

March 2006

LONG-TERM CARE INSURANCE

Federal Program
Compared Favorably
with Other Products,
and Analysis of Claims
Trend Could Inform
Future Decisions





Highlights of GAO-06-401, a report to congressional committees

LONG-TERM CARE INSURANCE

Federal Program Compared Favorably with Other Products, and Analysis of Claims Trend Could Inform Future Decisions

Why GAO Did This Study

The Long-Term Care Security Act required the federal government to offer long-term care insurance to its employees, their families, and others. The act also required GAO to conduct a study of the competitiveness of the Federal Long Term Care Insurance Program, which began in 2002, compared with individual and group products generally available in the private market. GAO compared the federal program's benefits, premiums, enrollment rates, and enrollee characteristics with other products over a 3-year period. GAO also compared the federal program's early claims experience with initial expectations.

What GAO Recommends

GAO recommends that the Director of the Office of Personnel Management (OPM) (1) analyze the reasons for lower-than-expected early claims experience and, as appropriate, use the results to modify assumptions about the expected claims experience and (2) analyze the projections for the amount of premiums to be collected to pay for claims. OPM should report both analyses to Congress prior to the next contract negotiations for the administration of the federal program.

In commenting on a draft of this report, OPM generally agreed with the report's findings and said it would provide updated information on claims experience and premium setting to Congress.

www.gao.gov/cgi-bin/getrpt?GAO-06-401.

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

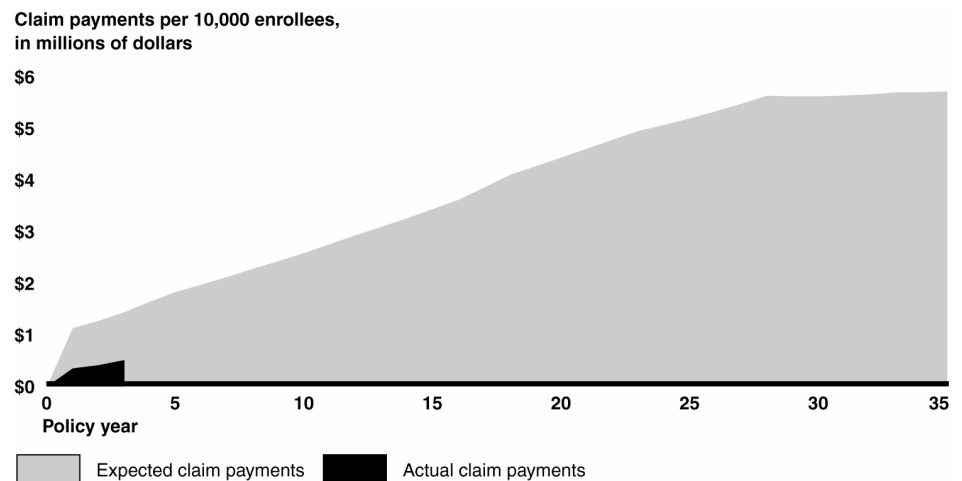
What GAO Found

During its first 3 years, the Federal Long Term Care Insurance Program offered benefits similar to those of other long-term care insurance products GAO reviewed. Most enrollees in the federal program and in individual and group products chose similar benefit amounts, elimination or waiting periods, and benefit periods. The federal program usually offered lower premiums than individual products for comparable benefits. Overall, annual premiums for the federal program averaged across three benefit plan designs were 46 percent lower for single people and 19 percent lower for married couples who were both the same age in comparison with similar individual products sold on March 31, 2005.

The participation rate in the Federal Long Term Care Insurance Program for active federal civilian employees—5 percent—was comparable to the industry average in the group market, although enrollment in the federal program was lower than initially expected. The average age of all enrollees in the federal program was younger than the average age of enrollees in individual products and older than the average age of enrollees in group products.

The Federal Long Term Care Insurance Program paid 39 percent of what it initially projected to pay for claims per enrollee. The number of claims paid per enrollee was also lower than initial projections. While the early claims experience was below expectations, it is still too early to determine whether this trend will continue or whether adjustments to the projected claims experience or premiums are indicated, because most claims are not expected to be submitted for many years.

Federal Long Term Care Insurance Program Actual Claim Payments in the First 3 Years Compared with Expected Claim Payments over 35 Years



Source: GAO analysis of data provided by Long Term Care Partners.

Contents

Letter		1
	Results in Brief	4
	Background	6
	Federal Long Term Care Insurance Program Offered Benefits Comparable to Other Products, Usually at Lower Premiums	13
	Federal Program Participation Was Comparable to Other Group Products, while Federal Enrollees Were Younger Than Enrollees in Individual Products and Older Than Enrollees in Group Products	23
	Early Claims Experience in Federal Long Term Care Insurance Program Was Lower Than Expected, but It Is Too Soon to Determine Whether Adjustments Are Needed	28
	Conclusions	32
	Recommendations for Executive Action	32
	Agency Comments	33
Appendix I	Scope and Methodology	36
	Data Request	36
	Long-term Care Insurance Interviews	39
Appendix II	Federal Long Term Care Insurance Program Benefits	41
	Prepackaged Benefit Plans in the Federal Long Term Care Insurance Program	41
	Customized Benefits in the Federal Program	43
	Other Benefits in the Federal Program	44
	Enrollment in Federal Program Benefits	44
Appendix III	Annual Premiums for Three Benefit Packages Offered in the Federal Program and at Five Carriers	46
Appendix IV	Comments from the Office of Personnel Management	50
Appendix V	GAO Contact and Staff Acknowledgments	52

Tables

Table 1: Benefit Options in the Federal Long Term Care Insurance Program and in Individual and Group Products Sold from July 1, 2002, through March 31, 2005	15
Table 2: Benefit Options Chosen by Federal Long Term Care Insurance Program Enrollees and by Individual and Group Product Enrollees for New Policies Sold from July 1, 2002, through March 31, 2005	16
Table 3: Estimated Eligible Population and Actual Enrollees in the Federal Long Term Care Insurance Program, by Category	26
Table 4: Enrollee Characteristics of the Federal Long Term Care Insurance Program and of Individual and Group Products, July 1, 2002, through March 31, 2005	28
Table 5: Actual Claims per Enrollee as a Percentage of Expected Claims per Enrollee in the First 3 Years for the Federal Long Term Care Insurance Program	29
Table 6: Prepackaged Plans in the Federal Long Term Care Insurance Program	42
Table 7: Benefit Options in the Federal Long Term Care Insurance Program	44
Table 8: Federal Long Term Care Insurance Program Enrollment in Prepackaged Benefit Plans, Customized Benefits, and Alternative Insurance Plan from March 25, 2002, through March 31, 2005	45
Table 9: Federal Long Term Care Insurance Program Enrollment in Prepackaged Benefit Plans from March 25, 2002, through March 31, 2005	45
Table 10: Annual Premiums for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers in the Individual Insurance Market for Package 1 Sold on March 31, 2005	47
Table 11: Annual Premiums for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers in the Individual Insurance Market for Package 2 Sold on March 31, 2005	48
Table 12: Annual Premiums for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers in the Individual Insurance Market for Package 3 Sold on March 31, 2005	49

Figures

Figure 1: Average Annual Federal Premiums for Single People and for Married Couples Who Were Both the Same Age Compared with Averages for Individual Products, for Three Benefit Packages and Overall, Sold on March 31, 2005	19
Figure 2: Annual Premiums by Age for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers Selling Individual Products for the Most Popular Federal Comprehensive Benefit Package Sold on March 31, 2005	21
Figure 3: Actual Claim Payments per 10,000 Enrollees in the First 3 Years Compared with Expected Claim Payments per 10,000 Enrollees over 35 Years for the Federal Long Term Care Insurance Program	30
Figure 4: Actual Number of Paid Claims per 10,000 Enrollees in the First 3 Years Compared with Expected Number of Paid Claims per 10,000 Enrollees over 35 Years for the Federal Long Term Care Insurance Program	31

Abbreviations

ADL	activity of daily living
CalPERS	California Public Employees' Retirement System
HIPAA	Health Insurance Portability and Accountability Act
NAIC	National Association of Insurance Commissioners
OPM	Office of Personnel Management
Partners	Long Term Care Partners, LLC

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

March 31, 2006

Congressional Committees

In 2004, about \$193 billion was spent nationwide on nursing home and other long-term care services. Private insurance covered 7 percent of this amount, about \$14 billion, while most long-term care services were financed by government programs, primarily Medicaid. The elderly—people 65 years old and older—consume about two-thirds of all long-term care services. As the elderly population begins to grow with the aging of the baby boomers, the increasing demand for long-term care services will continue to strain federal and state resources. Some policymakers propose that increased use of long-term care insurance, particularly by the baby boom generation, may be a means of reducing some of the future financial burden on public programs. In September 2000, Congress passed the Long-Term Care Security Act. The act required that the federal government offer long-term care insurance to its employees, their families, and others.¹ Congressional committee reports accompanying this act indicated that a long-term care insurance program could encourage more people to obtain long-term care insurance, serve as a model for other employer-sponsored programs across the nation,² and possibly shift some of the future burden to private payment sources.³

In December 2001, at the conclusion of a competitive bidding process, the Office of Personnel Management (OPM)—the federal agency responsible for administering governmentwide compensation and benefit systems—contracted with Long Term Care Partners, LLC (referred to as Partners) for 7 years to provide long-term care insurance for active federal civilian employees, members of the uniformed services, and Postal Service employees; federal, military, and Postal Service retirees; qualified relatives; and certain others. Partners is a joint venture formed by two large carriers selling long-term care insurance products in the private market, John Hancock Life Insurance Company and Metropolitan Life Insurance Company. The Federal Long Term Care Insurance Program

¹Pub. L. No. 106-265, 114 Stat. 762, 764 (2000).

²Senate Committee on Governmental Affairs, S. Rep. No. 106-344, at 18 (2000).

³House Committee on Government Reform, H.R. Rep. No. 106-610, at 8 (2000).

conducted limited early enrollment from March 25, 2002, through May 15, 2002, and open enrollment from July 1, 2002, through December 31, 2002. From March 25, 2002, through March 31, 2005, 218,890 employees, retirees, relatives, and others were enrolled in the federal program, making it the largest long-term care insurance program in the nation.

The Long-Term Care Security Act also required that we conduct a study of the competitiveness of the federal program with individual and group products generally available in the private insurance market.⁴ As agreed to by the committees of jurisdiction, this report addresses the following questions:

- How do benefits and premiums for the Federal Long Term Care Insurance Program compare with those of other products available in the long-term care insurance market?
- How do enrollment rates and the characteristics of enrollees in the Federal Long Term Care Insurance Program compare with those of other products available in the long-term care insurance market?
- How does the early claims experience of the Federal Long Term Care Insurance Program compare with initial expectations?

To obtain data on benefits, premiums, enrollment, and enrollee characteristics, we surveyed Partners, the California Public Employees' Retirement System (CalPERS),⁵ and five of the largest long-term care insurance carriers.⁶ The five insurance carriers were AEGON USA,⁷ Bankers Life and Casualty Company, Genworth Financial, John Hancock Life Insurance Company, and Metropolitan Life Insurance Company. All five carriers sold products in the individual market, and two of the five carriers—John Hancock Life Insurance Company and Metropolitan Life Insurance Company—were also among the five largest carriers that sold

⁴Pub. L. No. 106-265, § 9006, 114 Stat. 768. The act also requires us to conduct a second, subsequent study of the Federal Long Term Care Insurance Program.

⁵CalPERS manages pension, health, and other benefits for more than 1.4 million California public employees, retirees, and their families and for more than 2,500 public employers. CalPERS began offering a long-term care insurance program in 1995. After the federal program, CalPERS is the next largest group offering long-term care insurance. In contrast to the federal program and most group products, the CalPERS group product is self-funded rather than purchased from an insurer.

⁶We selected the five carriers on the basis of the total number of policies and annualized premiums in effect in the individual market as of December 31, 2004.

⁷AEGON USA left the long-term care insurance market on March 31, 2005.

products in the group market. We requested data from Partners on new policies sold during two time periods: (1) from March 25, 2002, through February 7, 2003, to correspond to the federal early enrollment and open enrollment periods⁸ and (2) from March 25, 2002, through March 31, 2005, to capture the full experience of the program's first 3 years. We asked CalPERS and the five carriers to provide data for policies sold from July 1, 2002, through March 31, 2005.⁹ We then compared the benefits offered, enrollment, and enrollee characteristics of the federal program, CalPERS, and the five carriers. To compare premiums, we asked CalPERS and the carriers to price the benefit packages offered in the federal program. In addition, we obtained data from Partners on the expected and early claims experience of the federal program to provide an early indicator of financial performance. Because of the proprietary nature of the data provided by the five carriers, we aggregated data across the individual and group carriers for reporting purposes. While we aggregated the CalPERS data with the private market group data in all cases, we also separately reported publicly available CalPERS data in two places because its experience in managing benefits for large numbers of public employees, retirees, and their families is most comparable to the federal program.

