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Highlights

Highlights of GAO-07-202, a report to congressional committees

Why GAO Did This Study

Spending on long-term care services—about $193 billion in 2004—is expected to rise. In 2000, Congress passed the Long-Term Care Security Act, requiring the federal government to offer long-term care insurance. To do so, the Office of Personnel Management (OPM) contracted with Long Term Care Partners LLC (Partners) to create the Federal Long Term Care Insurance Program. This is the second of two reports required by the act on the competitiveness of the federal program. GAO's March 31, 2006, report, *Long-Term Care Insurance: Federal Program Compared Favorably with Other Products, and Analysis of Claims Trend Could Inform Future Decisions* (GAO-06-401), found that the federal program's benefits and premiums compared favorably with other plans, but enrollment and claims experience—the amount and number of claims payments—were lower than Partners expected.

In this report, GAO compared the federal program's profit structure and marketing efforts with those of other plans and updated its analysis of the program's claims experience. GAO reviewed the contract between OPM and Partners and interviewed OPM, Partners, and insurance carrier officials, as well as actuaries and industry experts. GAO also analyzed data on claim payments for the federal program since it began in 2002.

www.gao.gov/cgi-bin/getrpt?GAO-07-202.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John E. Dicken at (202) 512-7119 or dickenj@gao.gov.

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LONG-TERM CARE INSURANCE

Federal Program Has a Unique Profit Structure and Faced a Significant Marketing Challenge

What GAO Found

The Federal Long Term Care Insurance Program has a unique profit structure that is explicitly defined in the contract between OPM and Partners. This profit structure consists of three distinct annual payments to Partners: (1) a guaranteed payment of 3.5 percent of the year's collected premiums, (2) a payment linked to OPM's evaluation of Partners' performance of up to 3 percent of the year's collected premiums, and (3) a guaranteed payment of 0.3 percent of the average annual assets of the program. These payments are separate from other payments made to cover the program's expenses. In contrast to the federal program, profits realized by carriers offering other long-term care insurance plans generally are not based on explicit profit structures, but rather on the experience of the programs they insure.

The federal program's marketing efforts were generally similar to those used for other plans sold in the group market, but faced a significant challenge in sending information directly to eligible individuals. The federal program and other plans sold in the group market used such marketing efforts as mailing information to the homes of eligible individuals and hosting employee and retiree seminars. Of these efforts, carrier officials GAO spoke with explained that mailing to the homes of eligible individuals was critical to their marketing strategy. The federal program faced a significant challenge in mailing information to the homes of those eligible for the program because it initially did not have the home addresses for nearly all active federal civilian employees. Because of this challenge, the federal program relied heavily on marketing efforts that were less direct and less personalized, such as sending information to federal employees through agency benefits officers.

The federal program's claims experience increased in the program's fourth year, but remained lower than the expectations established by Partners in its contract with OPM. This increase was generally consistent with trends since the federal program began in 2002. Overall, the federal program has paid 44 percent of the expected amount of claim payments per enrollee and 41 percent of the expected number of claims per enrollee. As of August 2006, Partners officials had not determined why the claims experience was lower than Partners' expectations. While it is generally expected that the number of claims submitted in the first few years of a long-term care insurance program will be a small portion of the total number of claims submitted over time, a program's claims experience is one of several factors that may affect its long-term financial outlook. The results of this analysis underscore GAO's prior recommendations that OPM analyze the claims experience and assumptions affecting premiums to inform forthcoming contract negotiations.

In commenting on a draft of this report, OPM generally agreed with the report's findings.