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LONG-TERM CARE INSURANCE

Carrier Interest in the Federal Program, Changes to Its Actuarial Assumptions, and OPM Oversight

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Highlights

Highlights of GAO-11-630, a report to congressional requesters

LONG-TERM CARE INSURANCE

Carrier Interest in the Federal Program, Changes to Its Actuarial Assumptions, and OPM Oversight

Why GAO Did This Study

Since 2002, the federal government has offered long-term care insurance to its employees, retirees, and certain others through the Federal Long Term Care Insurance Program (FLTCIP). Enrollees pay the full cost of their premiums. The Office of Personnel Management (OPM) oversees the program. OPM has held two competitive processes to select contractors to insure enrollees and administer FLTCIP, although interest in and competition for these contracts has been limited. In 2009, soon after OPM's award of FLTCIP's second 7-year contract to John Hancock Life Insurance Company (John Hancock), 66 percent of enrollees were notified that their premiums would increase up to 25 percent in order to compensate for how the actuarial assumptions used to set premiums differed from the program's experience.

GAO was asked to review FLTCIP. In this report, GAO describes (1) factors affecting carriers' interest in FLTCIP, (2) how the actuarial assumptions used to set FLTCIP premiums have changed since the program's inception, and (3) OPM's oversight of actuarial assumptions and experience and program communications. To do so, GAO interviewed officials from six carriers that in 2009 insured over 60 percent of all long-term care insurance policyholders. GAO also interviewed officials from OPM and John Hancock and reviewed program documentation, including FLTCIP contracts.

View GAO-11-630 or key components.
For more information, contact John E. Dicken at (202) 512-7114 or dickenj@gao.gov.

What GAO Found

A variety of factors influenced carriers' interest in FLTCIP. Carriers' business strategies had the most significant influence on their interest, though in different ways. Some carriers wanted to increase their market share and thus were attracted to FLTCIP. In contrast, some carriers wanted to grow their long-term care insurance business at a slower pace, which detracted from their interest in FLTCIP. At the time of FLTCIP's second contract, factors relating to the program's history had the second-most significant influence on carriers' interest, and generally detracted from it as a result of FLTCIP's need for a premium increase and concerns about transitioning a large, complex program from another carrier. A variety of other factors also affected carriers' interest. For example, the large number of eligible individuals and the lack of a requirement to guarantee coverage to them positively influenced carriers' interest, while the lack of a list of home addresses for the eligible population—which could have been used to market the program—and the relatively large portion of eligible individuals who were disabled detracted from carriers' interest.

Since FLTCIP's inception in 2002, John Hancock has revised the program's actuarial assumptions. When setting premiums for the second contract period, John Hancock updated FLTCIP's assumptions to reflect an expectation that a larger portion of enrollees will voluntarily maintain their coverage longer and will live longer than initially expected. The carrier also reduced the amount of claims costs the program expects for enrollees of any given age. Although FLTCIP yielded a lower-than-expected return on investment during the first contract period, John Hancock did not revise this assumption when setting premiums for the second contract period. Instead, it revised the investment strategy to include considerable investments in public equities—such as stocks—which the carrier said have a higher expected rate of return. Altogether, John Hancock expects that more enrollees will continue their coverage, reach older ages, and submit claims than initially assumed. As such, the carrier increased projections for the total amount of future FLTCIP claims.

As part of its assessment of carriers' proposals to insure FLTCIP enrollees and administer the program, OPM evaluated the actuarial assumptions carriers proposed for the program to ensure that the assumptions were reasonable and collectively supported the proposed premiums. Once the program's premiums were finalized with the award of the contract, OPM has monitored the program's experience by reviewing regular reports comparing the experience of the program to the actuarial assumptions used to set premiums. OPM's oversight has also included a review of all program communications for accuracy and clarity prior to their use.

OPM and John Hancock provided technical comments, which have been incorporated as appropriate.

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Abbreviations

ACIO	automatic compound inflation option
FLTCIP	Federal Long Term Care Insurance Program
NAIC	National Association of Insurance Commissioners
OPM	Office of Personnel Management
RFP	request for proposal

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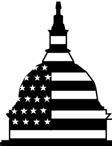

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Congressional Requesters

In 2009, about $253 billion was spent nationwide on long-term care services, including nursing home and other assisted-living services.[1] Most of this care was financed by government programs, primarily Medicaid,[2] and a small share of these costs—about 6 percent—was paid for by private insurance. Elderly people—those aged 65 and older—account for the majority of spending on long-term care services. As the number of elderly Americans continues to grow, particularly with the aging of the baby boom population, the growing demand for long-term care services will strain federal and state resources. Policymakers and experts have proposed an increased use of long-term care insurance as a means of reducing the future share of long-term care services financed by public programs.

Since 2002, the federal government has offered long-term care insurance to its employees, retirees, and certain others through the Federal Long Term Care Insurance Program (FLTCIP), in accordance with the Long-Term Care Security Act.[3] FLTCIP enrollees are required to pay the full cost of their premiums, unlike some other employee benefits—such as health insurance—offered by the federal government. The Office of Personnel Management (OPM), the federal agency that administers governmentwide compensation and benefit programs, oversees FLTCIP and contracts with private companies to insure FLTCIP enrollees and administer the program.[4] To date, OPM has held two competitive processes to select contractors for FLTCIP; however, only a few companies have submitted proposals, resulting in limited competition for the FLTCIP contracts. After the conclusion of the first competitive process in 2001, OPM selected a consortium of two large insurance carriers—

[1]Long-term care refers to a range of support services provided to people who, because of cognitive impairment, illness, or disability, generally are unable to perform activities of daily living for an extended period. Such activities include eating, bathing, dressing, using the toilet, getting in and out of bed, and getting around the house.

[2]Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals.

[3]Pub. L. No. 106-265, 114 Stat. 762 (2000).

[4]Program administration duties include items such as marketing, communicating with enrollees, and paying claims.

John Hancock Life Insurance Company (John Hancock) and Metropolitan Life Insurance Company (MetLife)—to insure program enrollees for the duration of the program's initial 7-year contract. This consortium jointly formed Long Term Care Partners, LLC (Partners) to administer the program. As the end of the first contract period grew near, OPM conducted its second competitive process for FLTCIP's next 7-year contract. In April 2009, the agency selected John Hancock as the insurer, with Partners—which became a wholly owned subsidiary of John Hancock—continuing to administer the program.[5]

With 268,204 enrollees as of June 30, 2011, FLTCIP is the largest private long-term care insurance program in the nation. As we previously reported, the benefits and premiums offered under FLTCIP compared favorably with those of other long-term care insurance plans.[6] These benefits and premiums did not change during FLTCIP's first 7-year contract period. However, in 2009, soon after OPM awarded the program's second contract, 146,415 individuals (66 percent of enrollees at that time) were notified that their premiums were subject to an increase of up to 25 percent. All of these enrollees had selected a particular inflation protection option—the 5 percent automatic compound inflation option (ACIO)—that was intended to keep enrollees' benefits commensurate with the cost of long-term care services by increasing their benefits each year by 5 percent without a routine increase in premiums. Although FLTCIP had not guaranteed that enrollees' premiums would remain stable, the announcement of a premium increase surprised some FLTCIP enrollees, who thought that the program's marketing materials indicated that selecting the ACIO would result in premiums that would remain constant over the life of their policies. However, FLTCIP was not unique in raising enrollee premiums. Long-term care insurance is a relatively new product, and carriers throughout the industry have struggled with setting premiums at a rate sufficient to cover future costs. Over the last decade, many carriers—including the largest in the market—have raised premiums to compensate for how the assumptions they used in setting premiums for this insurance product differed from their experience.

[5]In this report, we use "John Hancock" to refer to both John Hancock and its subsidiary Partners when we are referring to FLTCIP's second contract period.

[6]See GAO, *Long-Term Care Insurance: Federal Program Compared Favorably with Other Products, and Analysis of Claims Trend Could Inform Future Decisions*, GAO-06-401 (Washington, D.C.: Mar. 31, 2006).

You requested that we review FLTCIP. In this report, we describe (1) factors affecting insurance carriers' interest in contracting to insure FLTCIP enrollees and administer the program; (2) key changes made to FLTCIP since the second contract was awarded; (3) the benefit options offered to enrollees who faced a premium increase and the options they selected; (4) how actuarial assumptions used to set premiums for FLTCIP have changed since the program's inception; and (5) OPM's oversight of FLTCIP's actuarial assumptions and experience, and its communications with current and prospective enrollees.

To describe information on the factors that affected insurance carriers' interest in FLTCIP, we interviewed officials from six of the nation's largest long-term care insurance carriers—Genworth Financial, John Hancock, MetLife, Prudential Financial Inc., Transamerica Life Insurance Company, and Unum.[7] In 2009, these six carriers insured 61 percent of all long-term care insurance policyholders and 79 percent of those who purchased coverage through employers or other sponsors in the group market. In addition, these carriers varied with respect to their interest in FLTCIP; some submitted proposals to insure FLTCIP enrollees and administer the program, while others had not. We asked officials from these carriers to identify the factors that influenced the carriers' interest in FLTCIP at the time of the program's first and second contracts. Specifically, we asked these officials how factors related to carriers' business strategies and capabilities, FLTCIP's history, and other aspects of the program—such as statutory requirements—affected their interest in the program. We also asked these officials to explain how and to what extent such factors influenced carriers' interest.

To describe the key changes that have been made to FLTCIP since the second contract was awarded, we interviewed officials from OPM and John Hancock about the changes made to the program and reviewed program documentation, including FLTCIP contracts. We considered changes to be key changes if officials from both OPM and John Hancock identified them as significant and if they directly affected current or future enrollees.

[7]We also contacted another insurance carrier that declined our request for an interview, but nonetheless provided us with some information regarding the factors that affected its interest in FLTCIP.

To describe the benefit options that were offered to enrollees facing a premium increase, we interviewed OPM and John Hancock officials and reviewed program documentation. We also assessed the extent to which the benefit options were similar to those offered by other long-term care insurance carriers. To do so, we interviewed officials from the six insurance carriers noted above to obtain information on the benefit options they have typically offered to enrollees facing a premium increase. To describe the benefit options that FLTCIP enrollees selected and the impact of those selections on enrollees' premiums, we analyzed John Hancock data. These data summarized the benefits selected by FLTCIP enrollees facing the premium increase and the amount by which their premiums changed as a result of those selections. We discussed the data with knowledgeable officials from John Hancock and reviewed all data for reasonableness and consistency; we determined that the data were sufficiently reliable for our purposes.