To supplement the data we collected, we interviewed officials at OPM, Partners, CalPERS and the organization that administers its program, the five carriers, and five trade associations representing groups such as insurers and actuaries. We also interviewed three experts on long-term care insurance. In addition, we reviewed several studies, including recent studies addressing (1) the long-term care insurance market, (2) buyers of a long-term care insurance product and those who considered buying coverage but decided not to buy, and (3) claims experience. We assessed the reliability of the data we obtained from Partners, CalPERS, and the five carriers and determined that the data were sufficiently reliable for the purposes of our study. (App. I provides more-detailed information on our methodology.) We performed our work from March 2005 through

⁸The open enrollment period closed on December 31, 2002, but applications submitted and received by February 7, 2003, were processed as part of the open enrollment period.

⁹We asked the carriers to provide data for the period beginning July 1, 2002, which is the beginning of a financial quarter and the beginning of the federal open enrollment period, rather than March 25, 2002, the beginning of the federal early enrollment period. Because few federal program enrollees—about 4 percent of the program's total enrollment as of March 31, 2005—had coverage that became effective during the early enrollment period, we reduced the reporting burden for the carriers by requesting data for the period beginning July 1, 2002.

March 2006 in accordance with generally accepted government auditing standards.

Results in Brief

Benefits offered during the first 3 years of the Federal Long Term Care Insurance Program and premiums associated with these benefits generally compared favorably with those offered by other long-term care insurance products sold during the same period. Compared to individual and group products, the federal program offered similar benefits—long-term care services provided in facilities and in the home with coverage for specified dollar amounts and periods to begin after a predetermined waiting period. However, the federal program offered fewer options within these benefits, especially compared with individual products. Most federal program enrollees and enrollees in individual and group products chose benefits in similar ranges. Annual premiums in the federal program averaged across the three most commonly purchased federal benefit packages were 46 percent lower for single people and 19 percent lower for married couples who were both the same age than the premiums for similar individual products. Although the premium estimates reported for individual products included discounts for married couples, they did not include discounts for enrollees who were considered to be in good health. Annual premiums for each of the three different federal benefit packages were always lower for single enrollees compared with premiums for the individual products we reviewed, while premiums were lower in the federal program for married couples who were both the same age in most, but not all, cases. In contrast, annual federal premiums averaged across the three benefit packages were 3 percent higher than those at CalPERS, the one group product for which we had premium data.

Five percent of eligible active federal civilian employees enrolled in the federal program, which is similar to the enrollment rates of other groups. Yet overall enrollment was 36 percent lower than the initial expectations established by Partners, in part because active military members and Postal Service employees enrolled in low numbers. During the 3-year period covered by our study, the average age of enrollees in the federal program at the time of enrollment was 56 years old, which is younger than the average age of 60 for individual products we reviewed and older than the average age of 52 for group products we reviewed. As was true for the individual and group products, more women than men purchased coverage in the federal program during the 3-year period.

The early claims experience of the Federal Long Term Care Insurance Program was below the expectations established by Partners. The federal

program paid 39 percent of what it expected to pay for claims per enrollee during the first 3 years of the program. The number of paid claims per enrollee was also below expected levels. While there was a discrepancy between the actual and expected claims experience during these early years, it is not known whether the discrepancy indicates the future trend or is a brief departure from the expected claims experience over the long term. In general, the expected claims experience in the first years of a long-term care insurance program is very low relative to the longer term because the majority of claims are unlikely to be submitted for many years. Furthermore, the claims experience is only one of many factors affecting premiums. While about half of the total claims payment amount was spent on facility care during the first 3 years, this type of care represented less than a quarter of the total number of claims. The most common medical conditions prompting claims in the early years of a policy for the federal program were cancer, stroke, and injuries and poisoning. Across the individual and group products we reviewed, the most common medical conditions prompting claims were also cancer, stroke, and injuries, as well as cognitive problems, musculoskeletal disorders, cardiac disease, and arthritis.

We recommend that the Director of OPM take the following two actions. First, the Director should analyze the reasons for the lower-than-expected early claims experience and, as appropriate, use the results of this analysis to modify assumptions about the expected claims experience. Second, the Director should analyze the projections for the amount of premiums to be collected to pay for claims, including an analysis of the assumptions made for the projections that are related to future claims experience and other factors affecting premiums. OPM should report both analyses to Congress prior to the next contract negotiations.

In its written comments on a draft of this report, OPM generally agreed with the report's findings. In response to our recommendations, OPM indicated that it intends to provide updated information on claims experience and premium setting in its written recommendation to Congress before entering into a new contract for administration of the Federal Long Term Care Insurance Program, in accordance with the Long-Term Care Security Act. OPM stated that it believes an additional report on the issues of claims experience and projections for the amount of premiums to be collected is not needed. OPM also indicated in its comments that the expectations about enrollment and claims experience were established by Partners prior to the start of the federal program, rather than established by the marketplace, and we revised the report accordingly.

Background

Long-term care services assist people who need help in performing activities of daily living (ADLs), such as eating, bathing, and dressing.¹⁰ As some of these services can be expensive, especially services provided in a nursing home, long-term care insurance helps people pay for the cost of care. However, relatively few people have obtained long-term care insurance through products sold in the individual and group markets. To help federal employees, retirees, and others obtain coverage, the federal government began offering the opportunity to apply for long-term care insurance in 2002 through an employer-sponsored group program in which enrollees pay the entire cost of their premium.

Long-term Care

Long-term care refers to a range of support services provided to people who, because of illness or disability, generally are unable to perform ADLs for an extended period. Long-term care services include medical, social, and personal services. Care may be provided in various settings, including facilities such as nursing homes or assisted living facilities, a person's own home, or the community. Both paid and unpaid caregivers may provide long-term care services. As a person ages, his or her ability to perform basic physical functions typically declines, increasing the likelihood that he or she will need long-term care services.

Long-term Care Insurance

People can purchase long-term care insurance directly from carriers that sell products in the individual market or can enroll in products offered by employer-sponsored and other groups.¹¹ Long-term care insurance policies sold in the individual and group markets cover costs associated with long-term care. For a specified premium amount that is designed—but not guaranteed—to remain level over time, the carrier agrees to provide covered benefits under an insurance contract. First sold in the 1970s, long-term care insurance has evolved from initially offering coverage for nursing home care only to offering comprehensive coverage. Comprehensive coverage pays for care provided in facilities such as nursing homes and other settings such as a person's home. Insurance is

¹⁰People may need help in performing ADLs such as eating, bathing, dressing, using the toilet, getting in and out of bed, and getting around the house. Also, people may need help in performing instrumental ADLs such as preparing meals, shopping for groceries, and getting around outside.

¹¹Throughout this report we use the term "enrollees" to refer to people who enroll in the Federal Long Term Care Insurance Program, who purchase individual products, or who enroll in group products.

generally purchased for defined daily benefit amounts and benefit periods, with elimination, or waiting, periods. For example, long-term care insurance might provide coverage at \$100 per day for care provided in a nursing home or in other settings for 3 years after a waiting period of 90 days. Because long-term care insurance claims might not be filed for many years after the product is purchased, the insured can purchase protection against inflation, which can increase the daily benefit amount covered. In addition, long-term care insurance products can (1) cover home care at varying percentages of the daily benefit amount; (2) offer people a range of other types of options, such as policies that return a portion of the premium payments if the person dies; and (3) include selected benefits, such as international coverage or care-coordination services that, among other things, provide information about long-term care services to the enrollee and monitor the receipt of services.

Many factors affect long-term care insurance premiums. Carriers charge higher premiums for richer benefits; for example, higher daily benefit amounts, longer benefit periods, and higher levels of inflation protection will increase the cost. Premiums are based on the age of the applicant, with premiums increasing more rapidly as age increases. Premiums are also based on the health status of the applicant. Most carriers selling coverage in the individual market assign applicants to one of three general rating categories based on health status when underwriting the coverage—preferred, standard, or substandard—with associated discounts and surcharges.¹² In addition, carriers in the individual market usually offer discounts to married couples when both spouses purchase coverage. Products sold in the group market may be sold on a guaranteed issue basis during an open enrollment period, with no or limited underwriting for employees actively at work who enroll through an employer-sponsored program, and the products generally do not provide discounts for spouses. Carriers cannot increase a particular person's premiums but can increase premiums for a group of people who bought the same type of policy when the carrier can demonstrate that anticipated costs will exceed premium revenue. Carrier pricing assumptions, including projected interest rates, morbidity or illness rates, and lapse rates—the number of people expected to drop their policies over time—all affect premium rates and rate setting.

¹²Underwriting is the process of reviewing medical and health-related questions furnished in an application to determine if the applicant presents an acceptable level of risk and is insurable. Some insurers require medical record reviews and interviews with nurses as well.

Carriers estimate the total amount of premiums to be collected for long-term care insurance policies sold as well as projected claims and administrative costs for these policies using an anticipated lifetime loss ratio. This ratio describes what portion of total premiums is expected to be paid for claims for the reimbursement of the costs of long-term care over the life of a set of policies.¹³ The portion of premiums not spent on claims is used to pay for administrative costs, such as marketing, agent commissions, claims handling, overhead, and taxes, and for profits. In the past, National Association of Insurance Commissioners (NAIC) model regulations for long-term care insurance stated that carriers should spend a minimum of 60 percent of collected premiums on claims.¹⁴ However, in model regulations released in August 2000, NAIC recommended that carriers price their products high enough initially to prevent the need for future rate increases rather than target a minimum percentage to be spent on claims. So far, according to NAIC, a majority of states have adopted long-term care insurance regulations based on the 2000 NAIC model, while some states still require minimum loss ratios. Many large carriers set premium rates on a national rather than regional basis. Carriers also price to cover a profit margin and administrative costs as well as to meet minimum loss ratios.

Few claims are expected to be submitted during the early years of a long-term care insurance policy. As a result of underwriting, it is unlikely that many people could meet the eligibility requirements to buy the policy yet submit a claim within 3 years. Industry experts suggested that the effects of underwriting begin to decline and the rate of claim submissions starts to increase after about 3 to 7 years. The rate of increase in claim submissions depends on the average age of the enrollees, with most long-term care insurance claims submitted when people reach their mid-70s to mid-80s. Industry experts also noted that the rate of claim submissions in the federal program is expected to peak 25 years or more after the program began. Because the average age of enrollees in the individual market is higher than the average age of enrollees in the federal program, the rate of claim submissions is likely to peak earlier in the individual market, after 15

¹³For the purposes of this report, a claim refers to the series of payments made to reimburse the provider or the policyholder for the costs of an episode of care.

¹⁴State insurance regulators established NAIC to help promote effective insurance regulation, to encourage uniformity in approaches to regulation, and to help coordinate states' activities. Among other activities, NAIC develops model laws and regulations to assist states in formulating their policies to regulate insurance.

to 25 years. The rate of claim submissions is likely to peak after 30 to 40 years in the group market because of the younger average age of its enrollees.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) specified conditions under which long-term care insurance benefits and premiums would receive favorable federal income tax treatment and provided specific protections to people who purchased tax-qualified plans.¹⁵ Long-term care insurance plans must meet certain requirements contained in HIPAA to be considered tax-qualified.¹⁶ For example, according to HIPAA, a plan must begin coverage when a person is certified to need substantial assistance with at least two of the six ADLs and a disability is expected to last 90 or more days, or to need regular supervision because of a severe cognitive impairment. In addition, federally tax-qualified plans must comply with the NAIC long-term care insurance model act and regulations in effect as of January 1993, as incorporated into HIPAA.¹⁷ These provide certain consumer protections, such as preventing a carrier from (1) not renewing a long-term care insurance policy because of age or deteriorating health and (2) increasing the premium of an existing policy because of a person's age or claims filed. Another consumer protection was that carriers had to offer inflation protection as specified in the NAIC model regulations.

Each state establishes its own long-term care insurance laws and regulations that cover areas such as benefits, premium setting, and consumer protections.¹⁸ As a result, product requirements in the individual and group markets can vary among the states. According to NAIC, 41 states based their long-term care insurance regulations on the NAIC model, 7 based their regulations partially on the model, and 3 did not follow the model.

¹⁵Pub. L. No. 104-191, §§ 321-327, 110 Stat. 1936, 2054-2067.

¹⁶Long-term care insurance premiums for HIPAA tax-qualified plans can be itemized as deductions from income along with other medical expenses, which is similar to how premiums for accident and health insurance are handled.

¹⁷HIPAA requirements will be met if an insurance contract complies with state law in a state that has adopted the NAIC model regulations or a more stringent version of the model.

¹⁸Throughout this report, we include the District of Columbia in our references to the states.

Long-term Care Insurance Marketplace

The number of long-term care insurance policies sold has been small—about 9 million as of 2002, the most recent year for which data were available.¹⁹ About 80 percent of these policies were sold through the individual insurance market and the remaining 20 percent were sold through the group market. In March 2005, 13 percent of full-time workers in private industry had access to employer-sponsored long-term care insurance benefits; within private industry, 21 percent of workers in large establishments with 100 or more workers had access to this benefit.²⁰

People purchase policies from carriers in the individual market, usually through agents or brokers, and choose their own benefits from among a range of options the carriers offer. Groups—for example, employers, associations, or unions—purchase policies from carriers in the group market. Groups usually design the benefits, and enrollees are often given some benefit options from which to choose, for example, differing daily benefit amounts and benefit periods. However, benefit choices offered in employer-sponsored group products tend to be more limited than those that are available in the individual insurance market. Some groups offer benefit packages in which the benefit options are predetermined. In contrast to health insurance, where employers often contribute a share of the premium costs, enrollees in group long-term care insurance coverage usually pay the entire premium.

