit-eligible	Covers up to 100% of the home and community care monthly maximum (as of 2014)	Unknown	Training and support for paid and unpaid family members who provide care	Cash benefit can be used at beneficiary's discretion.	Examples include: (i) Not covered (ii) Covered the same as custodial care for non-family (iii) Cash alternative has zero day EP; if used, it delays satisfying the EP (iv) 50% of HC MDB up to 365 days with 4+ hrs of care/day from non-Partner	Some plans provide "disability" benefits, that would also cover informal care (a fixed amount would be paid if the insured is disabled which would allow for either formal service or an informal caregiver).

Exhibit 1
United States Office of Personnel Management
Benefit Design Benchmarking Grid

Category	Examples of Design Options	FLTCIP (Federal) 3.0	Public Large Employers: CalPERS (CA)	Public Large Employers: M-Pel (MN)	Public Social Insurance Programs: WA Cares Fund (WA)	Public Social Insurance Programs: WISH Act (Federal)	Private Sector: Standalone	Private Sector: Combo / Hybrid
3h Elimination Period Options (Deductible Days)	(i) Ranges from 0 to 365 days (ii) Calendar day vs. service day (iii) Satisfy once per episode or once per lifetime	90 days; calendar day and once per lifetime	30 or 90 calendar days (as of 2014)	Unknown	No EP, but benefit determination period could function similarly and last up to 45 days.	EP of 1 to 5 years depending on lifetime income earned.	Typically EPs range from 0 to 365 calendar days. Other options could include: (i) options greater than 365 (e.g., 730, 1,095, 1,460) (ii) Deductible alternative = 3, 6, 9 or 12 x monthly maximum benefit	Typically 90 days and once per lifetime. May be based on calendar day or actual service days.
3i Benefit Period Options	(i) Ranges from two years to lifetime (ii) Pool-of-money or calendar day approach	2, 3 or 5 year	1, 2, 3, 6, or 10 years (as of 2014)	2, 3.4, or 5 year.	$36,500 lifetime benefit indexed up to WA CPI	Lifetime	Range from 1 year to lifetime (though lifetime is no longer common).	Typically 2-8 years
3j Tax Qualified Status	(i) Tax Qualified (TQ) (ii) Non-Qualified (NQ)	Tax Qualified (TQ)	Tax Qualified (TQ)	Tax Qualified (TQ)	TBD	TBD	Tax Qualified (TQ)	Tax Qualified (TQ)
3k Inflation Options	(i) None (ii) 3% compound lifetime inflation (iii) Future purchase option (FPO)	Compound 3% inflation or Future Purchase Option available	3% compound lifetime inflation and future purchase option	3% compound lifetime inflation and future purchase option	Benefit adjusted annually up to WA state CPI (determined solely by the WA LTSS council).	Benefit indexed to wages	(i) Compound inflation (ii) FPO for some	Not commonly purchased. Typical inflation benefits offered are 5% compound inflation or often an optional lesser amount (such as 3% compound for life).
3l Benefit Triggers	Assuming tax qualified plan, triggers are generally defined to be 2 of 6 ADLs or severe cognitive impairment	Standard 2 of 6 ADLs or severe cognitive impairment	Standard 2 of 6 ADLs or severe cognitive impairment	Standard 2 of 6 ADLs or severe cognitive impairment	3 ADLs	Standard 2 of 6 ADLs or severe cognitive impairment	Most use standard HIPAA trigger	Common to include standard HIPAA trigger. Some early generation products also required disability to be expected to be permanent.
3m Portability	Plan will be fully portable	Fully portable	Fully portable	Fully portable	No portability; beneficiary must reside in Washington state	N/A - Federal program. Unclear if benefit will be portable outside of US.	Fully portable	Fully portable
3n Waiver of Premium Provision	Generally consistent with elimination period; could be defined as when first became benefit-eligible	Once you've completed your waiting period, you do not have to pay premiums while you're receiving benefits	Available when receiving benefits outside of home care	Unknown	No, but only workers contribute to program revenue	No, but only workers contribute to program revenue	(i) After elimination period (ii) After meet the benefit trigger	Varies
3o Pre-existing Condition	Generally not included; may be 6/6	Covered if disclosed	No exclusions	Unknown	No restriction, but individuals must "vest" to be eligible for benefits. See Underwriting section for more information.	No restriction, but individuals must "vest" to be eligible for benefits. See Underwriting section for more information.	No exclusions, but underwriting considerations	No exclusions, but underwriting considerations
3p International Coverage	Percentage of full benefits	100% international coverage	50% of daily benefit amount up to 365 days of care	World wide coverage available, however, reimbursement will be based on a cash payment instead of actual charges.	No portability; beneficiary must reside in Washington state	N/A - Federal program. Unclear if benefit will be portable outside of US.	Coverage often extended to Canada. Outside of Canada, coverage and benefit varies.	Benefit typically reduced for care received outside the US.
3q Non-forfeiture options	(i) Standard NAIC required offer (sum of premiums paid as benefits) (ii) Return of Premium on Death (iii) Return of Premium on Lapse	(i) Return of premium on death, (ii) Sum of premiums paid as benefits, offered after any increase in premium rates	Standard NAIC required offer (Sum of premiums paid as benefits); also return of premium upon death	Limited option available; also return of premium upon death	N/A	N/A	Varies	Varies
3r Miscellaneous Benefits	(i) Restoration of benefits (ii) Caregiver training (iii) Respite care (iv) Bed reservation (v) Alternate plan of care	Caregiver training, Respite care, Bed reservation, home modifications, durable medical equipment, emergency alert systems, alternate plan of care	Respite care, optional restoration of benefits rider, stay at home benefit	Caregiver training, bed reservation, alternate plan of care	N/A	N/A	Examples of benefits offered include: (i) Restoration of Benefits (ii) Caregiver training (iii) Respite care (iv) Bed reservation (v) Alternative plan of care (vi) Home modification (vii) Emergency alert (viii) Equipment benefit (ix) Drug, ambulance benefit	Similar to standalone