To describe how the actuarial assumptions used to set premiums for FLTCIP have changed since the program's inception, we interviewed OPM and John Hancock officials and reviewed program documentation, including FLTCIP contracts. We compared the actuarial assumptions used to set premiums for the first contract period to those used to set premiums for the second contract period. We also examined the extent to which the assumptions had changed since premiums for the second contract period were set. In addition, we assessed how changes in FLTCIP assumptions compare to those used in setting premiums for other long-term care insurance plans. To do so, we interviewed officials from the six insurance carriers in our analysis about the actuarial assumptions they use, and how their assumptions have changed since FLTCIP began in 2002. We also interviewed insurance regulators from three states—California, Florida, and New York—about the actuarial assumptions used in setting premiums for long-term care insurance plans offered in their states. In 2009, these were the top three states in terms of the amount of long-term care insurance premiums earned; they were collectively responsible for overseeing 20 percent of all long-term care insurance policies.

To describe OPM oversight of actuarial assumptions and experience and program communications with current and prospective enrollees, we interviewed officials from OPM, John Hancock, and MetLife. For context, we interviewed officials from the six insurance carriers to gather information regarding the oversight conducted by other employers and state regulators.

We conducted this performance audit from September 2010 to July 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Long-term care, which includes services provided to individuals in nursing homes, in assisted-living facilities, or in their homes, can be costly. Most of our nation's spending for this care is paid for by government programs. Private long-term care insurance can also be used to pay for these costs; however, only a small portion of total long-term care costs are paid for by such coverage. The federal government has taken steps to increase the use of private insurance to pay for long-term care costs, including creating FLTCIP.

Long-Term Care Costs

Long-term care costs vary based on the types of services provided and the geographic area where they are rendered. For example, in 2010, the average annual cost for care in a nursing home exceeded $83,000 and the average annual cost for care in an assisted-living facility was nearly $40,000. In addition, the average hourly rate for a home health aide was $21; for example, 10 hours of such care a week would average about $11,000 per year.[8]

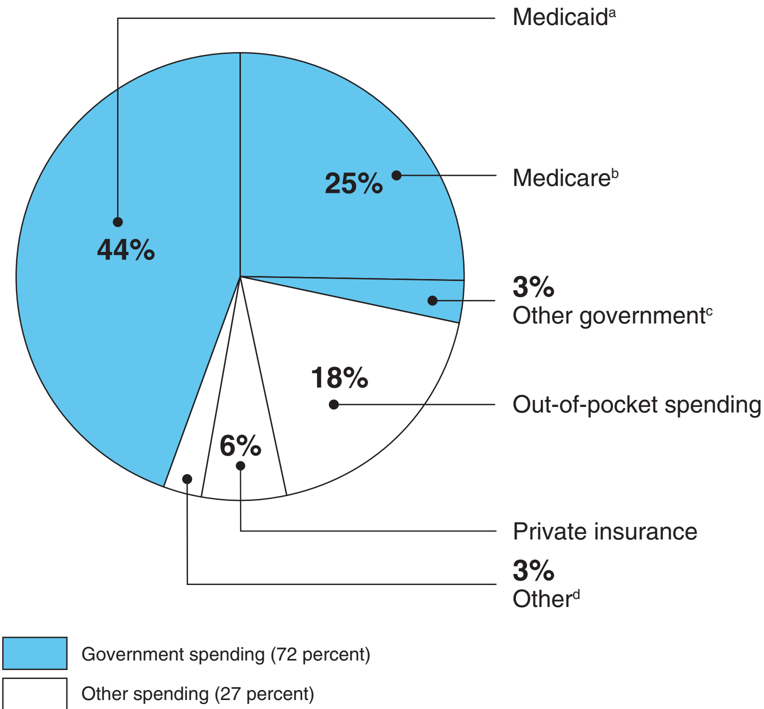
Most of the nation's spending on long-term care services is paid for by government programs. About $253 billion was spent nationwide on long-term care services in 2009, according to the most recently available data. Nearly three-quarters of this amount—$183 billion—was paid for by government programs, primarily Medicaid, and to a lesser extent, Medicare and other government programs. Individuals paid 18 percent of

[8]Metropolitan Life Insurance Company, *Market Survey of Long-Term Care Costs* (Westport, Conn., October 2010).

the total, or $46 billion, out of pocket, and private insurance paid for a small portion of the total, 6 percent, or about $16 billion.[9] (See fig. 1.)

[9]This estimate includes spending on nursing home care, home health care, and hospital-based nursing and home health care, as well as spending through Medicaid home- and community-based waiver programs that provide certain low-income individuals in some states with access to home- and community-based long-term care services. The estimate was prepared by the Centers for Medicare & Medicaid Services' Office of the Actuary based on 2009 National Health Expenditures data and other unpublished sources.

Figure 1: Percentage of Nationwide Spending on Long-Term Care Services, by Payment Source (2009)



Source: Centers for Medicare & Medicaid Services' Office of the Actuary estimate based on 2009 National Health Expenditures data and other unpublished sources.

Notes: This estimate includes spending on nursing home care, home health care, and hospital-based nursing and home health care, as well as spending through Medicaid home- and community-based waiver programs that provide certain low-income individuals in some states with access to home- and community-based long-term care services. Percentages do not sum to 100 because of rounding.

[a]Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals.

[b]Medicare is the federal program that finances health care for seniors aged 65 and older, certain disabled individuals, and individuals with end-stage renal disease.

[c]Other government spending includes coverage financed by the Department of Veterans Affairs as well as other state and local programs.

[d]Other includes private revenues, such as philanthropy.

Long-Term Care Insurance

Individuals may purchase long-term care insurance policies directly from carriers in the individual market, or they can enroll in those offered by groups, such as their employers. At the end of calendar year 2009, 6.7 million individuals had long-term care insurance policies, according to data from the National Association of Insurance Commissioners (NAIC). Nearly 70 percent of these policies were purchased in the individual

market, with the remaining portion purchased through employers or other group sponsors.

States are generally responsible for overseeing long-term care insurance. Through laws and regulations, states establish standards governing long-term care insurance and state insurance departments enforce those standards. NAIC has issued model laws and regulations to assist states in formulating their laws and regulations for long-term care insurance; many states have adopted NAIC's models. State regulators perform a variety of oversight tasks that are intended to protect consumers from unfair practices, including reviewing premiums and marketing materials and responding to consumer complaints.

Long-term care insurance is generally structured around a number of benefit options that applicants select. These include

- the types of services covered, such as nursing home services, care in home and community settings, or both;
- the daily benefit amount, which is the maximum amount insurance will pay on a single day;
- the benefit period (or duration of coverage), which can range from 1 year to unlimited (i.e., lifetime) coverage; and
- the length of the elimination or waiting period, which is the length of time an individual has to wait before insurance will provide coverage toward the cost of care.

An applicant can also select an inflation protection benefit to help ensure that over time, his or her daily benefit amount remains commensurate with the costs of care. Inflation protection benefits increase the enrollee's daily benefit amount at specified intervals—for example, annually. Carriers typically provide multiple inflation protection options, including a 5 percent ACIO. Under this option, an enrollee's daily benefit amount is increased each year by 5 percent of the prior year's amount without a routine increase in premiums. For example, an individual who selected a daily benefit amount of $100 at enrollment would have accrued a $105 daily benefit amount that would be available to him or her at the beginning of the second year of coverage. At the beginning of the third year of coverage, the enrollee's daily benefit amount would accrue by an additional 5 percent to $110.25. Inflation protection is important because many purchasers of long-term care insurance do not expect to need long-term care services until some time in the future; they pay premiums over a period of years in return for a promise of future protection. This benefit

allows enrollees to take advantage of lower premium rates available to younger enrollees, while allowing their benefits to grow over time.

Long-term care insurance premiums are affected by many factors. Carriers charge higher premiums for richer benefits; for example, higher daily benefit amounts, longer benefit periods, and higher levels of inflation protection will increase premiums. In addition, premium rates vary based on enrollees' age at enrollment, with older individuals subject to higher premiums than younger individuals who select the same benefits. Premiums for some policies may also be based on the health status of the applicant. For example, policies sold in the individual market are generally subject to full underwriting,[10] which entails an extensive review of the applicant's health and may result in premiums that vary based on health status. In contrast, premiums for policies sold in the group market usually do not vary based on individuals' health status. Such policies may be offered, during at least some periods, on a guaranteed issue basis with no underwriting—meaning that coverage is guaranteed to all eligible individuals. For example, some carriers guarantee coverage to a group of eligible individuals, such as active employees, during an open enrollment period.

In addition, carriers establish premiums on the basis of actuarial assumptions—including lapse, mortality, morbidity, and return on investment assumptions.

- The lapse assumption reflects the expected portion of enrollees who drop their coverage each year, for example, by voluntarily canceling their policies. Lapse assumptions can vary based on a variety of factors, including the enrollees' age at enrollment and the number of years enrollees have had their policies. In general, it is assumed that the longer that enrollees keep their policies, the less likely they are to lapse. After enrollees have maintained their policies for a certain number of years—for example, after 6 or 8 years—carriers may assume that the lapse rate will remain constant. This rate is referred to as the ultimate lapse rate. Lapse rate assumptions greatly affect long-term care insurance premiums because when individuals lapse, future liabilities are immediately reduced although current assets are

[10]Underwriting is the process of reviewing an applicant's responses to questions, including medical and health-related questions, to determine if the applicant is insurable and the premium rate is appropriate, given the level of risk the applicant presents for the insurance coverage. In some cases, underwriting also includes a review of the applicant's medical records and the results of the applicant's interview with a nurse.

not affected. Premiums that have already been paid by those who lapse generally remain with the carrier and are used to subsidize the cost of future claims by other enrollees.[11]

- The mortality assumption summarizes the expected death rate of the enrollee population, by age. Similar to the lapse assumption, mortality reduces future liabilities without affecting assets.
- The morbidity assumption reflects the amount of claims costs expected for enrollees, by age, and accounts for the portion of enrollees of each age who file a claim and the duration of those claims. Because carriers assume that older enrollees are more likely to file a claim, the expected amount of claims costs increases with age.
- The return on investment assumption reflects the expected interest rate earned on invested assets.

Because actuarial assumptions are projections about the future, they can change over time as carriers gain more experience, especially with relatively new products such as long-term care insurance. In addition, these assumptions are developed based on the professional judgment of carriers' actuaries; therefore, actuarial assumptions—and the resulting premiums—can differ across actuaries and carriers.

