CalPERS Long-Term Care Program
2015 Rate Increase FAQs

Background

As part of the strategic direction provided by the CalPERS Pension and Health Benefits Committee (PHBC), the Board approved a proposed premium increase of 79 percent beginning in 2015, or at the policyholder's election, 85 percent levied over a two-year period beginning in 2015.

It is essential to note that if the CalPERS Board had not approved these proposals at this time, the Long-Term Care Fund may not have been able to cover the benefits for policyholders who will need them in the future. CalPERS is very committed to its Long-Term Care policyholders and wants to ensure that the benefits they are expecting will be there when they are needed.

Consistent with the 2009 rate increase analyses and efforts to ensure long-term solvency of the LTC Fund, the Board approved actions between May 2011 and April 2012 to stabilize the Long-Term Care Fund. The proposed premium increase in 2015 is to help offset the reduction in future investment earnings resulting from a transition to a more conservative allocation mix and achieve a 10 percent margin.

Similar to other long-term care insurance companies, the LTC Program has experienced:

- Worse-than-expected morbidity (i.e. claims), due in part to less stringent underwriting standards in the mid-1990's
- Higher-than-expected claims incidence
- Lower-than-expected investment income

LTC Overview

- CalPERS Long-Term Care program was established 1995
- 150,330 current policyholders
- Long-Term Care Fund value is $3.6 billion (as of 6/30/2012)
- Long-Term Care Policy Categories
    - LTC1 – Long-Term Care policies issued 1995-2002 (125,257 policyholders)
    - LTC2 – Long-Term Care policies issued 2003-2004 (8,883 policyholders)
    - LTC3 – Long-Term Care policies issued 2005-2008 (16,190 policyholders)
- Current policies include comprehensive and facility only coverage with lifetime, 6-year and 3-year policies with and without inflation protection, and 2-year and 1-year Partnership policies with inflation protection.

Who may I call with questions about the proposed premium increases and benefit changes?

Long-Term Care Customer Service
(800) 982-1775
Monday – Friday 8:00 a.m. – 5:00 p.m. (PST)

When will the increases become effective?

July 1, 2015

Who will be impacted by the 2015 premium increase?

The proposed premium rate increase will impact LTC1 and LTC2 policies – policies purchased in 1995 - 2004 with lifetime coverage and built-in inflation protection, lifetime policies without inflation protection, as well as 6-year and 3-year policies with inflation protection.

Who will be excluded from the 2015 premium increase?

LTC1 and LTC2 policies with 6-years or 3-years of coverage, *without* built-in inflation protection are excluded from the proposed 2015 increase.

All Partnership policies and LTC3 policies purchased in 2005 or later are excluded from the 2015 increase.

LTC1 and LTC2 policies with inflation that convert to defined benefit coverage with Retained Inflation would also avoid the 2015 premium increase.

Why is a premium increase necessary, and why 85 percent?

To ensure the long-term solvency of the Long-Term Care Fund, the CalPERS Board recently approved a more conservative investment portfolio for the Fund, as well as a revised discount rate of 5.75 percent to match the portfolio change. The changes necessitated a premium increase in 2015 to offset the reduction in future investment earnings.

The Board approved a premium increase of 85 percent, applied over a two-year period, beginning in 2015, with an option for the member to select a one-year option of 79 percent. The percentage of the proposed increase is based on an assumption that 10 percent of people holding policies purchased between 1995 and 2004 with lifetime coverage and built-in inflation protection will choose to move to a 10-year/Retained Inflation policy no later than July 2013.

However, if more than 10 percent of these policyholders convert to the combined 10-year/Retained Inflation benefit, the proposed 2015 premium increase could be reduced. Conversely, if less than 10 percent convert to the new 10-year benefit option, the proposed premium increase could be higher.

What are the options to avoid the 2015 rate increase? What is CalPERS doing to help policyholders with the impact of these increases?

CalPERS will offer policyholders in its Long-Term Care Insurance Program the following options to convert their policies to help them avoid future premium increases and maintain adequate benefits for their long-term care needs:

Combined 10-year/Retained Inflation (RI) plan

> This policy conversion option will be offered to policyholders with LTC1 and LTC2 lifetime with built-in inflation policies (excluding California Partnership polices). It allows the opportunity to drop their built-in inflation protection and retain the increased Daily Benefit Amount (DBA) they've earned. Without the RI option, if policyholders elect to drop their built-in inflation protection, their increased DBA drops to the original amount they had at the time of purchase.

Retained Inflation (RI) option

> This policy conversion option will be offered to all policyholders with inflation protection (excluding California Partnership Plans), regardless of their policy duration. This will allow policyholders to drop their built-in inflation protection and maintain the higher Daily Benefit Amount they accrued and paid for over the years. This option is new for policyholders. Prior to this, when policyholders dropped their built-in inflation protection they were reverted to their original Daily Benefit Amount. Policyholders that elect this option and to remove their built-in inflation protection will not be subject to the 2015 increase.
>
> Policyholders who drop their built-in inflation protection will be eligible for a Benefit Increase Option (BIO) allowing them to increase their DBA. The BIO is offered every three years to policyholders who do not have built-in inflation protection. Policyholders accepting the BIO offer will have to pay the increased premium amount required for the additional coverage.

Optional Daily Benefit Amount

> This option is for policyholders who dropped their built-in inflation protection or decreased their Daily Benefit Amount following the 2010 Long-Term Care premium increase. They will be able to increase their current DBA under this option, but they will also be required to participate in the RI option. Those taking advantage of this alternative will have to pay the additional premium costs associated with repurchasing up to 100 percent of the DBA they had at the time they elected to drop their built-in inflation protection or decreased their DBA. Underwriting will be waived for policyholders who elect this option.