APPENDICES

APPENDIX A
STAKEHOLDER INTERVIEW SUMMARY

This appendix provides a summary of stakeholder perspectives and the methodology through which these insights were obtained.

BACKGROUND AND OBJECTIVES

We conducted stakeholder interviews via Zoom with 11 stakeholder representatives from affinity groups and benefits / HR departments representing a broad range of agencies and membership types within the Federal family. Most interviews were conducted individually, but in one case, a few individuals participated in a small focus-group session for the convenience of the participants. The discussion guides for both the interviews with the affinity group and benefit officer representatives were comparable.

The overall objective of these interviews was to seek input from stakeholders on the following issues and questions:

- Do they feel that FLTCIP benefits and features are contemporary, competitive, and relevant?
- How aware of the program are their members / employees?
- What type of member / employee feedback have they received with regard to program marketing, claims, underwriting, and pricing?
- What changes, if any, would they like to see made in order to enhance the program? (For purposes of discussion, "enhancing" the program was defined as anything that would decrease cost, increase participation, improve servicing, provide premium stability, etc.).

STAKEHOLDER PERSPECTIVES

Program Awareness

The most consistent feedback received across all stakeholders had to do with the role of FedPoint. There was a strong consensus that FedPoint was doing a great job in raising awareness about FLTCIP and that they were providing a high degree of support to Federal agencies and affinity groups in their efforts to educate and inform employees and retirees about the program.

Overall, stakeholders felt that the populations they served had very good awareness of the program in general. They acknowledged that the program was viewed as more relevant or salient for individuals somewhat closer to retirement – similar to what is found in the individual and group commercial market – and that there was more limited awareness about the program among the youngest federal workers. Some felt that more education was needed to emphasize that coverage is also available to parents of employees. This same point emerged in the consumer focus groups.

In terms of enrollment behavior, these stakeholders clearly understood the challenges inherent in raising awareness of the need for and value of LTC coverage and they stressed the importance of repeat messaging, testimonials, personal stories, endorsements and the like. Some participants talked about the same themes that emerged in the consumer focus groups – in particular that consumers with personal family experience with LTC were more readily primed to understand the value proposition of FLTCIP and thus more likely to have an interest in enrolling.