A key feature of long-term care insurance is that premiums are designed—although not guaranteed—to remain level over time. Carriers calculate premium rates with a goal of ensuring that the total amount of premiums paid by all enrollees plus the interest earned on the invested assets over the lifetime of the policy are sufficient to cover the cost of future claims and expenses. Setting premiums at an adequate level to cover future costs has been a challenge for some carriers. Long-term care insurance is a relatively new product. In addition, several decades may elapse before enrollees submit claims and carriers obtain data on how their enrollees use their policies. As a result, many carriers have lacked (and may continue to lack) sufficient data to accurately estimate

[11]Some plans offer a nonforfeiture benefit option, which allows enrollees who lapse to obtain coverage for their long-term care costs, up to the total amount of premiums the enrollees' paid prior to lapsing. As such, premiums paid by those who lapse but who had nonforfeiture benefits would subsidize other enrollees' claims to a smaller extent, or possibly not at all.

the revenue needed to cover costs. This has led to changes in the marketplace as many companies have raised premiums, left the marketplace, or consolidated to form larger companies.[12]

In response to the growing number of premium increases for long-term care insurance, NAIC issued revisions to its model long-term care insurance regulation in 2000. The new model regulation established more rigorous requirements that carriers must meet when setting initial premium rates and when requesting premium increases. For example, the model regulation introduced a new requirement for insurance carriers' actuaries to certify that premiums are adequate to cover anticipated costs over the life of a policy, even under "moderately adverse conditions," with no future premium increases anticipated. Moderately adverse conditions could include, for example, below average returns on invested assets. To fulfill this requirement, insurance carriers' actuaries must include a margin for error when setting premiums.[13]

FLTCIP Oversight and Administration

The Long-Term Care Security Act authorizes OPM to enter into 7-year contracts with one or more private entities to insure FLTCIP enrollees and administer the program. The Act requires OPM to ensure that each of these contracts is awarded on the basis of contractor qualifications, price, and reasonable competition. The Act also tasked OPM with overseeing FLTCIP and preempts state oversight of the program.[14] As a result, OPM performs functions of both a sponsoring employer and a regulator for this program.

To obtain carriers' proposals for FLTCIP, OPM issued two requests for proposals (RFP)—one in 2001 for the program's first contract, and another in 2008 for the program's second contract. The agency's RFPs summarized information about the program, including information about the population eligible to apply for coverage, as well as program requirements, such as covered services and benefit options that were to be offered. The RFP for the program's second contract included detailed

[12]In 2009, the top four carriers offering long-term care insurance accounted for over 50 percent of all covered lives.

[13]There is no standard definition of "moderately adverse conditions;" rather, the actuary must determine for each long-term care insurance policy the appropriate margin for error for the assumptions used to calculate premiums.

[14]Pub. L. No. 106-265, §§ 9003(a), (d)(1); 9005(a); 114 Stat. 762, 764-66, 767-8 (codified at 5 U.S.C. §§ 9003(a), (d)(1); 9005(a)).

information about the experience of the program to date—including the number of enrolled individuals and their characteristics, current premiums, and the balance of funds available to pay for FLTCIP claims and expenses. The RFPs for both contracts also outlined OPM's expectations for the program. For example, OPM's RFP for the first contract stated that because of efficiencies in marketing to a large group, the agency expected that carriers would offer premiums that were 15 to 20 percent below those charged for comparable benefits in the individual market. In its RFP for the second contract, OPM stated that carriers should adjust premiums to ensure that they were adequate, but that premium increases should not exceed 25 percent per enrollee.[15] In addition, in its RFPs for both contracts, OPM stated that it expected carriers to follow NAIC's 2000 model long-term care insurance regulation by including a margin for moderately adverse conditions when setting premiums for FLTCIP. In addition to providing information about the program, OPM's RFPs required carriers to submit detailed proposals for plan premiums and benefits as well as for the administration of FLTCIP.

The FLTCIP contract includes the winning carrier's responses to OPM's RFP and outlines all key aspects of the program. Once the contract is signed, any changes made to the program during the contract term—such as changes to enrollee premiums—must be agreed upon by OPM and the carrier. The contract outlines the roles and responsibilities of all parties and the type and frequency of reporting. It also includes information about the benefits offered; the actuarial assumptions used to set premiums; the premiums charged; and how payments for the program's expenses, as well as payments that are designated as profits, are determined. Unlike other contracts between employers and insurance carriers, the FLTCIP contract includes provisions for the management of program assets—that is, the funds collected as premiums and used to pay claims. By statute, such funds must remain separate from the carrier's other businesses.[16]

At the end of FLTCIP's 7-year contract, OPM can again conduct a competitive process to obtain proposals for insuring FLTCIP during its third contract term. If a new carrier is selected, the current carrier must transfer all FLTCIP enrollees and assets, including any positive or negative returns related to the experience of the program, to the next

[15]The 25 percent cap on premium increases applied only to those who made no changes to their benefits.

[16]Pub. L. No. 106-265, § 9004(e), 114 Stat. 762, 767 (codified at 5 U.S.C. § 9004(e)).

carrier. If OPM does not contract with another carrier, the current carrier would retain its responsibility for insuring all current enrollees and would continue to work with OPM to administer the program. Premium rates would remain at their then current levels unless OPM and the carrier agree on different rates, or the carrier submits new premium rates it believes are warranted to attain funding sufficiency, at least one year prior to the rates' effective date. FLTCIP assets would remain available to pay for these enrollees' claims and expenses.

FLTCIP Eligibility and Benefits

The Long-Term Care Security Act also defined key aspects of FLTCIP eligibility. For example, the statute requires that all federal and Postal Service employees and retirees, active and retired members of the uniformed services, their qualified relatives, and certain others be eligible to apply for FLTCIP coverage.[17] Almost 19 million people were estimated to be eligible to apply for coverage as of October 15, 2001. While the Act specifies who is eligible to apply for FLTCIP coverage, it does not require that coverage be guaranteed to all eligible individuals. Eligibility for coverage has been subject to underwriting, though the level of underwriting used by the program varies. During FLTCIP open enrollment periods, an abbreviated underwriting application has been used for active federal employees and their spouses or same-sex domestic partners and active members of the uniformed services and their spouses.[18] A more lengthy underwriting application, similar to underwriting in the individual insurance market, is generally used for these applicants if they apply for coverage during other times and for all other applicants, including retirees and qualified relatives, regardless of when they apply.[19]

[17]Qualified relatives include current spouses of employees and retirees, as well as same-sex domestic partners of active and retired federal and Postal Service employees; 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.

[18]FLTCIP held its first open enrollment period when the program first began in 2002 and held its second open enrollment from April 4, 2011, through June 24, 2011. Same-sex domestic partners were not eligible to apply for FLTCIP coverage during the program's first open enrollment period in 2002; they first became eligible for coverage in July 2010.

[19]Newly hired federal and Postal Service employees and newly active members of the uniformed services who apply for FLTCIP coverage within 60 days of their employment may do so using an abbreviated underwriting application, as can their spouses.

Similar to other long-term care insurance plans, FLTCIP enrollees are able to select from a range of benefits, as outlined in OPM's contract with the carrier. FLTCIP offers applicants the ability to choose, for example, their daily benefit amount and benefit period. The program also offers inflation protection benefits, including a 5 percent ACIO, which has been offered since the program's inception. Once an enrollee becomes eligible for benefits, FLTCIP provides reimbursement for covered services up to the enrollee's accrued daily benefit amount based on the benefit options selected.[20] For example, FLTCIP pays for 100 percent of enrollees' nursing home costs, up to their accrued daily benefit amount.

FLTCIP premiums vary greatly depending on the benefits selected as well as individuals' ages at enrollment. For example, a plan with a $150 daily benefit amount, 3-year benefit period, and 5 percent ACIO would cost $87 per month for coverage for an individual who enrolled at age 40, but would cost $238 per month for an individual who enrolled at age 65.

As part of FLTCIP's second contract, OPM and John Hancock agreed to a premium increase of up to 25 percent for current enrollees who had selected the program's 5 percent ACIO benefit and were less than 70 years old at the time of their enrollment. As of October 2009, two-thirds of all FLTCIP enrollees—146,415 individuals—had 5 percent ACIO coverage and were subject to the premium increase.[21] OPM and John Hancock officials have stated that the premium increase was warranted because of projections for future program underfunding, which occurred primarily as a result of lower-than-expected lapse and mortality rates, as well as lower-than-expected returns on investments.

[20] FLTCIP enrollees become eligible for benefits once a licensed health care practitioner certifies, and the program agrees, that the enrollee (1) is unable to perform at least two activities of daily living without substantial assistance for a period expected to last at least 90 days or (2) needs substantial supervision because of a severe cognitive impairment, such as Alzheimer's disease.

[21] Although FLTCIP did not guarantee that premiums would remain stable, some individuals who selected the 5 percent ACIO benefit—which increases enrollees benefits each year without a routine increase in premiums—believed that their premiums would never increase. At an October 14, 2009, joint hearing of the Senate Special Committee on Aging and the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia of the Senate Committee on Homeland Security and Governmental Affairs, members of Congress and others questioned the clarity of FLTCIP's marketing of this benefit.

A Variety of Factors Influenced Carriers' Interest in FLTCIP, Business Strategy Most Significantly

A variety of factors have influenced carriers' interest in contracting to insure FLTCIP enrollees and administer the program, according to officials from the carriers we interviewed. Carriers' business strategies had the most significant effect on their interest in the program at the time of both contracts, but their strategies affected their interest in different ways. Factors relating to FLTCIP's history generally detracted from carriers' interest in the program at the time of its second contract, and a variety of other factors—including the size and characteristics of the program—have also influenced carriers' interest in the program since its inception.

Business Strategy Most Significantly Influenced Carriers' Interest in FLTCIP, but in Different Ways

Carriers' business strategies had the most significant influence on their interest in FLTCIP at the time OPM solicited proposals for the first and second contracts, according to officials we interviewed. However, carriers differed as to whether their business strategy had a positive or negative effect on their interest in FLTCIP. Officials from three of the six carriers we interviewed said that their carrier's business strategy positively influenced their interest in FLTCIP at the time OPM solicited proposals for each contract. In contrast, officials from three of the carriers we interviewed indicated that their carrier's business strategy detracted from their interest in FLTCIP.[22]

Officials from the carriers who indicated that business strategy had a positive influence on their interest noted that their companies were interested in growing their long-term care insurance business and believed FLTCIP would provide them with an opportunity to do so. They also stated that insuring FLTCIP would lend them credibility, assist them in gaining name recognition in the marketplace, and further their goals of expanding sales of their other (nonfederal) long-term care insurance policies. In contrast, officials from the carriers who indicated that their business strategy detracted from their interest in FLTCIP said that they wanted to grow their long-term care insurance business at a slower pace or focus on other segments of the market, such as the individual market. Officials from three carriers noted that FLTCIP had the potential to be so

[22]At the time of both of OPM's RFPs, business strategy had a positive influence on three of the carriers' interest in FLTCIP and a negative influence on three of the carriers' interest. However, the influence on specific carriers differed for the first and second solicitations. Specifically, business strategy had a positive influence on two carriers for both solicitations and a negative influence on two carriers for both solicitations. For the remaining two carriers, business strategy affected their interests differently at the time of the first and second solicitations.

large that the carrier may not have been able to insure enrollees or administer the program independently, and some carriers also noted concerns about partnering with other insurance carriers to do so. Finally, two carriers told us that they had less interest in selling long-term care insurance overall at the time of the second contract. Officials from these carriers told us that they were uncertain about the risks associated with long-term care insurance because of industrywide challenges in setting actuarial assumptions that lead to adequate premium rates. As of January 2011, three of the six carriers whose officials we interviewed had suspended sales of some or all of their long-term care insurance policies.[23] (See app. I for more information about how factors related to carriers' business strategies and capabilities influenced their interest in FLTCIP.)