A recent downturn in the long-term care insurance industry has led to more conservative assumptions when setting premiums and consolidation among carriers. The long-term care insurance industry experienced 18 percent annual growth in the number of policies sold from 1987 through 2002, but the industry has experienced a downturn in more-recent years. Beginning in 2003, many carriers in the individual market raised premiums, left the marketplace, or consolidated to form larger companies. This activity occurred in response to several factors including high administrative expenses relative to premiums; lower-than-expected lapse rates, which increased the number of people likely to submit claims; low interest rates, which reduced the expected return on investments; and new government regulations limiting direct marketing by telephone. Many

¹⁹America's Health Insurance Plans, *Research Findings, Long-Term Care Insurance in 2002* (Washington, D.C.: June 2004).

²⁰U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2005* (Washington, D.C.: August 2005).

carriers revised the assumptions used in setting their premium rates, taking a more conservative approach that led to higher premiums, while state regulators increased their oversight of the industry. Currently, several large carriers dominate the coverage sold in the individual and group markets as a result of mergers and acquisitions, and sales in the group market are growing faster than in the individual market.

Federal Long Term Care Insurance Program

The federal government began offering group long-term care insurance benefits in 2002 for federal employees, retirees, and certain other people. When the Federal Long Term Care Insurance Program began, eligible people could apply for benefits during two specified time periods: (1) an early enrollment period for benefit options that were somewhat limited²¹ that ran from March 25, 2002, through May 15, 2002, intended for people who were well-informed about long-term care insurance and were eager to enroll in the federal program and (2) an open enrollment period for all benefit options that ran from July 1, 2002, through December 31, 2002. Active and retired federal and Postal Service employees, active and retired members of the uniformed services, qualified relatives, and certain others are eligible to apply for federal long-term care insurance benefits.²² Following the open enrollment period, eligible people could apply at any time.

The federal program determines eligibility for long-term care insurance through underwriting. During the early and open enrollment periods, the program used an abbreviated underwriting application to determine eligibility for active employees and active members of the uniformed services and their spouses who applied. All other applicants, including retirees and qualified relatives, used the full underwriting application, which was similar to underwriting in the individual insurance market. Since the conclusion of the open enrollment period, newly hired federal

²¹During the early enrollment period, enrollees had more limited choices in some of the benefit options such as the benefit period and type of coverage; for example, they could select only comprehensive coverage.

²²Qualified relatives include current spouses of employees and retirees; adult children at least 18 years old—including natural, adopted, and stepchildren, but not foster children—of living employees and retirees; and parents, parents-in-law, and stepparents of living employees, but not of retirees. Selected military reservists, employees and retirees of the Tennessee Valley Authority, District of Columbia government employees and retirees first employed before October 1, 1987, and employees and retirees of the District of Columbia Courts are also eligible to apply.

and Postal Service employees and newly active members of the uniformed services who apply for long-term care insurance within 60 days of employment can do so using an abbreviated application, as can their spouses.²³ All other applicants must use the full underwriting application.

The federal program offers four prepackaged plan designs, each with a 90-day elimination period, a choice of two types of inflation protection—either automatic compound inflation protection or the future purchase option²⁴—and the following benefit options:

- Package 1—\$100 daily benefit amount for comprehensive coverage and 3-year benefit period,
- Package 2—\$150 daily benefit amount for comprehensive coverage and 5-year benefit period,
- Package 3—\$150 daily benefit amount for comprehensive coverage and an unlimited benefit period, and
- Package 4—\$100 daily benefit amount for facilities-only coverage and 3-year benefit period.

If not choosing a prepackaged plan, an enrollee in the federal program also has several options for customizing benefits. The federal program was designed to comply with the NAIC model regulations and HIPAA tax-qualification standards, which specify that certain benefit options be offered. (App. II provides more information on federal long-term care insurance benefits and enrollment in these benefits.)

The federal program provides reimbursement for costs of care when an enrollee is unable to perform at least two ADLs for an expected period of at least 90 days or needs substantial supervision because of a severe cognitive impairment. Reimbursement is based on the benefits chosen by the enrollee. The federal government does not contribute to the cost of coverage, so an enrollee pays the entire premium for the benefits chosen.

²³Newly married spouses of eligible employees and certain federal or Postal Service employees returning from a nonpay status and their spouses can also use an abbreviated application.

²⁴With automatic compound inflation protection, benefit amounts increase by a stated percentage of the previous year's amount with generally no change in premiums. The future purchase option offers the ability to increase benefits at predetermined time intervals for an additional cost.

OPM, rather than the states, regulates the federal program, and Partners administers the program in accordance with the requirements of the contract between OPM and Partners. The contract—which was signed on December 18, 2001, and extends for a period of 7 years—defines key administrative requirements including who controls program assets and how profits are determined. The contract requires that the parent companies of Partners—John Hancock Life Insurance Company and Metropolitan Life Insurance Company—must hold federal program assets in accounts separate from all their other businesses. At the end of the contract period, OPM may decide to enter into a new contract with Partners. However, if OPM selects a different contractor at that time, the financial assets of the federal program would be transferred to the new contractor. The contract also specifies how Partners earn a profit each year. The profit formula consists of two parts: (1) some of the profit is capped at 6.5 percent of premiums collected in a year—nearly half of this type of profit is subject to performance criteria while the rest is guaranteed—and (2) some of the profit is based on the performance of the total assets of the federal program being managed by Partners to pay future claims—this type of profit consists of 0.3 percent of the total assets, called a “risk charge.” Partners must pay federal taxes on their total profit, but may charge other taxes to the federal program. Partners also collects investment-management fees that are less than 0.2 percent of total assets. No profit is allowed if the premiums are not sufficient to cover claims and expenses. While OPM expects premium rates to remain level over an enrollee’s lifetime, Partners may raise or lower premiums for groups of enrollees during the contract period with OPM’s agreement. Additionally, premium rates may be changed at the time of a new contract.

Federal Long Term Care Insurance Program Offered Benefits Comparable to Other Products, Usually at Lower Premiums

The federal program offered benefits that were similar to those of other long-term care insurance products we reviewed and usually offered lower premiums for comparable benefits in individual products. While federal program enrollees could choose from many options to customize their benefits, a broader range of options was available in the other products we reviewed, especially in the individual products. However, despite the broader range of options available in the other products, most enrollees in the federal program and in individual and group products chose similar daily benefit amounts, elimination periods, and benefit periods. A greater percentage of federal enrollees chose automatic compound inflation protection compared with enrollees in other products. Overall, annual premiums in the federal program averaged across three benefit plan designs were lower for both single people and married couples who were both the same age compared with similar individual products sold on

March 31, 2005.²⁵ Moreover, of total premiums projected to be collected over the life of the coverage sold during the study period, the federal program expected to pay a higher percentage in claim payments and a lower percentage in administrative costs compared with individual and group products.

Federal Program Benefits Were Similar to Those in Individual and Group Products

Long-term care insurance benefit options were similar in the federal program and in individual and group products we reviewed. While the federal program offered over 500 possible benefit option combinations in addition to the four prepackaged benefit plans, other products, especially individual products, offered more possible benefit combinations and more extensive customization in daily benefit amounts and in elimination and benefit periods.²⁶ Benefits offered in the federal program and in the individual and group products we reviewed were covered by consumer protections required for HIPAA tax-qualified plans. These consumer protections included, among other provisions, that enrollees be offered an option to protect their benefits against inflation. However, some individual and group product enrollees were also offered the opportunity to purchase policies that did not meet requirements for HIPAA tax-qualified plans. In addition, according to officials at OPM and Partners, the federal program offered several unique benefits, including payment to family members providing informal care, international coverage, and a process allowing third-party review of denied claims. Table 1 summarizes the benefit options in the federal program and in the individual and group products we reviewed.

²⁵The federal program offers four prepackaged plan designs. One package is a facilities-only design, while the remaining three packages provide comprehensive coverage, including long-term care services provided in the home. We report data on premiums for the three comprehensive packages because two carriers selling individual products did not offer facilities-only benefits on March 31, 2005.

²⁶Partners officials told us that group products typically offer fewer options than individual products because the group products are sold without the assistance of an agent.

Table 1: Benefit Options in the Federal Long Term Care Insurance Program and in Individual and Group Products Sold from July 1, 2002, through March 31, 2005

Benefit options	Federal program^a	Individual products	Group products
Coverage type	Comprehensive or Facilities-only	Comprehensive, Facilities-only, or Home-care-only ^b	Comprehensive or Facilities-only
Daily benefit amounts	\$50 to \$300	\$18 to \$500 ^c	\$35 to \$465
Elimination periods	30 days or 90 days	0 days to 730 days	20 days to 180 days
Benefit periods	3 years, 5 years, or lifetime	1 year to lifetime	1 year to lifetime
Inflation protection ^d	Automatic compound or Future purchase option	Automatic compound, Simple, Future purchase option, Other, or None	Automatic compound, Future purchase option, Other, or None

Source: GAO analysis of data provided by Partners, five carriers selling individual products, CalPERS, and two carriers selling group products.

^aSome federal enrollees, members of the uniformed services, and their spouses who could apply for the federal program using an abbreviated application, but who were denied regular coverage, were offered coverage in the Alternative Insurance Plan. This Plan covered nursing homes only, had a 180-day elimination period, provided coverage for 2 years, and started with a weekly benefit amount of \$200.

^bOne carrier reported selling individual products with home-care-only coverage.

^cOne carrier reported that one policy was sold with a daily benefit amount of \$822.

^dWith automatic compound inflation protection, benefit amounts increase by a stated percentage of the previous year's amount with generally no change in premiums. For example, a \$100 daily benefit amount with automatic compound inflation protection of 5 percent will go up by \$5 to \$105 at the beginning of the second year. At the beginning of the third year, benefits will go up by 5 percent of \$105 or by \$5.25 to \$110.25. Simple inflation protection increases benefits by the same amount each year with generally no change in premiums. For example, a \$100 daily benefit amount with simple inflation protection of 5 percent will go up by \$5 each year. The future purchase option offers the ability to increase benefits at predetermined time intervals for an additional cost. Other inflation-protection options include a deferred inflation option, where the enrollee can increase benefits at a later date chosen by the enrollee.

Most enrollees in the federal program chose comprehensive coverage and daily benefit amounts, elimination periods, and benefit periods similar to those chosen by enrollees in individual and group products. Most enrollees in all products chose to have the cost of long-term care services reimbursed at a rate in the range of \$100 to \$199 per day and chose an

elimination period of 90 days or greater²⁷ and a benefit period from 3 to 5 years. With regard to inflation protection, over two-thirds of federal program enrollees chose automatic compound inflation protection, a higher proportion than for enrollees in individual and group products. Federal enrollees who did not choose automatic compound inflation protection received the future purchase option as a default. Several experts and industry officials said the federal government was a leader in the group market by encouraging enrollees to choose more comprehensive inflation-protection benefits. Table 2 summarizes the benefit options chosen by enrollees in the federal program and in individual and group products.

Table 2: Benefit Options Chosen by Federal Long Term Care Insurance Program Enrollees and by Individual and Group Product Enrollees for New Policies Sold from July 1, 2002, through March 31, 2005

	Percentage choosing benefit option		
	Federal program enrollees ^a	Average for individual product enrollees	Average for group product enrollees
Coverage type			
Comprehensive	89	91	91
Facilities-only	11	3	9
Other	<1	6	n.a.
Daily benefit amount ^b			
Less than \$100	3	11	12
\$100 to \$149	49	53	44
\$150 to \$199	42	25	18
\$200 and greater	5	11	26
Elimination period			
Less than 30 days	n.a.	8	<1
30 days to 89 days	12	21	30
90 days and greater	88	71	70

²⁷ All four federal prepackaged plans included 90-day elimination periods. Federal enrollees who designed their own customized benefits could choose either a 30- or 90-day elimination period. Elimination periods can be based either on the number of days from the beginning of the episode of illness—calendar days—or on the number of days from when services are first received—service days. The elimination periods for the federal program are based on service days.

	Percentage choosing benefit option		
	Federal program enrollees ^a	Average for individual product enrollees	Average for group product enrollees
Benefit period			
Less than 3 years	<1	14	6
3 years	49	23	13
Greater than 3 years to 5 years	31	27	54
Greater than 5 years to 20 years	n.a.	10	4
Lifetime	20	26	23
Inflation protection ^c			
Automatic compound	68	55	18
Simple	n.a.	22	n.a.
Future purchase option	32	7	32
None	n.a.	16	7
Other	<1	1 ^d	42 ^e

Source: GAO analysis of data provided by Partners, five carriers selling individual products, CalPERS, and two carriers selling group products.

Notes: Individual entries may not add to 100 percent because of rounding.

n.a. = not applicable.