> *"I think that it's really an education process on deciding whether or not it's worth it or not… People look at the cost and sometimes they balk not truly understanding what the future savings will be. I think that the program covers a lot, but I feel like it's a challenge to convey that message to the right people so that they understand how to look at the long-term benefits versus the short-term costs."*

> *"People think about long term care and then someone they know get sick and they realize what cost savings could be and then they decide."*

While being very pleased with how marketing and marketing support has been provided to agencies and affinity groups in the past, stakeholders also shared a concern that current program marketing and education has not been as robust and present as it has been in the past. Some expressed they would like to see a return to the prior levels of commitment regarding enhancing awareness and education so that the members they serve have an opportunity to consider what they feel is an important benefit (and one they see as superior to what is available elsewhere – as discussed below).

> *"When the budget allowed for the advertising, I think they did a wonderful job of outreach to the government employee community and the armed forces community."*

"Well, they've shied away from doing social media. So, I think that they should really - I've always advised them to ramp up social media."

"I think that what has been missing with the program, especially within the last year is that they haven't really been able to market themselves as they have in the past. Like I said it's an education process. But I think that they should do more in person events and do some more interactive marketing so that they could answer [peoples'] questions [illustrate] what the long-term savings potentially are."

Benefits and Covered Services

With regard to benefits and covered services, stakeholders did not feel there was anything lacking in FLTCIP, compared to what they understood private sector plans to be covering. Several cited the unique advantage of the benefits related to international coverage, as well as those paid to family and friends stepping in to provide personal care services. Others said they felt that FLTCIP was more home-care oriented than other plans. One person we spoke with would like to see a spousal discount or good health discount included in the offering, which is similar to what is available in the private market. When the conversation explored the topic of combination products, stakeholders understood that those were typically niche products with a steeper price tag that would not hold broad appeal for the federal family.

"Actually, it's always been my understanding that this coverage is the best out there. That it offers all kinds of flexibility"

"It allows you to be able to pay family members who don't live with you to come in and do the care, that's really unique."

"The federal program I think has so many more benefits. My mother in law's got long term care, but it doesn't have the type of benefits that this program has."

Stakeholders were also pleased with FLTCIP performance regarding underwriting processing and claims and care management. They had not heard of any complaints from members in that regard. In contrast, they mostly heard positive feedback, especially with regard to helping people at time of claim.

"I've only heard positive. I've not heard negative. I know that they have nurse care managers on staff who guide people through the process of both enrolling and claims and I think that's been enormously helpful. People feel that they have an advocate in the system to help them through it."

"I don't get real negative feedback on how they operate the program. In fact, I get a lot of accolades."

Rate Increases

The final topic of discussion pertained to premium rate increases. The stakeholders with whom we spoke understood the complexities of these issues and the fact that rate stability is a challenge industry-wide and not unique to FLTCIP. They felt that members would be open to smaller and more frequent rate increases – a concept that consumer surveys in general have demonstrated to be of some appeal and that regulators are considering. Some stakeholders also had some member feedback on FLTCIP 3.0's rate stabilization feature and felt that it was favorably received at least as a step in the right direction. Overall, stakeholders agreed that the challenge of correctly pricing a product such as LTC insurance is a difficult concept to convey and one that consumers will never be comfortable with.

A typical comment regarding premium increases was:

"It's all over the place, there are people that get it, understand it and there's people that are that are angry."

With regard to smaller yet more frequent increases comments included:

"I think maybe people would just prefer smaller increments versus a big change might be harder for some people who have budgets, like maybe, you know, retirees or whomever."

"It sounds appealing to me actually. I can see it being much better received than the big hikes, that you fear are coming so absolutely"

APPENDIX A
STAKEHOLDER INTERVIEW SUMMARY

Regarding the Rate Stabilization Feature the following comment was particularly telling:

> *"It was really just a very practical approach to it that they seem to have, and they were trying to hedge the future increases, which they knew it was no promises to be made but they were asking for it. I think they believe that they're trying to keep the program prices down as much as they can. But I was actually surprised and ready for a lot more surliness than we got, people basically seem to get it. It was very interesting to me, I was ready for more whining, that did not happen."*

APPENDIX B
FOCUS GROUP SUMMARY

This appendix provides a summary of focus group findings and the methodology through which these insights were obtained.

BACKGROUND AND OBJECTIVES

The primary research objective for including focus groups as part of this benchmarking study of FLTCIP was to enhance understanding of the motivations for and barriers to purchase in today's marketplace. Our intention was to learn more about the value that the eligible population finds from having FLTCIP included as an offering in OPM's overall benefit package. We also wanted to assess the eligible population's knowledge of the risks and costs of long-term care and ascertain perceptions about whether FLTCIP is positioned to address future care needs. This focus was motivated by decades of research showing that the decision to purchase or participate in long-term care insurance programs is a function of the extent to which one understands the risks and costs of long-term care.