FLTCIP History Generally Detracted from Carriers' Interest in the Second Contract

Factors related to FLTCIP's history generally detracted from carriers' interest in the program at the time of OPM's solicitation for the second contract and had the second most significant influence on carriers' interest in FLTCIP at that time. When asked about how FLTCIP's history affected the carrier's interest at the time of the second contract, officials from four of the carriers noted that as a result of the program's history—including the premiums charged for the benefits offered during the first contract period and the actuarial experience of the program—a premium increase was warranted. These officials raised concerns about having to implement a premium increase for FLTCIP. Specifically, officials from three of the carriers, none of which were involved in the program's first contract, raised concerns that implementing a premium increase as the program's new carrier would result in negative implications for the carrier's reputation. Additionally, officials from two carriers told us that OPM's 25 percent cap on premium increases was a concern because they estimated that a larger premium increase was warranted.

[23]Specifically, in 2009, Unum halted sales of long-term care insurance policies in the individual market, and in 2010, John Hancock stopped sales of long-term care insurance policies in the group market. MetLife discontinued sales of all of its long-term care insurance policies in 2011. In addition, the carrier that we contacted but that declined our request for an interview discontinued sales of long-term care insurance policies in the individual market in 2003.

Four carriers also cited concerns about transitioning the program from other carriers. Specifically, officials from some of these carriers stated that transitions are difficult for the smallest programs, and the large size and complexity of FLTCIP would add to other challenges related to transitioning the program. In addition, officials from two carriers explained that their concerns over transitioning FLTCIP were linked to taking on the risk of insuring a population that the carrier had no involvement in underwriting. (See app. II for more information about how FLTCIP's history influenced carriers' interest in the program.)

Other Factors, Including the Size and Characteristics of FLTCIP's Eligible Population, Also Influenced Carriers' Interest

Other factors, such as the large size and characteristics of FLTCIP's eligible population, also influenced carriers' interest in the program at the time of both the first and second contracts. The large size of the eligible population had a positive influence on carriers' interest in FLTCIP, but the lack of a list of home addresses for the eligible population and the voluntary nature of the program had a negative influence. Officials from four of the six carriers we interviewed noted that the large number of people eligible for FLTCIP positively influenced their interest in the program. These officials explained that a large eligible population increases the likelihood for a larger number of enrollees and provides a greater potential for enrolling healthy individuals who represent a lower risk of submitting claims. However, as OPM noted in its RFPs for both contracts, the agency does not have a list of home addresses of active federal employees for the carrier to use in marketing FLTCIP. All of the carriers we interviewed noted that not having this information significantly detracted from their interest in the program.[24] These officials explained that marketing directly to eligible individuals at their homes is critical for ensuring that a large number of individuals—including a high proportion of healthy individuals—apply for coverage. As such, not having this list resulted in concerns that FLTCIP would attract a disproportionate share of individuals who knew they needed coverage, which would result in a higher risk for the program. Likewise, officials from three carriers we interviewed also noted that offering FLTCIP as a voluntary benefit with no government contribution to premiums detracted from their interest in the

[24]In our prior work, we noted that the lack of home addresses posed a significant marketing challenge for FLTCIP because the insurance carriers we interviewed told us that mailing information directly to eligible individuals' homes is critical to market long-term care insurance plans. See GAO, *Long-Term Care Insurance: Federal Program Has a Unique Profit Structure and Faced a Significant Marketing Challenge*, GAO-07-202 (Washington, D.C.: Dec. 29, 2006).

program because carriers had concerns that the program's enrollment would not be as large as it could have been. In addition, officials noted that this aspect of the program would likely attract a disproportionate share of individuals who expected to incur long-term care costs and would likely submit claims earlier than was typically expected. These officials explained that if all active federal employees were automatically enrolled in FLTCIP, or if the government paid for a portion of all active federal employees' premiums, FLTCIP would benefit from a larger number of enrollees as well as a larger portion of healthy enrollees who would have a lower risk of submitting claims.

Similarly, characteristics of the eligible population negatively affected carriers' interest in FLTCIP, but this was at least somewhat offset by the fact that eligible individuals are not guaranteed coverage. Officials from all of the carriers we interviewed cited concerns about the relatively high portion of active federal employees who were disabled and eligible to apply for FLTCIP coverage. In its RFP for the first contract, OPM notified insurance carriers that the federal government employs a large percentage of persons with self-reported disabilities.[25] Specifically, OPM reported that approximately 7 percent of active federal employees self-identified as disabled, noting that this estimate did not include active postal or military employees. Insurance carrier officials told us that the relatively large portion of disabled individuals increased the risk to FLTCIP because disabled individuals were more likely to seek coverage and submit claims sooner than nondisabled individuals. Officials from five of the six carriers we interviewed said that the fact that FLTCIP has not guaranteed coverage for all eligible individuals—and is not required to do so—had a large positive influence on the carriers' interest at the time of the first and second contracts. These officials explained that the ability to conduct at least some underwriting for applicants would enable them to better manage the risks of the program, especially given the relatively large portion of disabled employees. Officials from several carriers also said that if FLTCIP guaranteed coverage to all eligible individuals at any point in time, carrier interest in FLTCIP would likely diminish and officials from two carriers we interviewed noted that they would not have considered submitting a proposal for FLTCIP if the program were required to offer coverage on a guaranteed issue basis.

[25]The federal government has taken steps to increase the recruitment, hiring, and retention of people with disabilities, and to provide these individuals with benefits.

Five of the six carriers we interviewed stated that having FLTCIP subject to OPM oversight rather than states' oversight influenced their interest in the program, but the carriers varied with regard to how this affected their interest. Officials from three of these carriers said that OPM's role was unusual, because the agency would be acting as both the employer sponsor and insurance regulator. Officials also raised related questions and concerns about OPM's ability to adequately oversee such a complicated insurance product as well as the potential for FLTCIP to be subject to political pressure. In addition, officials from three of the carriers we interviewed expressed concerns regarding the potential for having a difference of opinion with OPM during the contract period regarding key elements of the program, such as the need for a premium increase. However, officials from four of the carriers we spoke with noted that OPM oversight positively influenced their interest in FLTCIP, in part because it had the potential to produce a single, large, uniform program as a result of a more streamlined oversight process than what would otherwise be available through state oversight. Appendix III provides more information about how a variety of factors influenced carriers' interest in FLTCIP.

Key Changes Have Been Made to FLTCIP Benefits, Investment Strategy, and Profit Payment Formula since the Second Contract Was Awarded

Since the second contract was awarded, three key changes have been made to FLTCIP, in addition to the implementation of a premium increase for certain enrollees. These key changes were the introduction of new benefits for current and new enrollees, modifications to the program's investment strategy, and revisions to the formula used to calculate the carrier's profit payment.

Regarding the program's benefit changes, FLTCIP introduced a new benefit plan and a new inflation protection option for enrollees.

- The new benefit plan—referred to as FLTCIP 2.0—was made available to all program enrollees.[26] In comparison to the FLTCIP 1.0 plan that was previously offered, the FLTCIP 2.0 plan provides enhanced coverage. It offers additional benefit options, for example, by expanding the range of daily benefit amounts and benefit periods available to enrollees. The FLTCIP 2.0 plan also covers a greater portion of the cost of care for some long-term care services. For instance, the FLTCIP 2.0 plan covers 100 percent of the cost of home care and adult day care, up to the enrollee's accrued daily benefit

[26]New program enrollees were automatically enrolled in the FLTCIP 2.0 plan, while individuals already enrolled in FLTCIP were able to switch to the FLTCIP 2.0 plan.

amount. This represents an increase over the FLTCIP 1.0 plan, which covered these costs up to 75 percent of the enrollee's accrued daily benefit amount for those who selected comprehensive coverage.[27] In addition, the FLTCIP 2.0 plan provided coverage for a broader range of services than the FLTCIP 1.0 plan. Specifically, the FLTCIP 2.0 plan expanded the services covered under its stay-at-home benefit. This benefit pays for costs that enable enrollees to receive long-term care services in the home, including those incurred for home modifications and caregiver training. (See app. IV for a comparison of selected benefits available under the FLTCIP 1.0 and FLTCIP 2.0 plans.) John Hancock officials told us that they proposed changes to FLTCIP's benefits to make the program's benefits comparable to those offered by other long-term care insurance plans available in the market. They further noted that these changes were intended to ensure that FLTCIP remains competitive with other long-term care insurance plans.

- FLTCIP also introduced a new inflation protection option for enrollees—a 4 percent ACIO. This option was made available to enrollees in addition to the other inflation protection options that FLTCIP has offered since its inception, such as the 5 percent ACIO. Compared with a 5 percent ACIO, a 4 percent option results in reduced protection against increases in the cost of long-term care services.[28] However, a 4 percent ACIO allows enrollees to obtain a package of benefits at a cost that is lower than that available with a 5 percent ACIO. John Hancock officials told us that they offered a 4 percent ACIO to provide enrollees with an additional inflation protection option, and they were comfortable that this option provides enrollees with adequate protection against inflation based on historical increases in the cost of long-term care services. (See app. V for an analysis of how the 4 and 5 percent ACIOs compare to changes in the cost of long-term care services since 2002.)

[27]The FLTCIP 1.0 plan offered applicants the ability to select between comprehensive and facilities-only coverage, whereas the FLTCIP 2.0 plan only offers comprehensive coverage. Comprehensive coverage provides reimbursement for everything that facilities-only coverage provides plus formal or informal care at home, care in adult day care centers, hospice care at home, and respite services at home.

[28]OPM and John Hancock have agreed to provide a method for an enrollee to adjust his or her daily benefit amount if they determine that the cumulative change in the cost of long-term care services is significantly higher than the enrollee's selected ACIO rate. Increasing the daily benefit amount to account for a higher rate of inflation would result in a higher premium.