^aFederal program enrollees include those who chose a prepackaged plan, designed their own customized plan, or chose the Alternative Insurance Plan from March 25, 2002, through March 31, 2005.

^bDaily benefit amounts for individual products were from four of the five carriers. At the fifth carrier, 80 percent of the enrollees chose daily benefit amounts that were greater than \$75 and less than or equal to \$175.

^cWith automatic compound inflation protection, benefit amounts increase by a stated percentage of the previous year's amount with generally no change in premiums. For example, a \$100 daily benefit amount with automatic compound inflation protection of 5 percent will go up by \$5, to \$105, at the beginning of the second year. At the beginning of the third year, benefits will go up by 5 percent of \$105, or by \$5.25, to \$110.25. Simple inflation protection increases benefits by the same amount each year with generally no change in premiums. For example, a \$100 daily benefit amount with simple inflation protection of 5 percent will go up by \$5 each year. The future purchase option offers the ability to increase benefits at predetermined time intervals for an additional cost. Other inflation-protection options include a deferred inflation option, where the enrollee can increase benefits at a later date chosen by the enrollee.

^dOne carrier reported a deferred inflation option, where the enrollee can increase benefits at a later date chosen by the enrollee.

^eOne carrier reported optional inflation protection, which is similar to a future purchase option. Under optional inflation protection, an enrollee is offered the chance to increase benefits at predetermined time intervals whether or not the enrollee has submitted a claim for benefits, while the future purchase option is offered by this carrier only if the enrollee has not submitted a claim.

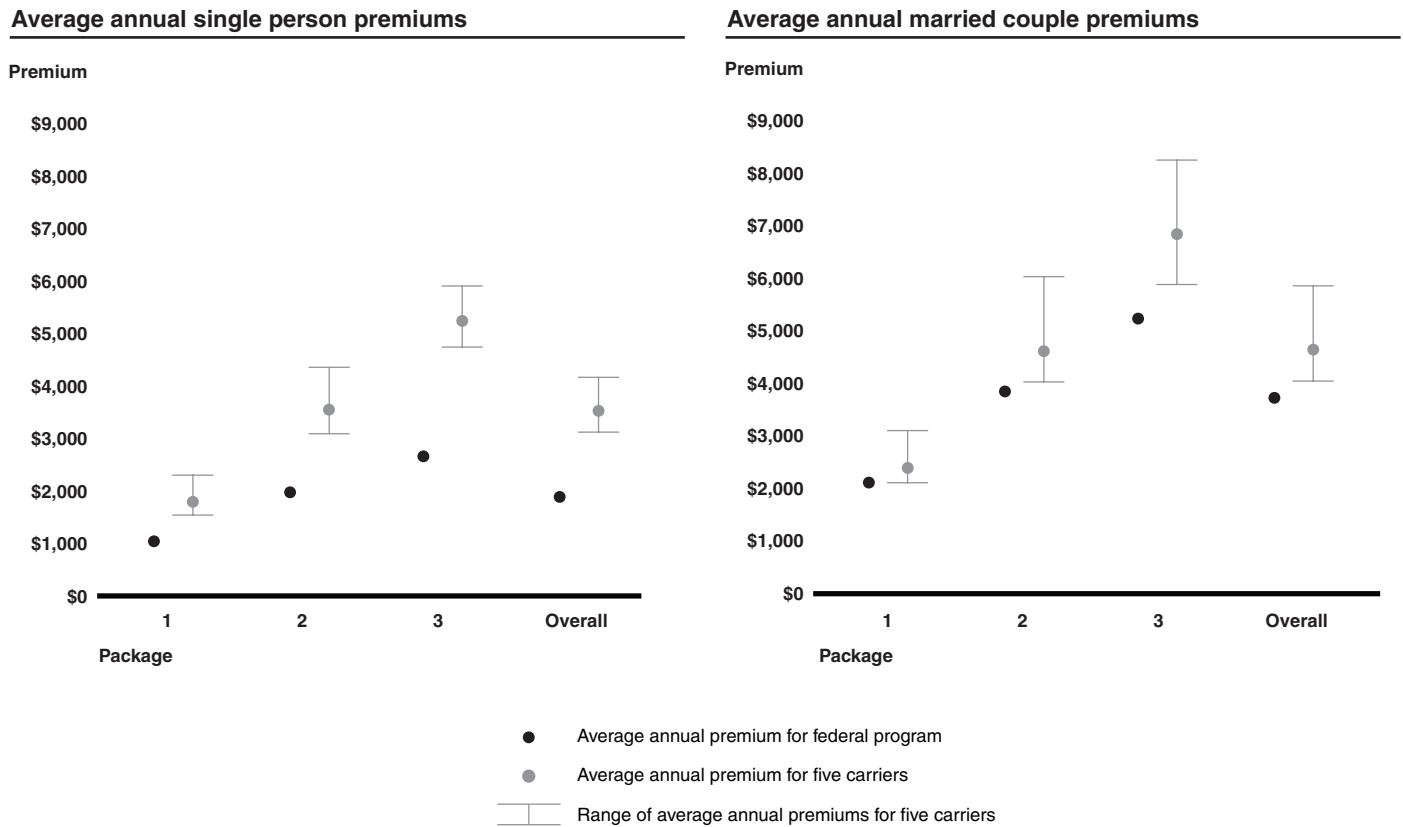
**Premiums for Three
Federal Benefit Packages
Were Usually Lower Than
Those for Comparable
Benefits in Other Products**

Federal Long Term Care Insurance Program annual premiums were usually lower than annual premiums for individual products for three benefit packages with similar benefit options sold on March 31, 2005.²⁸ Overall, the average premium in the federal program for the three benefit packages for single people was 46 percent lower than average premiums for individual products we reviewed, while premiums for married couples who were both the same age were 19 percent lower. However, the premium estimates reported for individual products do not include discounts for good-health status, which several carrier officials said were about 10 percent to 15 percent and apply to about one-third of all enrollees.²⁹ Figure 1 compares average annual premiums for three benefit packages and overall for the federal program with average annual premiums for the individual products we reviewed at five carriers.

²⁸We included premiums for the three comprehensive benefit packages available in the federal program. Premiums included compound inflation protection.

²⁹The premiums for married couples include spousal discounts of 30 or 40 percent.

Figure 1: Average Annual Federal Premiums for Single People and for Married Couples Who Were Both the Same Age Compared with Averages for Individual Products, for Three Benefit Packages and Overall, Sold on March 31, 2005



Source: GAO analysis of data provided by Partners and five carriers selling individual products.

Notes: We analyzed annual premiums for the three federal benefit packages with comprehensive coverage available in the federal program. The three benefit packages were Package 1—\$100 daily benefit amount and 3-year benefit period, Package 2—\$150 daily benefit amount and 5-year benefit period, and Package 3—\$150 daily benefit amount and an unlimited benefit period.

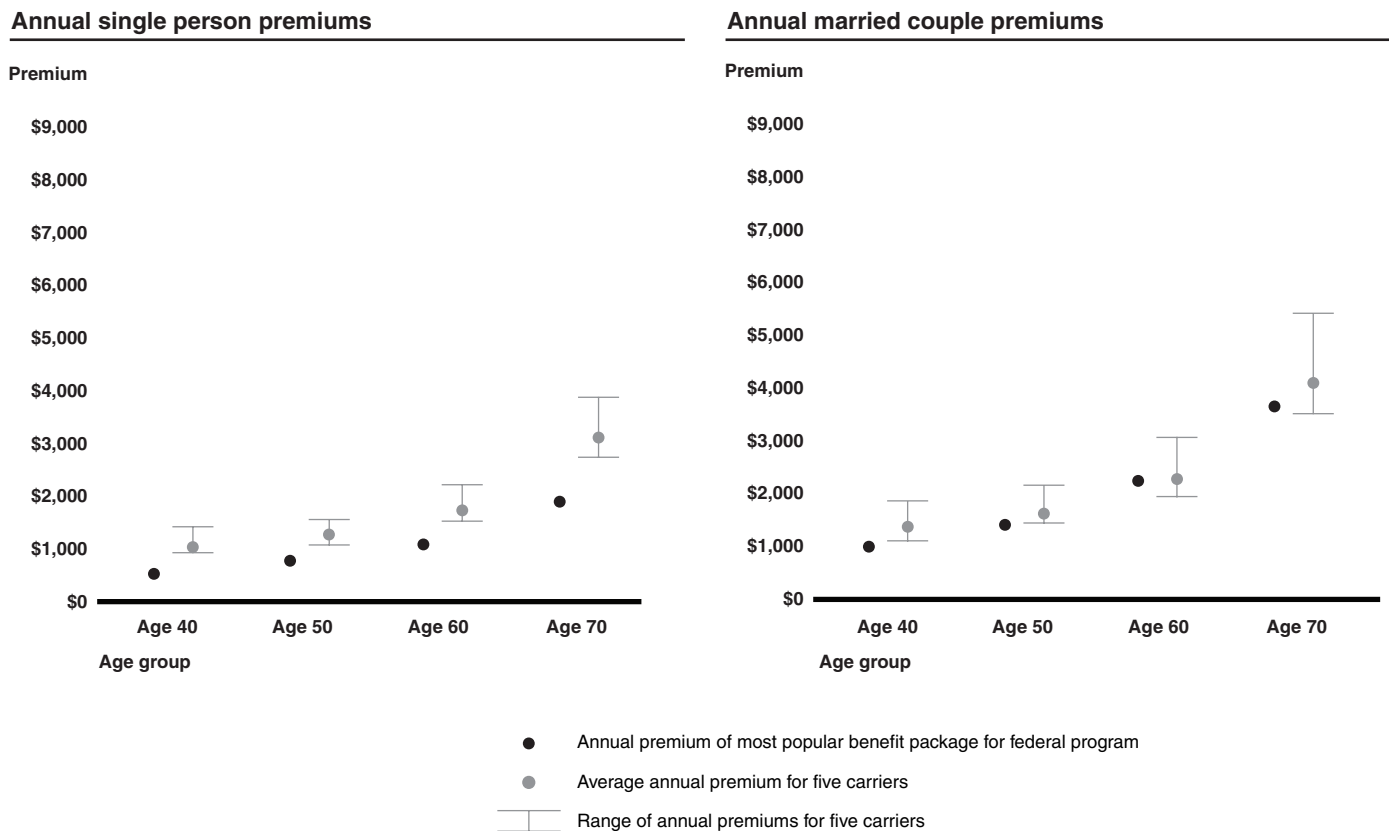
Each package had a 90-day elimination period and included the automatic compound inflation-protection option.

For the five carriers selling individual products that we reviewed, single premiums represented a 40-, 50-, 60-, and 70-year-old person underwritten into the standard rating category, the category where carriers place most enrollees after they assess the risk. Premiums for married couples represented situations where both were the same age—40, 50, 60, and 70 years old—and both were written into the standard rating category. Premiums for couples at the five carriers reflected either a 30-percent or a 40-percent discount per couple. The federal program did not provide discounts for spouses; therefore, for the federal program we doubled the premiums charged for single people. For each benefit package, we averaged premiums for single people and averaged the premiums for married couples who were both the same age across the four age categories. We assumed there was no discount for good health.

All benefits chosen by an enrollee affect the pricing of the package to some degree. Carriers provided premiums for the major benefit options most similar to the federal packages that had the largest effect on premiums—daily benefit amounts, benefit periods, elimination periods, and inflation protection.

The pattern of lower premiums in the federal program compared with those in the individual products remained consistent in different age groups as well as for single people and married couples. Figure 2 shows the range in annual premiums in the individual products we reviewed relative to annual federal premiums for single people and married couples who were both the same age, by age group, for the most popular federal comprehensive benefit package. Appendix III provides more information on annual federal and individual product premiums for the benefit packages we reviewed.

Figure 2: Annual Premiums by Age for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers Selling Individual Products for the Most Popular Federal Comprehensive Benefit Package Sold on March 31, 2005



Source: GAO analysis of data provided by Partners and five carriers selling individual products.

Notes: Premiums shown are for the federal program's Comprehensive 100 benefit package (Package 1), the most popular federal benefit package purchased through March 31, 2005. Package 1 included a \$100 daily benefit amount, 3-year benefit period, 90-day elimination period, and the automatic compound inflation-protection option. One carrier reported premiums for a 100-day elimination period rather than for a 90-day period.

For the five carriers selling individual products we reviewed, premiums were for the standard rating category. The federal program did not use rating categories. Premiums for married couples who were both the same age at the five carriers reflected either a 30-percent or a 40-percent discount. The federal program did not provide discounts for spouses; therefore, we doubled the premiums the federal program charged for single people. We assumed there was no discount for good health.

All benefits chosen by an enrollee affect the pricing of the package to some degree. Carriers provided premiums for the major benefit options most similar to the federal program that had the largest effect on premiums—daily benefit amounts, benefit periods, elimination periods, and inflation protection.

When compared with premiums offered by CalPERS, the only group product for which we had premium information, average federal premiums were higher for two of the three packages.³⁰ Overall, the average annual federal premium for single people and for married couples who were both the same age for the three benefit packages combined was 3 percent higher than the average annual premium for CalPERS.