The project team worked with a research vendor, the Schlesinger Group, to recruit participants for the virtual focus groups. We successfully recruited 18 participants for the three Zoom-based focus groups comprised of Federal employees and retirees. Participant characteristics are summarized as follows:

- Ten females and eight males
- Twelve employees and six retirees
- Twelve civilians and six military
- Ages between 43 to 63 years
- Seven Caucasians, eight African Americans, and three from other ethnic backgrounds
- Diversity in terms of education, marital status, geography, and household income

FOCUS GROUP PERSPECTIVES

LTC Awareness

Consistent with other focus groups, LTC concerns are generally not "top of mind" during general discussions of aging and retirement, except among those who have had first-hand experience caregiving for a loved one. When the issue was raised by at least one member of the group, however, others are quick to follow with examples of their own. And those without family supports to rely on are more likely to worry about long-term care:

> *"It doesn't predominate my thoughts, but it's in the back of my mind."*

> *"I think about it because I have no husband, no siblings and no children to take care of me if I was to become ill."*

Across the groups, participants had a good understanding of what LTC is, but were surprised to learn that the risks and costs were as high as the data indicated. This supports the findings discussed previously that a contributor to low take-up rates is the lack of knowledge about the actual risks and costs. The implication is that greater education and awareness is needed to address this barrier.

When asked how they would deal with their own LTC needs if they arose, many participants put forward strategies that prior research shows are unrealistic and more related to "denial of the problem" than to thoughtful planning and engagement with the issue.

> *"I'll move in with one of my children – payback time!"*

> *"I could just pay down all of my retirement savings if it comes to that because I'm not going to have to worry about who to leave it to."*

But some are considering participation and open to LTC insurance, including FLTCIP, but are afraid of making a wrong decision or unsure of if and when there is a "right time" to purchase the product.

> *"We're thinking about getting it but trying to weigh the different policies… Trying to make sense of the private policies versus the government policies. It's a lot of homework you have to do."*

Others are waiting for the “right time” because of competing demands on their current finances.

> *“It's something I'll revisit in a couple of years for sure. But at this point it just seems like I have other things to do with that premium money that are more important.”*
>
> *“My dad had dementia, Alzheimer's. So, he didn't have the long- term care insurance and it's very expensive for memory care. So, I've looked at long- term care, but I haven't selected it yet because of the high cost of it. But it's a concern of course.*
>
> *“I looked at it and delved a little bit into it, but it seems like it was more like, "Oh, I got time." You know what I mean? Oh, that's for old people.”*

Program Awareness

Participants were, for the most part, aware of FLTCIP and had either a neutral or favorable impression of it. Most had heard of it and knew it was part of the benefits offering, but had not looked into it enough to have an informed opinion.

Others found the conversation motivating and were researching the program while the group was in session and requesting more information about it.

> *“I have long term health insurance, long term care, and I did get it because of concerns, because we are living longer these days and things happen. And I look at the makeup of my health, of my family, you have to now look at those things. So, it is definitely a concern for me. It is expensive, but definitely, I think it's worth the investment.”*
>
> *“One of my coworkers was talking about it. He said that he was going to get it and I looked into it. And so that's what kind of, I guess made me get it, kind of just for security purposes.”*
>
> *“I think based on personal experiences and things that I'm dealing with now with elderly relatives, I think that it's pretty comprehensive and I wish I had never dropped it.”*
>
> *“As you're talking to me. I'm actually going in. I just selected for them to send me a package.”*

Conclusion

In conclusion, there were five participants within the groups that had LTC insurance, with four of them currently or previously insured through FLTCIP. (One participant’s father also was enrolled.) Previous experience with a family member needing LTC proved to be an important motivator and way to learn about the risks and costs and the value proposition of having coverage. Those that had enrolled in the program mentioned this as a motivating factor. Some participants mentioned that FLTCIP might leverage the personal experience of employees and retirees by using personal testimonials and vignettes as part of a more effective outreach and education about the program. This was seen as a good way to overcome key obstacles to purchase, noted across all of the focus groups and consistent with the research literature.

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