Another key change made to FLTCIP was the modification of the program's investment strategy. John Hancock proposed a new, less conservative investment strategy in its response to OPM's RFP for FLTCIP's second contract, which later became part of the terms of the carrier's contract with OPM. According to John Hancock officials, the revised strategy has a higher expected rate of return than the former strategy. During the first contract period, FLTCIP invested 100 percent of its assets in short-duration fixed-income bonds. FLTCIP's new investment strategy involves investing a portion of the program's assets in fixed-income bonds of a longer duration, while investing another portion in public equities. Specifically, all of the assets corresponding to the program's short-term liabilities—those expected to be incurred within the next 20 years—would be invested in fixed-income bonds. However, most of the assets corresponding to the program's long-term liabilities—those expected to be incurred in more than 20 years—would be invested in public equities, which have the potential to earn a higher rate of return than fixed-income bonds.[29] John Hancock proposed modifications to the investment strategy to enable FLTCIP to earn a potentially higher rate of return on its investments over time without subjecting short-term investments to possible fluctuations in investment returns. According to John Hancock officials, the new strategy would also better align the duration of the program's investments with the program's liabilities. John Hancock officials told us that they hoped these changes would enable FLTCIP to maintain more stable premiums over time.

The third key change made to FLTCIP since the second contract was awarded was a revision to the formula used to calculate the insurance carrier's profit payment.[30] While the structure of the formula remained the same, the portion of premiums and assets used in calculating the profit payment was reduced. Both FLTCIP contracts have explicitly defined a

[29]"Public equities" refers to assets invested in public companies—for example, via the purchase of stocks. John Hancock plans to invest 75 percent of the assets corresponding to FLTCIP's long-term liabilities in public equities. However, the portion of total program assets corresponding to FLTCIP's long-term liabilities will change over time. As of the end of 2010, 42 percent of FLTCIP's total assets—including 58 percent of assets corresponding to long-term liabilities—were invested in public equities.

[30]The profit payments are intended as profits, but do not ensure that the carrier realizes a profit because the payments are not linked to the carrier's actual costs. In addition to profit payments, FLTCIP pays for the program's expenses, such as those for marketing, underwriting, and claims administration. For additional information on the unique nature of the FLTCIP profit structure, see GAO-07-202.

profit payment that is to be paid to the program's carrier each year of the program's 7-year contract period. For both contract periods, this profit payment has consisted of three distinct payments; two of these are based on a percentage of the premiums collected during the fiscal year, and one is based on the average annual assets of the program. One of the premium-based payments is subject to OPM's evaluation of the carrier's performance, while the other premium-based payment is guaranteed to the carrier. With the second contract, FLTCIP reduced the maximum portion of premium-based profit payments from 6.5 percent of premiums collected in each fiscal year to 4.0 percent of premiums collected in each fiscal year. To do so, the program decreased both the portion of premium-based payments that were guaranteed and those that were subject to OPM's evaluation of John Hancock's performance. In addition, FLTCIP also reduced the portion of average annual assets used to calculate the profit payment, from 0.3 percent to 0.15 percent. (See table 1.) John Hancock officials told us that they proposed modifications to the profit payment formula in order to provide greater premium stability for enrollees over time. They also stated that had they not reduced the profit payment formula, FLTCIP would have needed to implement a greater increase in enrollee premiums. While the portion of premiums and assets used in calculating the profit payment decreased with the second contract, John Hancock's profit payments will likely grow during the contract period because the number of enrollees paying premiums and the value of the program's assets is also expected to increase over time.

Table 1: Profit Structure of the Federal Long Term Care Insurance Program (FLTCIP) under Its First and Second Contracts

Payment type	First contract	Second contract
Premium-based payments		
Guaranteed	3.5 percent of the premiums collected during the fiscal year	2.0 percent of the premiums collected during the fiscal year
Performance-based	Up to 3.0 percent of the premiums collected during the fiscal year—the actual amount is determined by OPM based on its assessment of the contractor's performance	Up to 2.0 percent of the premiums collected during the fiscal year—the actual amount is determined by OPM based on its assessment of the contractor's performance
Maximum total premium-based payments	Up to 6.5 percent of premiums collected during the fiscal year	Up to 4.0 percent of premiums collected during the fiscal year
Asset-based payments		
Guaranteed	0.3 percent of FLTCIP's average annual assets	0.15 percent of FLTCIP's average annual assets

Source: GAO analysis of OPM's first and second contracts for FLTCIP.

In addition to the three key changes noted above, several other changes were made to FLTCIP since the second contract was awarded. For instance, FLTCIP eligibility was expanded in 2010 to provide coverage for same-sex domestic partners of active and retired federal and Postal Service employees.[31] In addition, the performance metrics that OPM uses to evaluate the carrier—and on which a certain percentage of profit payment depends—were updated. Changes to these metrics included adding a requirement that FLTCIP customer service representatives become certified long-term care insurance specialists within 9 months of employment and reducing the amount of time available to make benefits determinations and to pay claims, from 10 business days to 5 business days. (See app. VI for additional information about the changes made to the performance metrics.)

FLTCIP Offered Enrollees Options to Change Their Benefits to Limit the Premium Increase; Nearly Half Made No Changes

In order to limit their premium increase, FLTCIP offered enrollees options to change their benefits, including reducing their inflation protection benefits. Nearly half of enrollees facing the premium increase made no changes to their benefits and, as such, elected to pay a higher premium.

Options Offered to Enrollees Included Reducing Their Inflation Protection Benefits

FLTCIP offered enrollees options to change their benefits—including reducing their inflation protection benefits—in order to avoid, or limit the amount of, their premium increase. Specifically, in October 2009, FLTCIP sent personalized letters to enrollees facing the premium increase to inform them of the increase, to offer them options to adjust their benefits, and to illustrate how these options would affect their premiums. The enrollees who faced a premium increase—all of whom had the FLTCIP 1.0 plan with 5 percent ACIO—were offered the option to reduce their ACIO to 4 percent while maintaining their accrued benefits. This option would result in a premium that was similar to—within a few dollars of—enrollees' existing monthly premiums, so long as enrollees made no

[31] 5 C.F.R. § 875.213 (2011).

additional changes to their benefits.[32] In addition to the option to reduce their inflation protection benefit, enrollees were offered the option to switch their benefits package to the new FLTCIP 2.0 plan without additional underwriting, although such a change could lead to an increase in their premiums.[33] In addition, FLTCIP enrollees were reminded of their ability to make other changes to their benefits at any time—for example, by modifying their daily benefit amount—although those who wanted to increase their benefits in ways other than switching to the FLTCIP 2.0 plan had to undergo underwriting.

John Hancock officials stated that they offered enrollees the option to reduce their inflation protection coverage because this enabled them to maintain relatively stable premiums while affecting future—but not current—benefits. Reducing inflation protection affects the rate at which future benefits grow over time. As such, FLTCIP enrollees who decreased their ACIO protection to 4 percent retained their accrued daily benefit amount; that amount would then increase at the reduced ACIO rate. In contrast, other reductions in coverage—such as decreasing the daily benefit amount or increasing the waiting period—result in an immediate reduction in benefits.

Similar to FLTCIP, officials from other carriers we interviewed told us that they have typically offered enrollees multiple options to reduce their benefits at the time of a premium increase. These options have included reducing their daily benefit amount or benefit period or reducing inflation protection coverage. In addition to these options, officials from several carriers told us that they have offered a nonforfeiture benefit to enrollees facing a premium increase. This benefit allows enrollees who lapse to maintain long-term care insurance coverage equal to the total amount of premiums paid to date; the coverage will be provided in the future once the individual becomes eligible for benefits. In contrast, FLTCIP did not

[32]If an enrollee's decision to keep the FLTCIP 1.0 plan and switch to the 4 percent ACIO resulted in a premium decrease, John Hancock increased the enrollee's daily benefit amount so that the monthly premium remained within 2 dollars of the original premium.

[33]Enrollees with certain benefit options—those with an unlimited benefit period or facilities-only coverage—could only switch to the FLTCIP 2.0 plan if they also reduced their inflation protection benefit to the 4 percent ACIO.

provide a similar nonforfeiture benefit to enrollees facing the premium increase.[34]

Forty-Six Percent of Enrollees Facing a Premium Increase Made No Changes to Their Benefits

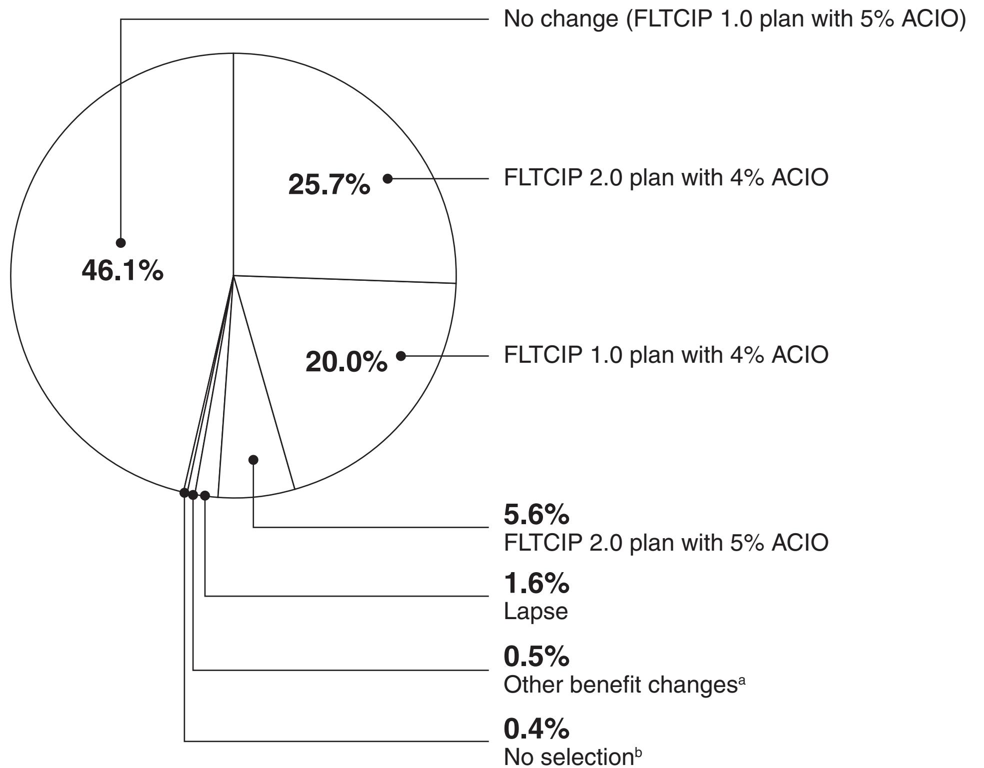
The most popular option among FLTCIP enrollees facing the premium increase was to make no changes to their benefits. Specifically, 46 percent of the 146,415 enrollees facing the premium increase, or 67,511 individuals, kept the FLTCIP 1.0 plan with 5 percent ACIO.[35] These enrollees elected to pay the premium increase. Many enrollees chose to reduce their inflation protection benefits to a 4 percent ACIO, while either switching to the FLTCIP 2.0 plan (26 percent) or retaining the FLTCIP 1.0 plan (20 percent). In addition, 1.6 percent of enrollees facing the premium increase, or 2,344 individuals, lapsed their coverage and as such are no longer enrolled in FLTCIP.[36] (See fig. 2.)