Federal Program Expects to Spend Higher Proportion of Premium on Claims and Lower Proportion on Administrative Costs Than Individual and Group Products

As measured by the anticipated lifetime loss ratio,³¹ the federal program expects to spend a higher proportion of collected premium on claims and a lower proportion of collected premium on administrative costs than individual and group products. The Federal Long Term Care Insurance Program had a higher anticipated lifetime loss ratio than the average anticipated lifetime loss ratios for the individual and group products we reviewed³²—75 percent for the federal program, compared with 59 percent for individual products and 68 percent for group products.³³ The federal program expected to pay out in claim payments three-quarters of the \$3.1 billion in premiums it projected would be collected over the life of the policies for all policies sold from March 25, 2002, through March 31, 2005. The federal program expected to spend the remaining amount of collected premiums—25 percent—on administrative costs, including marketing, underwriting, claims handling, overhead, and taxes, and on profits. For individual products sold during July 1, 2002, through March 31, 2005, individual market carriers estimated that an average of 41 percent of total premiums collected would cover administrative costs and profits. Unlike the federal program, these administrative costs included agent

³⁰We did not request premium information for comparable benefit packages for group products other than CalPERS, because of the variation that exists across the groups insured by each carrier. In contrast to the federal program and most group products, the CalPERS group product is self-funded rather than purchased from an insurer, which CalPERS claims may lower its costs to provide benefits compared with other insurers.

³¹The anticipated lifetime loss ratio describes what portion of the premium is expected to pay for claims over the life of a set of policies. This ratio is calculated as the present value of the total expected claim payments compared with the present value of the total expected premiums over the life of a set of policies.

³²Four of the five respondents in the individual market provided loss ratio data; three of these respondents provided additional detail about administrative costs. Two of the three respondents in the group market provided loss ratio data.

³³The federal program followed NAIC's 2000 revised guidelines, which recommended that carriers price their products high enough initially to prevent the need for future rate increases rather than target a minimum percentage of total premiums—for example, 60 percent—to be spent on claims.

commissions, which averaged 17 percent of premiums collected for the individual products we reviewed, or about half of their administrative costs. For group products, carriers estimated that an average of 32 percent of total premiums collected for coverage sold during this time period would cover administrative costs and profits.

Federal Program Participation Was Comparable to Other Group Products, while Federal Enrollees Were Younger Than Enrollees in Individual Products and Older Than Enrollees in Group Products

The employee participation rate in the Federal Long Term Care Insurance Program for active federal civilian employees was 5 percent, comparable to the industry average in the group market, but overall enrollment was lower than the expectations established by Partners. Federal enrollees were younger than enrollees in individual products and older than enrollees in group products. For all products we reviewed, more women than men obtained coverage.

Federal Program Participation Rate Was Comparable to Participation Rates of Other Group Products but Lower Than Initially Expected

The Federal Long Term Care Insurance Program's employee participation rate of 5 percent after the open enrollment period for active federal civilian employees was comparable to the industry average in the group market.³⁴ Experts suggested that typically 5 to 6 percent of a group's potentially eligible population would enroll in a long-term care insurance product when initially offered coverage. Participation rates tend to increase over time, usually reaching closer to 8 percent, depending upon the average age of the eligible population. The federal program's employee participation rates were much lower for active military members, at

³⁴In general, the participation rate is calculated as the number of enrollees divided by the eligible population at a point in time. The most common formula, called the employee participation rate, is the number of enrolled employees divided by the number of active employees. The number of people who are eligible to enroll in individual products is unknown; therefore, an accurate participation rate for the individual market cannot be calculated.

0.2 percent, and for active Postal Service employees, at 0.9 percent. Active military members are young and can be difficult to reach for marketing purposes, which might explain why they were less likely to apply than active federal workers, who tend to be older and can be reached directly through their workplace. Active Postal Service employees are also difficult to reach because they are located throughout the nation rather than grouped in centralized locations, and because access to these employees for marketing purposes has been restricted during working hours.

The federal program was the largest employer-sponsored group in the nation, with more than 218,000 individuals enrolled for new policies sold from March 25, 2002, through March 31, 2005. The next largest group program was CalPERS, with more than 175,000 enrollees for policies sold from 1995 through 2005. According to Partners, the federal program accounted for 15 percent of the enrollees in the entire group market and 2 percent of the entire long-term care insurance market in 2002.³⁵

Even though it was the largest group in the nation, the federal program's enrollment was lower than expected. Partners initially estimated in 2001 that 286,066 people would enroll during the open enrollment period, but actual enrollment was 161,048, or 44 percent lower than expected. Partners also estimated that enrollment would reach 343,280 by the third year of the program; total enrollment eventually rose to 218,890 enrollees for new policies sold from March 25, 2002, through March 31, 2005, or 36 percent lower than expected. Some of the lower-than-expected enrollment can be explained by the low participation rates for active military members and Postal Service employees. Additionally, according to Partners, the terrorist attacks in the fall of 2001 resulted in slower sales of discretionary products, such as long-term care insurance, and also resulted in temporarily reduced access to federal employees, military members, and Postal Service employees for marketing purposes during the open enrollment period. A representative of Partners and an expert knowledgeable about the federal program indicated that a pool of at least 200,000 enrollees is adequate for the federal program to achieve financial stability, although no minimum number was ever formally established.

³⁵For the period of March 25, 2002, through March 31, 2005, 74 percent of the federal program's enrollees had coverage that became effective during the early and open enrollment periods.

The federal program focused its marketing efforts on a core group of nearly 6 million people out of an estimated eligible population of almost 19 million people, and the majority of the enrollees came from this core group. The core group consisted of 1.8 million active federal civilian employees, 1.4 million active military members, 0.8 million active Postal Service employees, and 1.8 million spouses of active employees and military members, as shown in table 3. Almost two-thirds of the 218,890 people enrolled from March 25, 2002, through March 31, 2005, came from this core group. According to OPM officials, the federal program also reached out to retired federal employees, retired military members, and retired Postal Service employees.

Table 3: Estimated Eligible Population and Actual Enrollees in the Federal Long Term Care Insurance Program, by Category

Category	Estimated eligible population as of October 15, 2001	Enrollees for new policies sold from March 25, 2002, through March 31, 2005		
	Number	Percentage of total eligible	Percentage of total enrollees	
Core group				
Active federal civilian employees	1,792,000	10	90,613	41
Active military members	1,353,000	7	3,244	2
Active Postal Service employees	800,000	4	6,352	3
Spouses of active employees and military members ^a	1,775,000	10	35,924	16
Subtotal for core group	5,720,000	31	136,133	62
Noncore group				
Retired employees and military members	4,263,000	23	48,013	22
Spouses of retired employees and military members and all other relatives ^b	8,084,000	44	23,451	11
Other ^c	500,000	3	11,293	5
Subtotal for noncore group	12,847,000	69	82,757	38
Total	18,567,000	100	218,890	100

Source: Partners.

Note: Individual entries may not sum to totals because of rounding.

^aThe estimated eligible population for the spouses category for the core group includes only eligible spouses of active employees and military members. The number of actual enrollees in the spouses category for the core group includes both enrolled spouses and enrolled relatives of active employees and military members.

^bThe estimated eligible population for the spouses and relatives category for the noncore group includes eligible spouses and eligible relatives of retired employees and military members, as well as eligible relatives of active employees and military members. The number of actual enrollees in the spouses category for the noncore group includes enrolled spouses and enrolled relatives of retired employees and military members, but not enrolled relatives of active employees and military members.

^cThe estimated eligible population for the "other" category includes selected military reservists, but not other eligible groups for which the population was unknown. The number of actual enrollees in the "other" category includes selected military reservists, and also employees and retirees of the Tennessee Valley Authority, District of Columbia government employees and retirees first employed before October 1, 1987, and employees and retirees of the District of Columbia courts.

The enrollees during the first 3 years of the federal program represented about three-quarters of the applications submitted. The federal application approval rate of 74 percent was similar to the average approval rate of 75 percent for individual products, but lower than the average approval rate of 84 percent for group products, which may enroll active workers using guaranteed issue during an open enrollment period. The most common reasons for denial of an application for the federal program and for the group products were height and weight outside of insurable standards, a chronic condition such as diabetes or cardiac problems, and cognitive impairment. In addition to these reasons, the most common reasons for denial of an application for the individual products included cancer, stroke, and musculoskeletal problems.

Federal Program Enrollees Were Younger Than Enrollees in Individual Products and Older Than Enrollees in Group Products, and More Women Than Men Obtained Coverage for All Products

The average age of federal enrollees was 56 years at the time of enrollment, compared with an average age of 60 for enrollees in individual products and 52 for enrollees in group products, as shown in table 4. The average age was 54 for enrollees in CalPERS. In the individual market, carriers typically target older adults who are planning for retirement or who have already retired. The carriers are able to market to them through direct contact from commission-based agents. In the group market, carriers typically target active employees, who are younger than enrollees typically marketed to in the individual market. The carriers market to the active employees through the employer via mailings and on-site enrollment meetings, but may not be able to obtain contact information for retirees. Unlike much of the group market, the federal program does have access to retiree contact information and is able to market to retirees through mailings to their home addresses.

More women than men enrolled in the Federal Long Term Care Insurance Program, individual products, and group products. (See table 4.) While more women than men enrolled in the federal program overall, slightly more men than women enrolled among eligible active federal employees, active military members, and active Postal Service employees. However, women in these groups enrolled in the federal program at a higher rate than their representation in the eligible population. Enrollees in the federal program from these groups were 51 percent male and 49 percent female, while the eligible population of all active federal employees, active military

members, and active Postal Service employees was 67 percent male and 33 percent female.³⁶

Table 4: Enrollee Characteristics of the Federal Long Term Care Insurance Program and of Individual and Group Products, July 1, 2002, through March 31, 2005

Characteristic	Federal program ^a	Individual products	Group products
Average age	56 years	60 years	52 years
Sex			
Female	54%	58%	56%
Male	46%	42%	44%

Source: GAO analysis of data provided by Partners, five carriers selling individual products, CalPERS, and two carriers selling group products.

^aThe federal program includes 218,890 enrollees from March 25, 2002, through March 31, 2005.

Early Claims Experience in Federal Long Term Care Insurance Program Was Lower Than Expected, but It Is Too Soon to Determine Whether Adjustments Are Needed

The early claims experience of the Federal Long Term Care Insurance Program was below the expectations established by Partners. During its first 3 years, the federal program paid 39 percent of what it initially expected to pay for claims per enrollee; the number of claims paid per enrollee also was lower than initial expectations. It is still too early to determine whether this trend will continue or whether adjustments to the expected claims experience or premiums are needed. About half of the total amount of claim payments was spent on facility care. The most common medical conditions prompting claims in the early years of the federal program were cancer, stroke, and injuries and poisoning. Across the individual and group products we reviewed, the most common medical conditions that prompted claims were also cancer, stroke and injuries, as well as cognitive problems, musculoskeletal disorders, cardiac disease, and arthritis.

The cumulative claims experience in the first 3 years of the Federal Long Term Care Insurance Program was considerably lower than the expectations established by Partners. The program paid 39 percent of the claims expenditures expected per enrollee for long-term care services and paid 33 percent of the expected number of claims per enrollee, as shown

³⁶Eligible population data were collected as of September 30, 2002, the most recent date for which all data were available.

in table 5.³⁷ While the overall claims experience for the first 3 years was lower than expected, the number of claims paid as a percentage of expected claims in each consecutive year of operation was higher than the previous year. In the first year of operation, the amount paid for claims per enrollee was 40 percent of expected payments and the number of claims per enrollee was 4 percent of expected claims. By the third year of operation, the amount paid for claims per enrollee had remained level at 40 percent of expected payments, while the number of claims per enrollee had increased to 48 percent of expected claims.

Table 5: Actual Claims per Enrollee as a Percentage of Expected Claims per Enrollee in the First 3 Years for the Federal Long Term Care Insurance Program

Characteristic	Year 1	Year 2	Year 3	Cumulative
Amount of claim payments per enrollee as a percentage of expected claims per enrollee	40%	39%	40%	39%
Number of paid claims per enrollee as a percentage of expected claims per enrollee	4%	37%	48%	33%

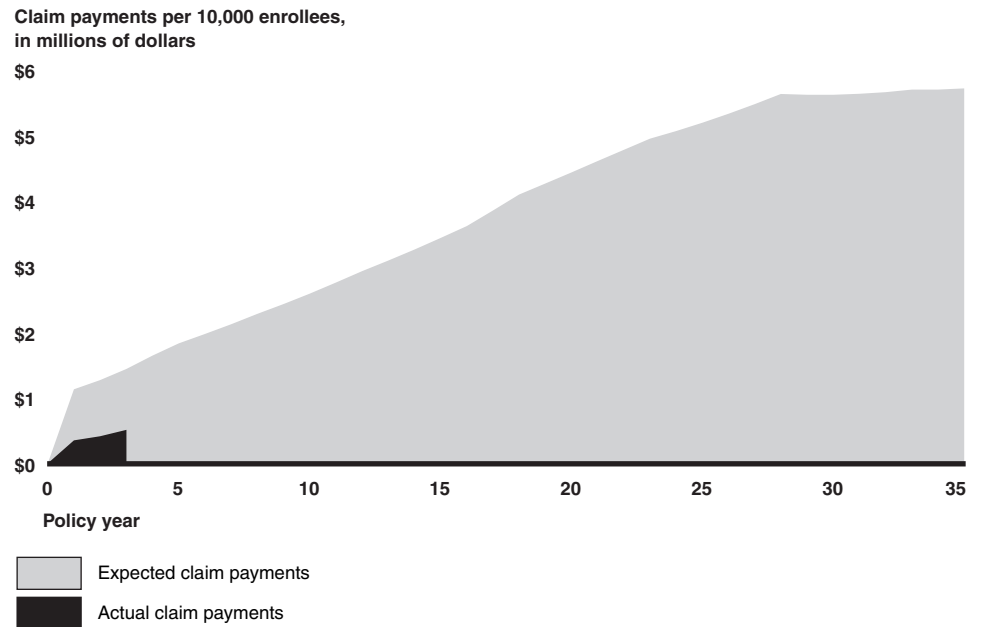
Source: GAO analysis of data provided by Partners.