How long is the average claim?

Statistics show that the average long-term care length-of-claim is approximately 3.6 years.

If I reduce from lifetime benefit coverage to a defined fixed year benefit amount (10, 6 or 3 years) and start receiving benefits, will those benefits stop at the end of the defined fixed year benefit period (10, 6 or 3 years)?

Not necessarily. Benefits will be paid until the Total Coverage Amount of dollars is exhausted.

For example: the Total Coverage Amount of dollars for a 10 year plan is calculated as the Daily Benefit Amount Maximum multiplied by the number of days in 10 years (3650). So a 10 year plan with a Daily Benefit Amount maximum of $200 would have a total coverage amount of $730,000. The Daily Benefit Amount for facility care would be covered at $200 per day. The Daily Benefit Amount for home care would be $100, so you could have coverage longer than 10 years.

Experience has shown that a policyholder in claim, whose daily paid covered expenses are less than their Daily Benefit Amount maximum, are able to extend their benefits beyond the defined fixed year benefit period, as benefits are paid until the Total Coverage Amount of dollars is exhausted. If a policyholder used their maximum Daily Benefit Amount every day in a nursing home setting, then they would exhaust their coverage within the defined term of their coverage, in this case 10 years.

Why is CalPERS waiting until 2015? What is happening between now and then?

The LTC1 Comprehensive Lifetime policyholders with Inflation Protection have been receiving an ongoing five percent premium increase since 2011. This ongoing premium increase is scheduled to continue through 2014.

Between now and 2015 those LTC1 policyholders will be given the opportunity to convert to the 10-year Retained Inflation option. Depending upon the number of policyholders that convert, the percentage of the 2015 rate increase could vary.

CalPERS will be partnering with Constituent groups, such as Retired Public Employees Assoc. (RPEA), Service Employees International Union (SEIU), California State Employees Assoc. (CSEA), California State Retirees (CSR), California State University Retired Faculty (CSURF) and others, to provide educational materials to help explain the options available to policyholders.

What are the pros and cons of policyholders changing their benefit option?

Pros –

- Converting to a fixed year policy with no inflation protection may reduce premiums
- Converting to the new option stops the ongoing 5 percent premium increase in 2013 (for LTC1 lifetime with inflation protection policyholders)
- Policyholders who convert will not be subject to the premium increase projected for July 2015

Policyholders may also increase their Daily Benefit Amount and total coverage amount once every three years, by accepting the Benefit Increase Option. Accepting the Benefit Increase Option does result in a premium increase related to coverage increase.

Cons –

- While the average time in claim is less than four years, some people can spend significantly more time receiving long-term care. It isn’t possible for us to predict who might need extensive coverage, and some policyholders may exhaust even a 10-year policy.

Can I go from a 3-year or 6-year plan to the new 10-year RI plan?

No, at this time, only LTC1 and LTC2 policyholders with lifetime and built-in inflation protection will be offered the 10-year RI option.

When will the new options be available?

The new options will be offered as part of the 2013 ongoing 5% rate increase offering to the LTC1 policyholders with lifetime coverage with inflation protection. Policyholders will be notified of their specific options in April/May of 2013, with an effective date of any change of July 1, 2013.

Is CalPERS planning to provide additional information related to the proposed rate increase and the various options?

Yes, we will communicate with all policyholders to educate them on the need for the 2015 rate increase, the options that will be available and the impact we hope these changes will have on the future of the LTC Fund.

In April/May of 2013 LTC1 policyholders that are impacted by the ongoing 5% premium increase will receive a letter outlining specific options and related premium changes. Additional communication letters and articles will be circulated for other impacted policyholders.

How will the 2015 rate increase impact policyholders currently receiving benefits?

Policyholders that are receiving benefits when the 2015 rate increase is offered will not be impacted as long as they are receiving benefits and in premium waiver status. However, if they close their claim and resume paying their monthly premium, they would be offered the 2015 rate increase as part of the premium reinstatement process.

CalPERS asked for its first premium increase in 2003; why didn't you realize there would be a problem with the LTC Fund then and provide a less expensive fix?

At the time, the 2003 premium increase was thought to be sufficient based on projected claims and investment income. In 2003, long-term care insurance was still relatively new compared to life and disability insurance products, and there wasn’t as much claims experience or data available to rely upon, compared to today.

Does CalPERS plan on re-opening the LTC Program?

The CalPERS Board has not yet authorized an open application period. At the October Pension & Health Benefits Committee (PHBC), the PHBC

Chairperson directed staff to come back with in November 2012 with information on an open application period.

Can I cancel my plan and get my money back?

You may cancel your coverage at any time; however, there is no return of premiums on a voluntary cancellation of coverage. In addition, you received the benefit of coverage during the time you paid premium, had you qualified for benefit during this time your long term care insurance would have paid.

If your intent is to replace your coverage with other long-term care insurance, it is recommended that you don't cancel your current coverage until you receive confirmation that you have been approved for the new coverage. We strongly recommend that you evaluate all of your options before canceling your coverage. A written request with your signature is required to cancel your coverage and can be mailed to the following address:

CalPERS Long-Term Care Program
P.O. Box 64902
St. Paul, MN 55164-0902

I want to send a complaint to the CalPERS Board, what is their address?

You may write the Board at:

CalPERS Board of Administration
P.O. Box 942719
Sacramento, CA 94229-2719