[34]FLTCIP does, however, provide all enrollees with a standard contingent nonforfeiture benefit. To qualify for this benefit, an enrollee's premium must have increased, over the lifetime of the policy, from 10 to 200 percent, depending on the individual's age at the time he or she applied for coverage. No FLTCIP enrollees qualified for this benefit at the time of the premium increase.

[35]Keeping the FLTCIP 1.0 plan with 5 percent ACIO (i.e., making no changes to benefits) was the default provided to enrollees facing the premium increase and thus required no action by the enrollees.

[36]John Hancock officials reported that the 1.6 percent lapse rate was consistent with lapse rates reported by other long-term care insurance carriers following a premium increase.

Figure 2: Benefit Selections of Federal Long Term Care Insurance Program (FLTCIP) Enrollees Facing the Premium Increase



Source: GAO analysis of John Hancock data.

Notes: This figure reflects the benefits selections of the 146,415 enrollees facing the premium increase. The FLTCIP 1.0 plan was offered to enrollees during the program's first contract period, and the FLTCIP 2.0 plan was offered to enrollees during the second contract period. ACIO stands for automatic compound inflation option. Percentages do not sum to 100 because of rounding.

[a]Other benefit changes include, for example, changing a daily benefit amount.

[b]No selection includes enrollees who died or became claimants prior to the effective date of the premium increase.

Of the 144,071 enrollees who did not lapse their FLTCIP coverage after the premium increase was announced, 76 percent (109,114 individuals) experienced a premium increase and 23 percent (32,787 individuals) experienced a premium reduction as a result of their benefit selections. Premiums did not change for the remaining enrollees. The extent to which enrollees' premiums changed varied considerably based on their benefit

selections.[37] For example, over 90 percent of those who retained their 5 percent ACIO had a premium increase of 20 percent or more. In contrast, most enrollees who selected a 4 percent ACIO experienced a premium change of 5 percent or less. (See table 2.)

Table 2: Distribution of Premium Changes Experienced by Federal Long Term Care Insurance Program (FLTCIP) Enrollees Subject to the Premium Increase, by Benefit Selection

	Enrollee benefit selections (percent)					
Premium change	**No change (FLTCIP 1.0 plan with 5% ACIO)** (n=67,511)	**FLTCIP 1.0 plan with 4% ACIO**[a] (n=29,340)	**FLTCIP 2.0 plan with 4% ACIO** (n=37,648)	**FLTCIP 2.0 plan with 5% ACIO** (n=8,240)	**Other benefits changes**[b] (n=779)	**All enrollees**[c] (n=144,071)
Decrease more than 5%	0	0	18	0	42	5
Decrease 0.1% to 5%	0	59	21	0	2	18
No change	0	5	0	0	0	2
Increase up to 5%	2	35	32	0	4	17
Increase 5.1% to 10%	2	0	20	0	4	6
Increase 10.1% to 15%	2	0	5	1	2	2
Increase 15.1% to 20%	2	0	0	4	3	1
Increase 20.1% to 25%	91	0	2	4	1	43
Increase more than 25%	0	0	2	91	42	6

Source: GAO analysis of John Hancock data.

Notes: The FLTCIP 1.0 plan was offered to enrollees during the program's first contract period, and the FLTCIP 2.0 plan was offered to enrollees during the second contract period. ACIO stands for automatic compound inflation option. Enrollees' premium changes varied greatly depending on their age at enrollment and the benefits they had prior to the premium increase, as well as those they selected as a result of the increase. OPM's 25 percent cap on premium increases did not apply to enrollees who made any modifications to their benefits—including changing their inflation protection coverage or benefit plan. This table does not include 2,344 individuals who were subject to the premium increase but subsequently lapsed their coverage. Some percentages do not sum to 100 because of rounding.

[a]If an enrollee's decision to keep the FLTCIP 1.0 plan and switch to the 4 percent ACIO resulted in a premium decrease, John Hancock increased the enrollee's daily benefit amount so that the monthly premium remained within 2 dollars of the original premium.

[b]Other benefit changes include, for example, changing a daily benefit amount.

[c]"All enrollees" includes 533 individuals who made no selection because they died or became claimants prior to the effective date of the premium increase.

[37]Changes to enrollees' premiums were also affected by individuals' age at the time they applied for coverage and the benefits they had prior to the premium increase. In addition, OPM's 25 percent cap on premium increases did not apply to enrollees who made any modifications to their benefits—including changing their inflation protection coverage or benefit plan.

On average, enrollee premiums increased 14 percent, or $16.30 per month. Those who maintained their FLTCIP 1.0 plan with 5 percent ACIO experienced an average premium increase of 24 percent, or $28.54 per month. In contrast, enrollees who selected FLTCIP 1.0 plan with 4 percent ACIO experienced a small change in their premiums of about $2 or less per month, while those who selected the FLTCIP 2.0 plan with 5 percent ACIO experienced an average premium increase of 38 percent, or $40.56 per month. Table 3 summarizes the impact of enrollee benefit selections on their premiums.

Table 3: Summary of Premium Changes Experienced by Federal Long Term Care Insurance Program (FLTCIP) Enrollees Subject to the Premium Increase, by Benefit Selection

	Enrollee benefit selections					
	No change (FLTCIP 1.0 plan with 5% ACIO) (n=67,511)	**FLTCIP 1.0 plan with 4% ACIO**[a] (n=29,340)	**FLTCIP 2.0 plan with 4% ACIO** (n=37,648)	**FLTCIP 2.0 plan with 5% ACIO** (n=8,240)	**Other benefits changes**[b] (n=779)	**All enrollees**[c] (n=144,071)
Average change	24%	0%	1%	38%	28%	14%
Average change, in dollars per month	$28.54	-$0.12	$2.14	$40.56	$20.71	$16.30
Range of changes	2% to 25%	-6% to 2%	-32% to 37%	-1% to 46%	-89% to 881%	-89% to 881%
Range of changes, in dollars per month	$2.62 to $177.90	-$1.85 to $2.14	-$75.54 to $73.16	-$3.71 to $189.91	-$253.41 to $691.32	-$253.41 to $691.32

Source: John Hancock data.

Notes: The FLTCIP 1.0 plan was offered to enrollees during the program's first contract period, and the FLTCIP 2.0 plan was offered to enrollees during the second contract period. ACIO stands for automatic compound inflation option. Enrollees' premium changes varied greatly depending on their age at enrollment and the benefits they had prior to the premium increase, as well as those they selected as a result of the increase. OPM's 25 percent cap on premium increases did not apply to enrollees who made any modifications to their benefits—including changing their inflation protection coverage or benefit plan. This table does not include the 2,344 individuals who were subject to the premium increase and subsequently lapsed their coverage.

[a]If an enrollee's decision to keep the FLTCIP 1.0 plan and switch to the 4 percent ACIO resulted in a premium decrease, John Hancock increased the enrollee's daily benefit amount so that the monthly premium remained within 2 dollars of the original premium.

[b]Other benefit changes include, for example, changing a daily benefit amount.

[c]"All enrollees" includes 533 individuals who made no selection because they died or became claimants prior to the effective date of the premium increase.

Changes to Actuarial Assumptions Used to Set FLTCIP Premiums Resulted in a Projected Increase in Future Claims

Since FLTCIP's inception in 2002, John Hancock has revised the actuarial assumptions used to set the program's premiums—specifically, those made for the program's lapse, mortality, morbidity, and return on investment. Collectively, changes to FLTCIP's actuarial assumptions resulted in a projected increase in the total amount of future claims payments.

Changes to FLTCIP's lapse and mortality assumptions reflect an expectation that a larger portion of enrollees will voluntarily maintain their coverage over time and will live longer than originally expected. Specifically, John Hancock decreased FLTCIP's lapse assumption for the first few years an enrollee had a policy as well as for later years, as reflected in the ultimate lapse rate. For example, between the first and second contract, the assumption for FLTCIP's ultimate lapse rate decreased from 2 percent of enrollees lapsing per year to between 0.25 and 1.25 percent per year, with variations based on the enrollee's age at enrollment. John Hancock also decreased FLTCIP's mortality assumptions, reflecting an expectation that more FLTCIP enrollees will reach older ages than the program originally expected. In addition to the changes in the lapse and mortality assumptions, John Hancock revised FLTCIP's morbidity assumption to reflect a reduction in the amount of claims costs FLTCIP expects for enrollees of any given age. John Hancock officials we interviewed explained that they revised the program's lapse, mortality, and morbidity assumptions to reflect FLTCIP's experience during the first contract period. In addition, the morbidity assumption was also updated to reflect the carrier's experience, and knowledge of industry experience, with long-term care insurance policies.

When setting premiums for FLTCIP's second contract period, John Hancock used the same return on investment assumption—6.5 percent—that it used when setting premiums for the first contract period. Despite FLTCIP's lower-than-expected return on investment experience during the first contract period, John Hancock officials told us that they used the same return on investment assumption because they revised the program's investment strategy.[38] The new strategy, which invests a considerable portion of FLTCIP assets in public equities, has a higher expected rate of return than the investment strategy utilized during the first contract period, according to John Hancock officials.

[38] According to John Hancock officials, the return on investment assumption used to set premiums would have decreased had they not changed FLTCIP's investment strategy.

As a result of changes made to FLTCIP's lapse and mortality assumptions—and despite those made to the morbidity assumption—John Hancock increased projections for the total amount of FLTCIP claims payments.[39] While John Hancock expects that the amount of claims payments made for enrollees of each age will be less than initially assumed, it also expects more enrollees to continue their coverage and reach older ages. Consequently, FLTCIP expects to pay claims for a greater number of enrollees than initially expected. Additionally, since the expected amount of claims payments increases with age, the total amount of future claims payments is projected to be greater than initially expected. Finally, while the amount of premiums collected each year is also projected to grow as more enrollees maintain their coverage, John Hancock officials told us that this additional income will likely be offset by the higher total costs associated with future claims.

Since setting premiums for FLTCIP's second contract period, John Hancock has not changed the program's lapse, mortality, or morbidity assumptions, although it has decreased its assumptions for FLTCIP's return on investment. John Hancock officials stated that they reduced FLTCIP's return on investment assumption, from 6.5 percent (at the time they set premiums for the second contract period) to 6.25 percent (as of September 30, 2010), to reflect an overall decrease in investment returns earned throughout the financial industry. John Hancock officials noted that this change does not raise concerns about the adequacy of current premiums and does not itself warrant an additional increase in premiums because they had included margins for moderately adverse conditions when setting FLTCIP premiums for the second contract period.