It is still too early to determine whether the early claims experience will continue or whether adjustments to the expected claims experience or premiums are indicated. While having lower-than-expected claims experience is a positive financial indicator, if the claims experience is significantly lower than expected over the longer term, then it is possible that the premiums are too high. On the other hand, in accordance with NAIC premium-setting guidelines, it may be appropriate to project the claims experience assuming moderately adverse results to protect against the need to raise premiums. As noted earlier, it is expected that the number of claims submitted in the first years of a long-term care insurance program will be a small percentage of the claims submitted over time—most claims are not expected to be submitted until 25 years or more after the program begins. Additionally, the expected claims experience is sensitive to factors such as the level of underwriting, the total number of enrollees, the ages of the enrollees, and the types of enrollees—for example, active workers, retirees, or relatives. Furthermore, the claims experience is only one of many factors—such as interest rates, lapse rates,

³⁷ Partners developed estimates for the claims experience based on their estimates for enrollment before the federal program began. We used a ratio that compares actual with expected paid claims per enrollee to account for lower-than-expected enrollment, but data were not available for the age or type of enrollees.

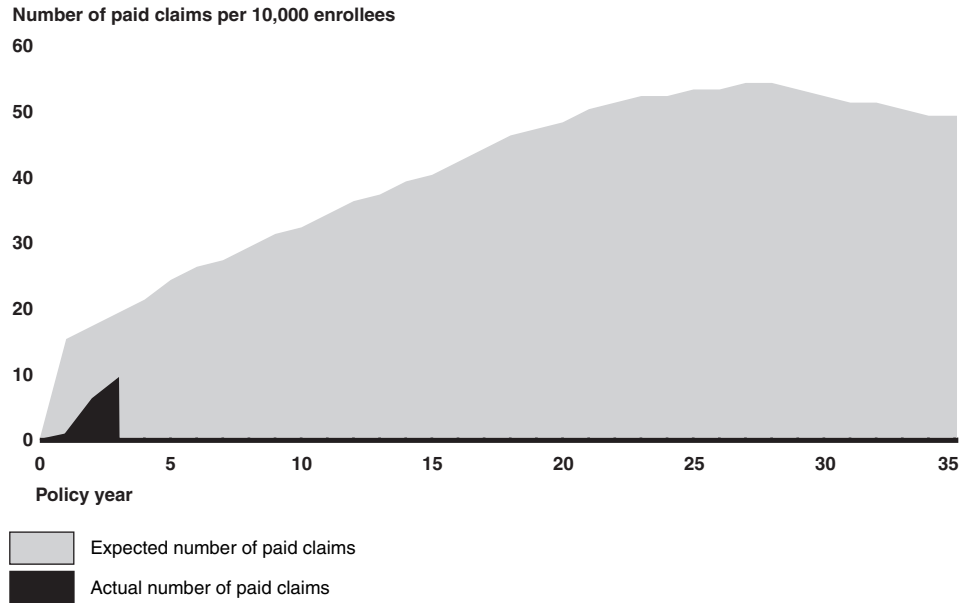
and mortality rates—that affect the long-term financial outlook of the program. The financial projections for long-term care insurance are sensitive to changes in assumptions about all these factors. Figure 3 shows the amount of paid claims per 10,000 enrollees and figure 4 shows the number of paid claims per 10,000 enrollees during the first 3 years of the program compared with the expected claims experience over the first 35 years of operation.

Figure 3: Actual Claim Payments per 10,000 Enrollees in the First 3 Years Compared with Expected Claim Payments per 10,000 Enrollees over 35 Years for the Federal Long Term Care Insurance Program



Source: GAO analysis of data provided by Partners.

Figure 4: Actual Number of Paid Claims per 10,000 Enrollees in the First 3 Years Compared with Expected Number of Paid Claims per 10,000 Enrollees over 35 Years for the Federal Long Term Care Insurance Program



Source: GAO analysis of data provided by Partners.

Facility care accounted for a considerable portion of the federal program claim payments in the first 3 years. Of the total \$3.6 million it paid for claims in the 3-year period, the federal program spent 49 percent on facility care, 3 percent on home care, 22 percent on informal caregivers, and 27 percent on other care. While about half of the total claim payment amount was spent on facility care, this type of care represented less than a quarter of the total number of claims.

Generally, most early long-term care insurance claims are submitted for conditions such as cognitive problems, cancer, arthritis, stroke, and injuries. For the federal program, the most common medical conditions that prompted claims during this relatively early period were cancer, stroke, and injuries and poisoning. Across the individual and group products we reviewed, the most common medical conditions that prompted claims were also cancer, stroke and injuries, as well as cognitive problems, musculoskeletal disorders, cardiac disease, and arthritis.

Conclusions

The Federal Long Term Care Insurance Program generally compared favorably with other products we studied during the first 3 years it offered coverage. The federal program offered benefits comparable to other products at competitive premium rates for similar benefits. Ultimately, the premium any enrollee pays for a long-term care insurance product is affected by several different factors, including the benefit options purchased, the age of the enrollee at the time of purchase, applicable discounts or surcharges, and the results of underwriting decisions. In addition, the premium is affected by the underlying assumptions about what will happen in the future regarding the number and dollar value of claims filed, interest rates, mortality rates, and lapse rates. If the actual claims experience, interest rates, mortality rates, or lapse rates vary significantly from what was expected, then this could mean that the premiums were too low or too high, and that premium or benefit adjustments could be warranted. Because the federal program had been offering coverage for only about 3 years at the time of our study, it was too early to draw conclusions about the claims experience, especially in relation to the premiums charged. Consistent with other long-term care insurance products, the federal program expected most enrollees, who averaged 56 years old when they enrolled, to submit long-term care insurance claims in their mid-70s to mid-80s—the time when most claims are submitted. While the early claims experience of the federal program was considerably lower than initially projected before the program began, an assessment of the claims submitted during the next several years and of other factors that affect the financial performance of the program will begin to provide a clearer picture of the longer-term implications.

Recommendations for Executive Action

We recommend that the Director of OPM take the following two actions. First, the Director should analyze the reasons for the lower-than-expected early claims experience and, as appropriate, use the results of this analysis to modify assumptions about the expected claims experience. Second, the Director should analyze the projections for the amount of premiums to be collected to pay for claims, including an analysis of the assumptions made for the projections that are related to future claims experience and other factors affecting premiums. OPM should report both analyses to Congress prior to the next contract negotiations.

Agency Comments

We provided a draft of this report to OPM, Partners, CalPERS, and five long-term care insurance carriers.

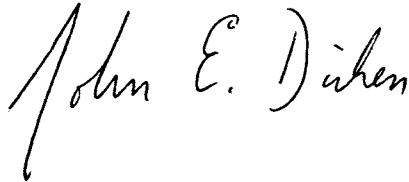
In its written comments, OPM generally agreed with our findings and provided comments on our recommendations. OPM stated that it intends to consider this report when performing due diligence before making a decision about a new contract for administration of the Federal Long Term Care Insurance Program, in accordance with the Long-Term Care Security Act. OPM also stated that the discussion of claims experience and premium setting in this report provides all the information currently available, precluding the need for a specific report on these issues at this time. OPM commented that it would provide updated information on claims experience and premium setting in its written recommendation to Congress prior to making a decision about the next contract. We support OPM's willingness to consider updated information on claims experience and premium setting as it works with Congress in determining the next contract for the Federal Long Term Care Insurance Program, and we agree that a separate report will not be necessary. We believe that it is important that actuarial assumptions about future claims experience and premium setting reflect the experience of the program to date while still anticipating moderately adverse assumptions regarding claims experience and other factors in the future. In its comments, OPM also indicated that the expectations about the federal program's enrollment and claims experience were established by Partners prior to the start of the program, rather than established by the marketplace. We revised the report to reflect that the expectations about enrollment and claims were established by Partners. (OPM's comments are reprinted in app. IV.)

In its written comments, Partners stated that the recommendation in the draft report implied that claims experience is the determining factor in the pricing of premiums, but that other sections of the report explain that other factors in addition to claims experience affect pricing, such as interest rates and lapse rates. We clarified the recommendation to reflect that other factors in addition to claims experience affect the pricing of premiums.

OPM, Partners, and one carrier provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Director of OPM and interested congressional committees. We will also provide copies to others on request. In addition, this report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7119 or dickenj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.

A handwritten signature in black ink that reads "John E. Dicken". The signature is written in a cursive style with a large, sweeping initial "J".

John E. Dicken
Director, Health Care

List of Committees

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable George V. Voinovich
Chairman
The Honorable Daniel K. Akaka
Ranking Minority Member
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Duncan L. Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Jon Christopher Porter
Chairman
The Honorable Danny K. Davis
Ranking Minority Member
Subcommittee on the Federal Workforce and Agency Organization
Committee on Government Reform
House of Representatives

Appendix I: Scope and Methodology

To evaluate the competitiveness of the Federal Long Term Care Insurance Program, we surveyed Long Term Care Partners, LLC (referred to as Partners), the administrator of the federal program; the California Public Employees' Retirement System (CalPERS), the second largest long-term care insurance group in the nation after the federal program; and five of the largest long-term care insurance carriers¹ to obtain long-term care insurance data. The five insurance carriers were AEGON USA,² Bankers Life and Casualty Company, Genworth Financial, John Hancock Life Insurance Company, and Metropolitan Life Insurance Company. All five carriers sold policies in the individual market, and two of the five carriers—John Hancock Life Insurance Company and Metropolitan Life Insurance Company—were also among the five largest carriers that sold products in the group market. To supplement these data, we interviewed officials at the Office of Personnel Management (OPM); Partners; the five carriers; CalPERS and the organization that administers its program; and five trade associations, including one representing actuaries. We also interviewed three experts on long-term care insurance. In addition, we reviewed studies and literature addressing long-term care insurance. We conducted our work from March 2005 through February 2006 in accordance with generally accepted government auditing standards.

Data Request

We developed a data-collection instrument to obtain uniform long-term care insurance data from Partners, CalPERS, and the five carriers. In developing the instrument, we attempted to collect as much data as possible while also considering the burden our request would place on the respondents. Because of the proprietary nature of much of the data we requested from the five carriers, we agreed to report the data so that they could not be attributed to any specific carrier unless the carrier agreed that we could release the data. To capture the full experience of the Federal Long Term Care Insurance Program, we requested data from Partners for the period March 25, 2002—the first day of the federal early enrollment period—through March 31, 2005. We requested data from the

¹We selected the five carriers on the basis of the total number of policies and annualized premiums in effect in the individual market as of December 31, 2004.

²AEGON USA left the long-term care insurance market on March 31, 2005.

carriers and CalPERS for the period July 1, 2002, through March 31, 2005.³ To document the early enrollment and open enrollment periods for the federal program, we also requested data from Partners for the period of March 25, 2002, through February 7, 2003—the last day the open enrollment period applications were processed. From each source, we requested data for the following categories: benefits, premiums, administrative costs, enrollment and enrollee characteristics, and claims experience.

Benefits

We requested data on the number of enrollees in the individual and group markets (including the federal program and CalPERS) who chose selected benefit options for new long-term care insurance policies sold from July 1, 2002 (March 25, 2002, for the federal program) through March 31, 2005. We collected data on coverage types, daily benefit amounts, elimination periods, benefit periods, inflation-protection options, Health Insurance Portability and Accountability Act of 1996 (HIPAA) tax-qualification status, and optional benefits offered. The respondents determined which policies they considered to be sold during the period. While we asked the respondents, where possible, to report data for sold policies that became active and for which they collected premiums, two respondents reported benefit data for the number of new applications submitted rather than for the new policies sold during the period. Because the federal program offered long-term care insurance coverage in four prepackaged plans, we asked Partners to identify the most popular benefit package chosen. (Table 6 in app. II summarizes the four prepackaged plans offered in the federal program.)