The changes made to FLTCIP actuarial assumptions since its inception in 2002 are generally similar to those made throughout the long-term care insurance industry during that time frame. For example, the carriers whose officials we interviewed generally decreased their ultimate lapse rate assumptions since 2002, and as of 2011, all of these carriers used ultimate lapse rate assumptions of 1.5 percent or less.[40] Similar to FLTCIP, five of the six carriers also reduced their mortality assumptions. In addition, officials from all of the insurance carriers we interviewed told

[39]John Hancock officials told us that the increased projections for the program's claims payments were driven primarily by decreases in the program's lapse and mortality rate assumptions.

[40]As of 2011, these carriers' ultimate lapse rate assumptions ranged from 0.25 to 1.5 percent.

us that they had reduced their return on investment assumptions to varying degrees since 2002.[41] As a result of these changes, five of the six insurance carriers had also increased their projections for future claims payments and requested premium increases for at least some of their policies, according to the officials we interviewed.[42] Finally, officials from the three state insurance regulators we interviewed described similar changes to the actuarial assumptions used in setting premiums for policies issued in their states.

OPM's Oversight Includes an Evaluation of FLTCIP's Actuarial Assumptions and a Review of Program Communications

OPM evaluates the actuarial assumptions proposed by carriers and monitors how the program's experience compared to those assumptions. In addition, OPM reviews all program communications for accuracy and clarity.

OPM Evaluates FLTCIP's Actuarial Assumptions and Monitors Program Experience

OPM evaluates the actuarial assumptions carriers propose for FLTCIP to ensure that the assumptions are reasonable and collectively support the premiums proposed for FLTCIP plans. In its RFPs for FLTCIP's first and second contracts, OPM asked carriers to include in their offers, among other things, detailed information about the assumptions they used to calculate premiums. In reviewing offers for both the first and second contracts, OPM convened a panel of officials—including actuarial staff—to evaluate the actuarial assumptions carriers proposed. The panel reviewed the actuarial assumptions, methodology, and resulting premium rates for reasonableness and the likelihood they would achieve the goal of FLTCIP solvency and long-term premium stability. OPM also hired an independent actuarial firm to assist the agency in its evaluation. The actuarial firm used its own data to evaluate the reasonableness of the

[41] Specifically, officials from the four carriers that provided detailed information on this assumption stated that the carriers' return on investment assumptions decreased from between 5.75 and 7 percent in 2002 to between 4.5 and 6 percent in 2011.

[42] Since 2002, the carriers' requests for premium increases ranged from 8 to 42 percent, according to the officials we interviewed. As of February 2011, some carriers' requests for premium increases were pending state approval; all premium increases are subject to states' approval, so the amount of increases implemented can vary by state.

carriers' proposed assumptions and the adequacy and appropriateness of proposed premiums. In addition, as part of its evaluation, OPM asked additional questions of officials from carriers that submitted offers. OPM officials we interviewed stated that the purpose of these communications included gaining a better understanding of how the carriers developed their assumptions and why they considered them reasonable. OPM officials told us that they used the information gathered throughout their evaluation process to inform their decision making when awarding the FLTCIP contracts. OPM's award of each contract signified its acceptance of the premiums proposed by the winning carrier; the premiums were based on the actuarial assumptions outlined in the carrier's response to the RFP. However, OPM has acknowledged the risks involved in insuring FLTCIP enrollees, including the potential for future premium increases. The agency noted that such risks called for close government monitoring.

Once FLTCIP's premiums are finalized with the award of the contract, OPM monitors how FLTCIP's experience compares with the actuarial assumptions that were used to set premiums. As part of both FLTCIP contracts, OPM required the carrier to submit regular reports about the program's experience. These status reports include a summary of FLTCIP's experience in key actuarial areas—lapse, mortality, morbidity, and return on investment—and a comparison of this experience to the program's assumptions. The reports also include the carrier's projections about FLTCIP's ability to pay for future claims and expenses. Beginning in 2004, OPM required the carrier to submit these reports on an annual basis, and the agency now requires these reports be submitted semiannually.[43] The agency also required the carrier to submit quarterly reports about the experience of FLTCIP's invested assets, which it uses to compare the actual returns to the return on investment assumption. OPM officials stated that the agency uses the information included in these reports to monitor FLTCIP's overall experience and to evaluate whether any changes to the program are warranted.

OPM's oversight of FLTCIP's actuarial assumptions is similar to that of state insurance regulators, although its oversight of the program's experience differs from that of states. According to insurance carrier officials we interviewed, carriers provide a similar amount and type of information to state insurance regulators about the actuarial assumptions used to set premiums as is provided to OPM for FLTCIP. However, these

[43]OPM did not require the submission of a status report in 2008 because the agency was in the process of requesting proposals for the program's second contract.

officials also noted that many states do not require carriers to provide any additional information related to the experience of their plans, unless the carrier is seeking to increase premiums for existing enrollees. Thus, states' ability to monitor the experience of long-term care insurance policies issued in their states may be more limited than OPM's ability. In addition, OPM receives more information about FLTCIP's actuarial assumptions and experience compared with other employers. Officials from the carriers we interviewed stated that they only provide employers with information on the actuarial assumptions and experience of their plans when such information is specifically requested, which rarely occurs.

OPM Reviews All FLTCIP Communications for Accuracy and Clarity

OPM reviews all FLTCIP communications—including materials intended for current enrollees as well as marketing materials intended for prospective enrollees—for accuracy and clarity. As part of both FLTCIP contracts, OPM has required the carrier to submit all communication materials to OPM prior to their use; OPM then reviews and approves the materials for use. Specifically, OPM program officials review all communications materials for technical accuracy and clarity. They also review all materials to ensure that information provided to prospective or current enrollees is consistent across materials. In addition, some FLTCIP communication materials undergo a second review by OPM's Office of Communications. Specifically, all materials intended for the general public—for example, Web site material and advertisements—as well as for new retirees are reviewed by OPM communications officials. These reviews are focused on ensuring the clarity of materials distributed to the general public, which may not be familiar with FLTCIP or long-term care insurance. OPM officials said that their goal in reviewing communications is to ensure that current and prospective enrollees have accurate information so that they can make informed decisions regarding FLTCIP. Officials also told us that their process for reviewing communication materials has not changed since FLTCIP's inception, but indicated that the quality of their reviews has improved as they have gained a deeper understanding of how to effectively communicate with the eligible population.

OPM has taken some actions to address concerns that communications about FLTCIP during the first contract period were not clear. For example, in response to concerns that were raised at the time of FLTCIP's premium increase—namely, that some enrollees with ACIO coverage did not think their premiums could ever increase—OPM required John Hancock to include more prominent disclaimers on its marketing materials and applications for enrollment to ensure that prospective enrollees understood the potential for future premium increases.

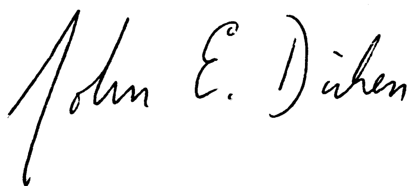
Unlike OPM, state regulators and employers may not review and approve all long-term care insurance communication materials prior to their use by carriers. Not all states receive communication materials for review. Specifically, according to officials from several carriers we interviewed, more than half of states require carriers to submit at least some communication materials, such as marketing materials, prior to their use. However, not all of these states require that the materials be approved before they are used. Additionally, according to the carriers we interviewed, employers offering long-term care insurance generally have a limited ability to modify the communication materials sent to their employees. Carriers generally make a number of standard communication materials available from which each employer can select. Officials from the carriers we interviewed stated that some employers review these materials, but they generally do not suggest substantive changes to the materials since doing so would require the carrier to refile the materials with at least some states and could thus potentially delay program time frames, including enrollments.

Agency and Third-Party Comments

We provided OPM with a draft of this report and provided John Hancock with portions of the draft report for review. OPM and John Hancock provided technical comments, which we incorporated as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Director of OPM and appropriate congressional committees. The report also will be 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) 512-7114 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 VII.



John E. Dicken
Director, Health Care

List of Requesters

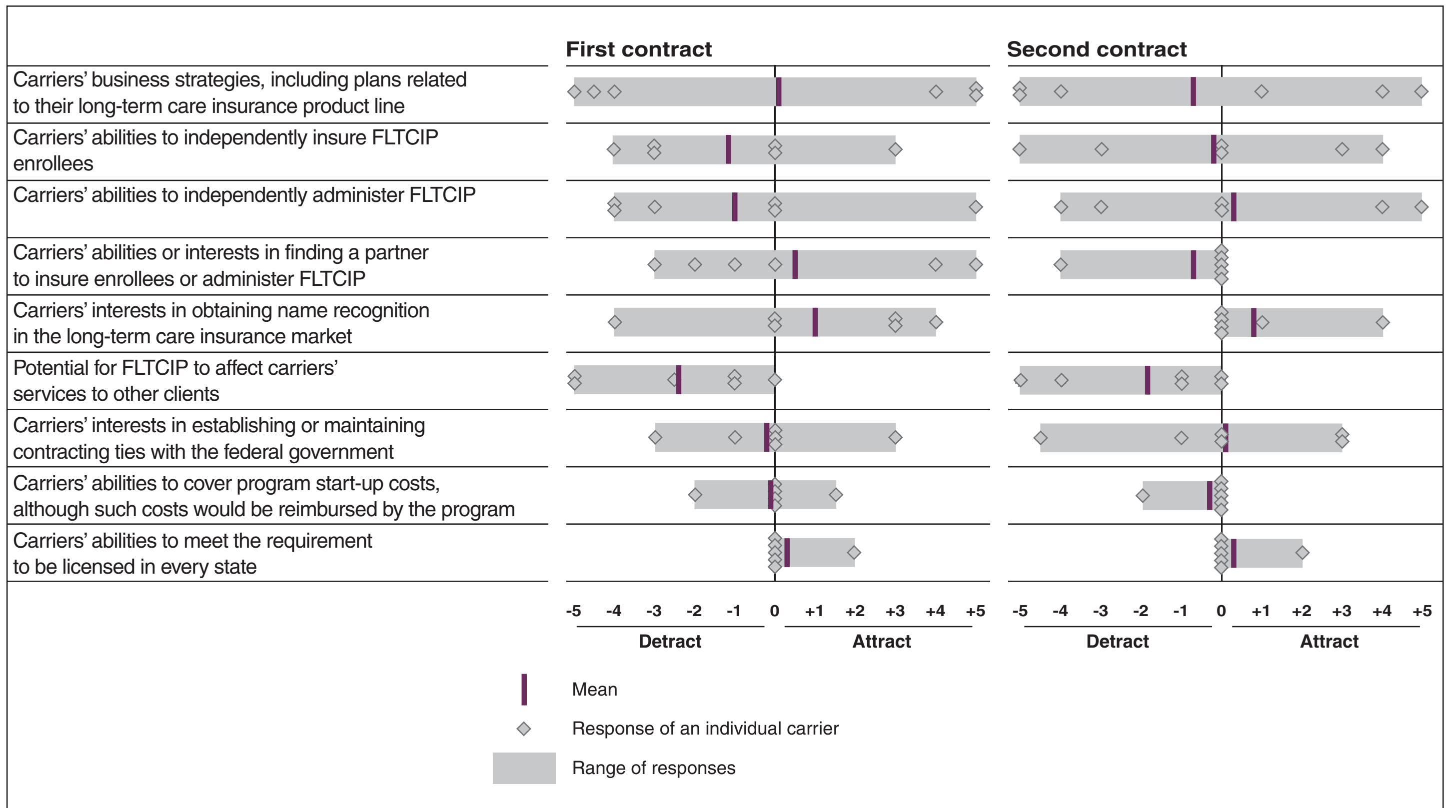
The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Herb Kohl
Chairman
The Honorable Bob Corker
Ranking Member
Special Committee on Aging
United States Senate