Premiums

We asked Partners to provide annual premiums for a policy sold on March 31, 2005, for enrollees in each of the four prepackaged benefit plans offered by the federal program, with automatic compound inflation protection. Partners provided premium data for enrollees of four different ages—40, 50, 60, and 70 years old—for the four benefit packages, with automatic compound inflation protection and with a future purchase

³We asked the carriers and CalPERS to provide data for the period beginning July 1, 2002, which is the beginning of the federal open enrollment period, rather than March 25, 2002, the beginning of the federal early enrollment period. Because few federal program enrollees—about 4 percent of the program’s total enrollment as of March 31, 2005—had coverage that became effective during the early enrollment period, we reduced the reporting burden for the carriers by requesting data for the period beginning July 1, 2002.

option for inflation protection. Because the federal program provided no discounts for spouses, we doubled the premiums that single people paid to determine how much a married couple of the same age would pay annually for a long-term care insurance policy through the federal program.

To compare premiums with those in the federal program, we asked the five carriers selling products in the individual insurance market and CalPERS to provide annual premium data for the four federal benefit packages or for coverage that most closely resembled each package for people for the four ages—40, 50, 60, and 70 years old—for policies sold on March 31, 2005. Two of the five carriers selling individual products did not sell facilities-only coverage on March 31, 2005, so we did not include the premiums for facilities-only coverage in our analyses. Therefore, we compared premiums for the three comprehensive benefit packages in the federal program. Because carriers selling products in the individual market usually place people in rating categories according to their health and other criteria, we asked them to provide annual premiums for a single person underwritten into the standard rating category, which is the category most often used. Furthermore, as these carriers usually offer discounts for married couples, we asked them to provide annual premiums for a married couple of the same age underwritten into the standard rating category. The premiums the carriers reported reflected their discounts for couples, which in each case was either 30 percent or 40 percent. We also asked respondents to identify the coverage types, daily benefit amounts, elimination periods, benefit periods, and inflation protection for the packages if these benefits differed from those of the federal benefit packages. These are the benefit options that most affect premiums. We did not ask them to identify other benefits automatically included in the coverage or to identify the percentage of the daily benefit amount that the package covered for benefits such as formal home care or informal home care, if included. Other than for CalPERS—which, like the federal program, did not use rating categories or provide discounts for spouses—we did not request any premium data for other group products because of the variation that exists across the groups insured by each carrier.

To compare the amount of premium spent on claims and the costs associated with administering long-term care insurance in the federal program with that of other products, we collected information on anticipated lifetime loss ratios. The anticipated lifetime loss ratio represents the present value of the total expected claim payments compared with the present value of the total expected premiums over the life of a set of policies. This ratio describes what portion of the premium

dollar is expected to pay for claims over a long period, with the balance going to administrative costs and profits. We collected these data for new policies sold from July 1, 2002 (March 25, 2002, for the federal program) through March 31, 2005. Two respondents did not provide data on loss ratios.

Enrollment and Enrollee Characteristics

We asked for enrollment information from Partners, CalPERS, and the five carriers for new policies sold from July 1, 2002 (March 25, 2002, for the federal program) through March 31, 2005, including the number of new applications submitted and approved. We obtained data on selected enrollee characteristics, including age at time of enrollment and sex.

Claims Experience

We collected claims-related data from our study participants. For example, we obtained the primary medical conditions that prompted the claims from Partners, CalPERS, and the five carriers. However, because of differences in enrollee characteristics and benefit choices across the carriers that would affect the claims experience, we focused primarily on the early claims experience of the federal program. We collected data on the number of paid claims and the amount of claim payments during the 3-year study period from Partners. We also compared the anticipated claims experience for the federal program as projected prior to initial enrollment with the actual number of claims submitted and the actual amount of claim payments during the 3-year period.

Long-term Care Insurance Interviews

To learn about long-term care insurance and to discuss the type of data we wanted to obtain through our data request, we interviewed officials at OPM and Partners, a CalPERS official and an official from the organization that administers the program, and officials at five carriers that sold products in the individual market—two of these carriers were also among the five largest carriers that sold products in the group market. We also conducted follow-up interviews to clarify the data provided in response to our data request, to verify reliability of the data received, and to obtain additional information.

We interviewed officials at several groups and associations as well as long-term care insurance experts. To obtain broader-based information about long-term care insurance, we interviewed the Director of Long-Term Care at America's Health Insurance Plans and the Senior Director of Long-Term Care Insurance at the American Council of Life Insurers. We interviewed actuaries and health policy staff from the American Academy of Actuaries.

To learn more about state regulation of long-term care insurance products we contacted officials at the National Association of Insurance Commissioners. We interviewed officials at AARP to learn about long-term care insurance and the products offered through that association. We also interviewed three experts on long-term care insurance.

We also reviewed studies on long-term care insurance, including a longitudinal study on buyers and nonbuyers of long-term care insurance.⁴ In addition, we reviewed a literature review⁵ and six policy briefs commissioned by the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, all dated August 2004.⁶

⁴For example, we reviewed America's Health Insurance Plans, *Research Findings, Long-Term Care Insurance in 2002* (Washington, D.C.: June 2004); Health Insurance Association of America by LifePlans, Inc., *Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Nonbuyers* (Washington, D.C.: October 2000); and Society of Actuaries, *Long Term Care Experience Committee Intercompany Study 1984 – 2001* (Schaumburg, Ill.: November 2004).

⁵Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *What We Know About Buyers and Non-Buyers of Private Long-Term Care Insurance: A Review of Studies* (Washington, D.C.: August 2004).

⁶The six policy briefs were (1) *A Demographic and Attitudinal Profile of Buyers of the Federal Long-Term Care Insurance Program*, (2) *A Demographic and Attitudinal Profile of Non-Buyers of the Federal Long-Term Care Insurance Program*, (3) *A Demographic and Attitudinal Profile of Non-Responders to the Federal Long-Term Care Insurance Program*, (4) *A Comparison of Demographic and Attitudinal Characteristics Among Active and Retired Buyers, Non-Buyers and Non-Responders to the Federal Long-Term Care Insurance Program*, (5) *Marketing Activities: A Comparative Analysis of Engagement and Participation Among Buyers, Non-Buyers and Non-Responders of the Federal Long-Term Care Insurance Program*, and (6) *Multivariate Analysis of Buyers and Non-Buyers of the Federal Long-Term Care Insurance Program*. Each policy brief was prepared under contract between the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, Office of Disability, Aging and Long-Term Care Policy and LifePlans, Inc. (Washington, D.C.: August 2004).

Appendix II: Federal Long Term Care Insurance Program Benefits

The Federal Long Term Care Insurance Program offered enrollees the option of choosing a prepackaged benefit plan or of customizing benefits. In addition, some applicants for federal benefits who were denied regular coverage had another option available that offered nursing-home-only coverage, called the Alternative Insurance Plan, while all applicants denied coverage could purchase a Service Package, which did not provide insurance but offered services such as access to a person who coordinated care and to a discounted network of long-term care providers. Nearly two-thirds of all federal enrollees during the period March 25, 2002, through March 31, 2005, chose a prepackaged benefit plan, with the remaining enrollees during that period customizing benefits or enrolling in the Alternative Insurance Plan.

Prepackaged Benefit Plans in the Federal Long Term Care Insurance Program

Enrollees in the Federal Long Term Care Insurance Program could choose from four prepackaged benefit plans. In each of the plans, several benefit options—daily benefit amount; coverage period; elimination period; and maximum lifetime benefit, which is a combination of the daily benefit amount and benefit period—had been preselected into the packages along with all covered services. After selecting one of the four packages, the enrollee only had to choose the type of inflation protection—either automatic compound¹ or the future purchase option.² Table 6 shows the four prepackaged plans offered in the Federal Long Term Care Insurance Program.

¹Automatic compound inflation protection increased daily benefit amounts and the remaining amount of the maximum lifetime benefit by 5 percent each year without increasing premiums. The increase in benefits continued even if the enrollee had begun to receive covered long-term care services.

²The future purchase option offered the opportunity to increase the daily benefit amount and the remaining amount of the maximum lifetime benefit every 2 years at an extra cost. When offered the option to increase benefits, the enrollee could not be receiving covered long-term care services. The benefit increases would be based on increases in the Consumer Price Index for Medical Care. Once the enrollee had declined three offers to increase benefits, the offers would not start again unless the enrollee specifically requested one and provided evidence of good health. The premium for the additional coverage was based on the enrollee's age and premium at the time the increase took effect. With each inflation offer, the enrollee could also switch to the automatic compound inflation-protection option without proof of good health, as long as he or she was not eligible for benefits at that time and had not declined three offers in the past.

**Appendix II: Federal Long Term Care
Insurance Program Benefits**

Table 6: Prepackaged Plans in the Federal Long Term Care Insurance Program

	Facilities 100	Comprehensive^a 100	Comprehensive^a 150	Comprehensive^a 150+
Benefit options				
Daily benefit amount (DBA) ^b	\$100	\$100	\$150	\$150
Benefit period	3 years	3 years	5 years	Unlimited
Elimination period	90 days	90 days	90 days	90 days
Maximum lifetime benefit ^b	\$109,500	\$109,500	\$273,750	Unlimited
Inflation protection	Choice of automatic compound or future purchase option	Choice of automatic compound or future purchase option	Choice of automatic compound or future purchase option	Choice of automatic compound or future purchase option
Covered services				
Nursing home, assisted living facility, or hospice facility	100% of DBA	100% of DBA	100% of DBA	100% of DBA
Respite care in a facility ^c	100% of DBA	100% of DBA	100% of DBA	100% of DBA
Caregiver training ^d	100% of DBA	100% of DBA	100% of DBA	100% of DBA
Bed reservations ^e	100% of DBA	100% of DBA	100% of DBA	100% of DBA
Formal caregiver services at home	None	75% of DBA	75% of DBA	75% of DBA
Informal caregiver services at home ^f	None	75% of DBA	75% of DBA	75% of DBA
Hospice care at home	None	100% of DBA	100% of DBA	100% of DBA
Adult day care center	None	75% of DBA	75% of DBA	75% of DBA

Sources: OPM and Partners.

^aA comprehensive plan covers everything a facilities-only plan covers plus formal or informal care at home, care in adult day care centers, hospice care at home, and respite services at home.

^bDoes not reflect inflation-protection increases. Also, weekly benefit amounts are available under comprehensive options. The weekly benefit amount is equal to 7 times the DBA.

^cBenefits limited to 30 times the DBA per calendar year. Comprehensive options provide respite care at up to 75 percent of the DBA at home or at an adult day care center in addition to services in a facility.

^dBenefits limited to 7 times the DBA in a lifetime.

^eThis benefit pays a nursing home, assisted living facility, or hospice facility to hold a bed while an enrollee is temporarily absent so that the enrollee may return to the facility. Benefits are limited to 30 days per calendar year.

^fBenefits for informal caregiver services are limited to those provided by people who did not normally live in enrollee's home at the time enrollee became eligible for benefits. Benefits for care provided by family members are limited to 365 days in a lifetime.

The federal program included care-coordination benefits and coverage for international benefits and had no war exclusion. Federal program care coordinators provide, among other services, general information about long-term care services; assess and approve need for care; develop a care plan; and monitor and reassess services. Using these services did not reduce an enrollee's maximum lifetime benefits. Care-coordination services were also available to qualified relatives,³ who did not need to be enrolled in the program, although some services could be provided at an additional charge. Coverage for benefits received outside the United States was available at 80 percent of the maximum amounts that would otherwise be payable, with certain restrictions. Although the federal program did not have a war exclusion, it included a catastrophic-coverage limitation; that is, a catastrophic event could limit the benefit period.

The federal program did not include several benefits and services that could be available in other products. For example, the federal program did not offer limited pay policies, in which the long-term care insurance policy could be paid up over a limited period of time; restoration of benefit options, in which any of the policy's maximum benefits that has been used could be replaced if the enrollee did not receive benefits for a specified period of time; or any discounts for both spouses of a married couple purchasing coverage, all of which were options available in individual products.

Customized Benefits in the Federal Program

Federal program enrollees had several options for customizing benefits instead of choosing a prepackaged benefit plan. Within certain parameters, federal enrollees could design their own plans by mixing and matching benefit options. In total, the federal program provided for 528 design variations. In addition to the benefit options selected, covered services listed in table 6 were automatically included. Table 7 shows the type and number of benefit options available to enrollees.

³Qualified relatives include current spouses of employees and retirees; adult children at least 18 years old—including natural, adopted, and stepchildren, but not foster children—of living employees and retirees; and parents, parents-in-law, and stepparents of living employees but not of retirees.

Table 7: Benefit Options in the Federal Long Term Care Insurance Program

Benefit description	Number of options
Coverage type—facilities-only or comprehensive ^a	2
Daily benefit amounts ^b —from \$50 to \$300, in \$25 increments	11
Elimination periods—30 days or 90 days	2
Benefit periods—3 years, 5 years, or unlimited	3
Inflation protection—automatic compound inflation or future purchase option	2

Source: OPM and Partners.

^aA comprehensive plan covers everything a facilities-only plan covers plus formal or informal care at home, hospice care at home, respite services at home, and care in adult day care centers.

^bThe federal program also offers weekly benefit amounts with a comprehensive plan for an additional cost.

Other Benefits in the Federal Program

Applicants denied regular coverage in the Federal Long Term Care Insurance Program had other benefit options. Some federal employees, members of the uniformed services, and their spouses who could apply for the federal program using an abbreviated application, but who were denied regular coverage, were offered coverage in the Alternative Insurance Plan. This plan covered nursing homes only, had a 180-day elimination period, provided coverage for 2 years, and started with a weekly benefit amount of \$200. In addition, all applicants for the federal program who were denied coverage could purchase a Service Package for an annual fee. This noninsurance option provided access to care-coordination services and discounts.

Enrollment in Federal Program Benefits

Nearly two-thirds of the 218,890 people who enrolled in the federal program from March 25, 2002, through March 31, 2005, chose one of the four prepackaged benefits. As shown in table 8, 35 percent of the enrollees customized their benefits within the ranges offered by the federal program, and less than 1 percent enrolled in the Alternative Insurance Plan.

Appendix II: Federal Long Term Care Insurance Program Benefits

Table 8: Federal Long Term Care Insurance Program Enrollment in Prepackaged Benefit Plans, Customized Benefits, and Alternative Insurance Plan from March 25, 2002, through March 31, 2005

	Number	Percentage
Prepackaged benefit plans	141,195	65
With automatic compound inflation protection	93,870	43
With future purchase option for inflation protection	47,325	22
Customized benefits	77,164	35
With automatic compound inflation protection	55,015	25
With future purchase option for inflation protection	22,149	10
Alternative Insurance Plan ^a	531	<1
Total	218,890	100

Source: OPM and Partners.

Note: Individual entries may not add to 100 percent because of rounding.

^aFor the Alternative Insurance Plan, if coverage remains in effect for 24 months, 48 months, or 72 months, and enrollee does not become eligible for benefits, weekly benefit amount increases to \$300, \$400, or \$500, respectively, without an increase in the premium.

Overall, 141,195 people enrolled in one of the four prepackaged benefit plans. Of the enrollees who chose a prepackaged benefit plan, 12 percent enrolled in the facilities-only package. The remainder, 88 percent, enrolled in one of the three comprehensive packages. Most of the people who enrolled in a comprehensive package enrolled in the Comprehensive 100 package. About two-thirds of all the enrollees choosing a prepackaged benefit plan also chose automatic compound inflation protection. Table 9 shows federal program enrollment in the four prepackaged benefit plans.

Table 9: Federal Long Term Care Insurance Program Enrollment in Prepackaged Benefit Plans from March 25, 2002, through March 31, 2005

	Number who chose automatic compound inflation	Number who chose future purchase option	Total	Percentage
Facilities 100	10,324	6,749	17,073	12
Comprehensive 100	41,031	18,110	59,141	42
Comprehensive 150	25,575	12,962	38,537	27
Comprehensive 150+	16,940	9,504	26,444	19
Total	93,870	47,325	141,195	100

Source: OPM and Partners.

Appendix III: Annual Premiums for Three Benefit Packages Offered in the Federal Program and at Five Carriers

Annual premiums for three comprehensive benefit packages offered in the Federal Long Term Care Insurance Program compared favorably with premiums at five carriers selling similar products in the individual insurance market. Tables 10 through 12 show that federal premiums for each of the three benefit packages were always lower than the average premium at five carriers for single people and for married couples who were both the same age. When considering the range of premiums available at the five carriers selling similar individual products, federal premiums for a single person were always lower than the premiums for individual products, while married couples who were both the same age could find lower premiums in the federal program in almost every case.

Appendix III: Annual Premiums for Three Benefit Packages Offered in the Federal Program and at Five Carriers

Table 10: Annual Premiums for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers in the Individual Insurance Market for Package 1 Sold on March 31, 2005

Enrollee	Federal program	Average for five carriers^a	Percentage difference^b	Range for five carriers
Single person				
40 years old	\$520.80	\$1,045.70	50	\$913.68 to \$1,349.01
50 years old	746.40	1,253.02	40	1,063.14 to 1,580.06
60 years old	1,118.40	1,702.32	34	1,455.12 to 2,213.00
70 years old	1,852.80	3,143.29	41	2,723.27 to 3,880.77
Married couples who were both the same age				
40 years old	1,041.60	1,382.38	25	1,152.00 to 1,888.61
50 years old	1,492.80	1,653.03	10	1,428.00 to 2,212.08
60 years old	2,236.80	2,248.25	1	1,920.00 to 3,098.20
70 years old	3,705.60	4,155.52	11	3,518.00 to 5,433.07

Source: GAO analysis of data provided by Partners and five carriers selling individual products.

Notes: Premiums shown are for the federal program's Comprehensive 100 benefit package (Package 1), the most popular federal benefit package purchased through March 31, 2005. Package 1 included a \$100 daily benefit amount, 3-year benefit period, 90-day elimination period, and the automatic compound inflation-protection option.

For the five carriers we reviewed, premiums were for a single person and a married couple who were both the same age placed in the standard rating category. The federal program did not use rating categories. Premiums for married couples who were both the same age at the five carriers reflected either a 30-percent or a 40-percent discount. The federal program did not provide discounts for spouses. Therefore, we doubled the premiums charged for single people. We assumed there was no discount for good health.

All benefits chosen by an enrollee affect the pricing of the package to some degree. Carriers provided premiums for the major options most similar to the federal program that had the largest effect on the premiums—daily benefit amounts, benefit periods, elimination periods, and inflation protection.

^aOne carrier reported premiums for a 100-day elimination period rather than for a 90-day period.

^bThe percentage difference shows how much lower the annual federal program premium is than the average annual premium at the five carriers selling individual products.

Appendix III: Annual Premiums for Three Benefit Packages Offered in the Federal Program and at Five Carriers

Table 11: Annual Premiums for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers in the Individual Insurance Market for Package 2 Sold on March 31, 2005

Enrollee	Federal program	Average for five carriers^a	Percentage difference^b	Range for five carriers
Single person				
40 years old	\$950.40	\$2,066.88	54	\$1,855.00 to \$2,557.12
50 years old	1,364.40	2,446.50	44	2,144.61 to 3,000.74
60 years old	2,044.80	3,332.64	39	2,842.56 to 4,213.44
70 years old	3,380.40	6,178.10	45	5,352.64 to 7,428.87
Married couples who were both the same age				
40 years old	1,900.80	2,735.83	31	2,225.00 to 3,579.97
50 years old	2,728.80	3,231.50	16	2,700.00 to 4,201.03
60 years old	4,089.60	4,404.34	7	3,726.00 to 5,898.81
70 years old	6,760.80	8,149.30	17	6,801.00 to 10,400.41

Source: GAO analysis of data provided by Partners and five carriers selling individual products.

Notes: Premiums shown are for the federal program's Comprehensive 150 benefit package (Package 2). Package 2 included a \$150 daily benefit amount, 5-year benefit period, 90-day elimination period, and the automatic compound inflation-protection option.

For the five carriers we reviewed, premiums were for a single person and a married couple who were both the same age placed in the standard rating category. The federal program did not use rating categories. Premiums for married couples who were both the same age at the five carriers reflected either a 30-percent or a 40-percent discount. The federal program did not provide discounts for spouses. Therefore, we doubled the premiums charged for single people. We assumed there was no discount for good health.

All benefits chosen by an enrollee affect the pricing of the package to some degree. Carriers provided premiums for the major options most similar to the federal program that had the largest effect on the premiums—daily benefit amounts, benefit periods, elimination periods, and inflation protection.

^aOne carrier reported premiums for a 100-day elimination period rather than for a 90-day period.

^bThe percentage difference shows how much lower the annual federal program premium is than the average annual premium at the five carriers selling individual products.

Appendix III: Annual Premiums for Three Benefit Packages Offered in the Federal Program and at Five Carriers

Table 12: Annual Premiums for Single People and Married Couples Who Were Both the Same Age for the Federal Long Term Care Insurance Program and for Five Carriers in the Individual Insurance Market for Package 3 Sold on March 31, 2005

Enrollee	Federal program	Average for five carriers^a	Percentage difference^b	Range for five carriers
Single person				
40 years old	\$1,310.40	\$3,066.24	57	\$2,755.65 to \$3,585.57
50 years old	1,875.60	3,647.26	49	3,165.00 to 4,186.00
60 years old	2,779.20	5,004.11	44	4,455.00 to 5,788.75
70 years old	4,550.40	9,093.04	50	7,740.90 to 10,051.12
Married couples who were both the same age				
40 years old	2,620.80	4,051.62	35	3,546.00 to 5,019.80
50 years old	3,751.20	4,812.09	22	3,798.00 to 5,846.35
60 years old	5,558.40	6,606.20	16	5,346.00 to 8,104.25
70 years old	9,100.80	11,971.86	24	10,837.26 to 14,071.56

Source: GAO analysis of data provided by Partners and five carriers selling individual products.

Notes: Premiums shown are for the federal program's Comprehensive 150+ benefit package (Package 3). Package 3 included a \$150 daily benefit amount, unlimited benefit period, 90-day elimination period, and the automatic compound inflation-protection option.

For the five carriers we reviewed, premiums were for a single person and a married couple who were both the same age placed in the standard rating category. The federal program did not use rating categories. Premiums for married couples who were both the same age at the five carriers reflected either a 30-percent or a 40-percent discount. The federal program did not provide discounts for spouses. Therefore, we doubled the premiums charged for single people. We assumed there was no discount for good health.

All benefits chosen by an enrollee affect the pricing of the package to some degree. Carriers provided premiums for the major options most similar to the federal program that had the largest effect on the premiums—daily benefit amounts, benefit periods, elimination periods, and inflation protection.

^aOne carrier reported premiums for a 100-day elimination period rather than for a 90-day period.

^bThe percentage difference shows how much lower the annual federal program premium is than the average annual premium at the five carriers selling individual products.

Appendix IV: Comments from the Office of Personnel Management



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1000

MAR 14 2006

Mr. John E. Dicken
Director, Health Care
United States Government Accountability Office
Washington, D.C. 20548

Dear Mr. Dicken:

Thank you for requesting our comments on your proposed report entitled *LONG-TERM CARE INSURANCE: Federal Program Compared Favorably to Other Products, and Analysis of Claims Trend Could Inform Future Decisions* (GAO-06-401).

Overall, we are pleased with the report. It is gratifying to see in print what we've known since we designed the program – the Federal Long Term Care Insurance Program compares favorably with other long term care insurance plans in private industry.

The report makes three recommendations. The first recommends that we analyze the low initial claims experience and use the results to modify expectations, and the second recommends that we analyze the amount of premium to be collected to pay for claims and the assumptions that went into the pricing. Finally, the report recommends that OPM send a report to Congress on these issues before the next contract negotiations.

I appreciate your suggestions to look further into the fact that the Program has received a low number of claims. It is important to note that FLTCIP was designed to have limited claims in the initial years. Enrollees were subject to an underwriting process, the purpose of which is to limit selection risk to the program. The effect of underwriting will diminish over time. A low number of initial claims is a good trend. The conservative premiums were analyzed very carefully before awarding the current contract. We need to be especially prudent not to come to any quick conclusions. As stated in your report, many factors come into play when setting premiums. Claims experience is but one of them. It would be imprudent to decrease premiums at this time. As you know, other plans have done so and come to regret it later when they had to increase premiums dramatically as market conditions changed. Further, the Program's annualized premium per enrollee is significantly higher than initially projected due to the high number of enrollees choosing the automatic compound inflation option.

CON 131-64-4
September 2001

Mr. John Dicken

2

The Long-Term Care Security Act (P.L. 106-265) already requires OPM to consider both this GAO report and the subsequent one to be issued in two years before we make any decisions about renewing the current contract which expires in 2008 or deciding to recompet. Certainly we will consider these recommendations when we perform our due diligence before making our contracting decision. The discussion of claims experience and premium setting that are part of GAO's report and our comments provide all of the information that is available at this time and preclude the need for a specific report on these issues. OPM will include updated information on claims experience and premium setting in its written recommendation to Congress already required by section 9003(d)(3) of the Act.

In all of the places where reference is made to "expectations" or "projections" in terms of enrollment, claims, etc., we believe it should be made clear that these were not market expectations. Long Term Care Partners provided low, medium, and high enrollment projections as part of their response to our request for proposals. Our review of their projections demonstrated that they had the capacity to handle the business under a variety of scenarios. We did not set enrollment or claims goals, since this was the first voluntary benefits program offered by the Government and we had no prior experience in offering an employee-pay-all benefit. Our focus was not so much on reaching an enrollment target, but ensuring that excellent customer service would be provided under any enrollment scenario.

We also have some technical comments for the body of the report, which we will send by email.

Thank you for the valuable feedback you have provided on the Federal Long Term Care Insurance Program. We look forward to receiving the final report.

Sincerely,



Linda M. Springer
Director

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

John E. Dicken, (202) 512-7119 or dickenj@gao.gov

Acknowledgments

In addition to the contact named above, Christine Brudevold, Assistant Director; Laura Sutton Elsberg; Elizabeth T. Morrison; Michelle Murray; and Joseph Petko made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548