The Honorable Daniel K. Akaka
Chairman
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 Ron Wyden
United States Senate

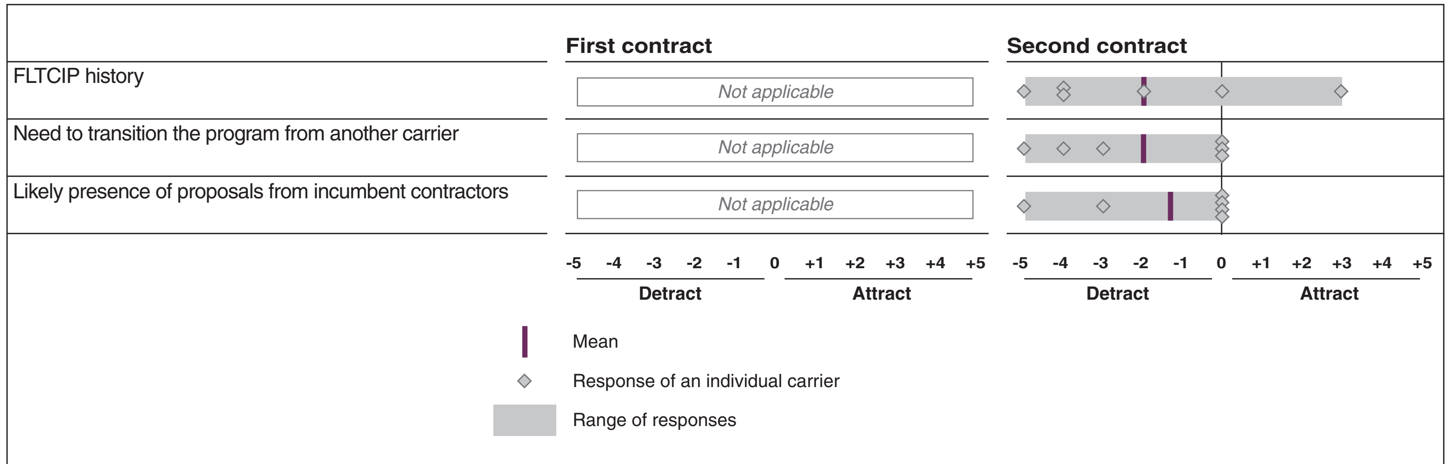
Appendix I: Influence of Carriers' Business Strategies on Their Interest in the Federal Long Term Care Insurance Program (FLTCIP)



Source: GAO interviews with insurance carrier officials.

Notes: Officials from each of the six carriers we interviewed were asked whether each factor affected the carrier's interest in FLTCIP. If the factor influenced the carrier's interest, then the officials specified whether the factor had a negative or positive effect and rated the extent of the effect on a five-point scale, with 1 indicating a minimal effect and 5 indicating a large effect. A score of -5 reflects a large negative influence on a carrier's interest, and a score of +5 indicates a large positive influence on carrier's interest in FLTCIP. A score of 0 indicates that the factor did not have an influence.

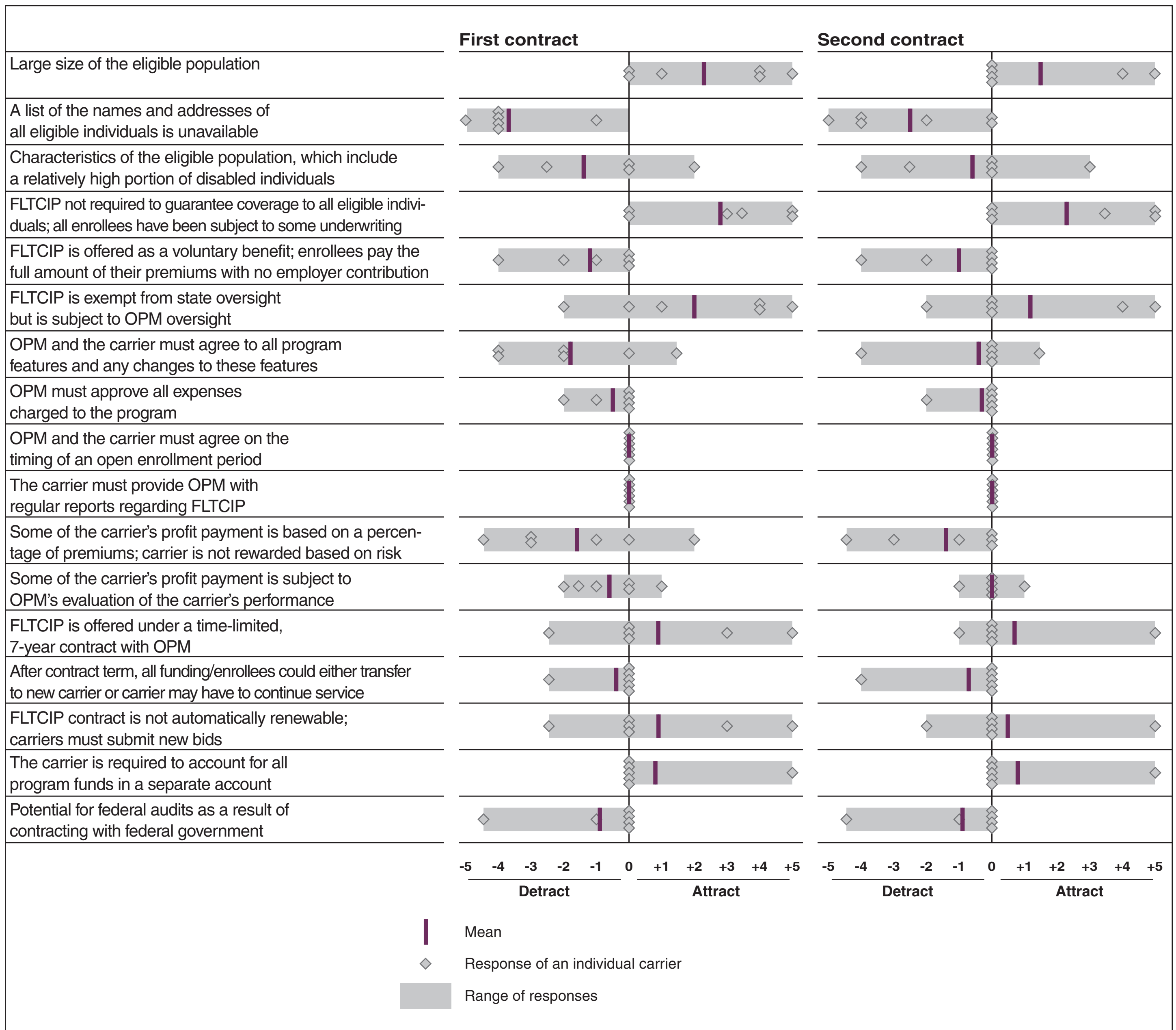
Appendix II: Influence of Program History on Carriers' Interest in FLTCIP



Source: GAO interviews with insurance carrier officials.

Notes: Officials from each of the six carriers we interviewed were asked whether each factor affected the carrier's interest in FLTCIP. If the factor influenced the carrier's interest, then the officials specified whether the factor had a negative or positive effect and rated the extent of the effect on a five-point scale, with 1 indicating a minimal effect and 5 indicating a large effect. A score of -5 reflects a large negative influence on a carrier's interest, and a score of +5 indicates a large positive influence on carrier's interest in FLTCIP. A score of 0 indicates that the factor did not have an influence.

Appendix III: Influence of Program Size and Other Characteristics on Carriers' Interest in FLTCIP



Source: GAO interviews with insurance carrier officials.

Notes: Officials from each of the six carriers we interviewed were asked whether each factor affected the carrier's interest in FLTCIP. If the factor influenced the carrier's interest, then the officials specified whether the factor had a negative or positive effect and rated the extent of the effect on a five-point scale, with 1 indicating a minimal effect and 5 indicating a large effect. A score of -5 reflects a large negative influence on a carrier's interest, and a score of +5 indicates a large positive influence on carrier's interest in FLTCIP. A score of 0 indicates that the factor did not have an influence.

Appendix IV: Selected Features of FLTCIP Benefit Plans Offered during the Program's First and Second Contract Periods

Plan feature	FLTCIP 1.0 plan	FLTCIP 2.0 plan
Benefit options		
Coverage type	Comprehensive or facilities-only[a]	Comprehensive
Daily benefit amount[b]	$50 to $300, in $25 increments[c]	$100 to $450, in $50 increments
Elimination/waiting period[d]	30 or 90 service days, with incurred expenses required	90 calendar days, no incurred expenses required
Benefit period[e]	3 years, 5 years, or unlimited	2 years, 3 years, 5 years, or unlimited
Payment for covered services[f]		
Nursing home and assisted-living facility	100% of daily benefit amount	100% of daily benefit amount
Home care and adult day care	75% of daily benefit amount	100% of daily benefit amount
Hospice care	100% of daily benefit amount	100% of daily benefit amount
Respite care	100% of daily benefit amount, limited to 30 times the daily benefit amount per calendar year	100% of daily benefit amount, limited to 30 times the daily benefit amount per calendar year
Informal care provided by family members	75% of daily benefit amount, limited to 365 days in a lifetime	100% of daily benefit amount, limited to 500 days in a lifetime
Stay-at-home benefits	Caregiver training covered at seven times the daily benefit amount per lifetime	Up to 30 times the daily benefit amount for a range of benefits, including • caregiver training—payable up to seven times the daily benefit amount per lifetime, • care planning visits, • durable medical equipment, and • home modifications Benefits paid for these services do not otherwise reduce the total amount of benefits payable under the plan

Source: GAO analysis of FLTCIP program materials.

Notes: The FLTCIP 1.0 plan was available to all individuals who enrolled during the program's first contract period, beginning March 25, 2002, and the FLTCIP 2.0 plan was available to those who enrolled beginning October 1, 2009—during the program's second contract period. Individuals who enrolled in the FLTCIP 1.0 plan during the first contract period were also offered the option to switch to the FLTCIP 2.0 plan.

[a]Comprehensive coverage provides reimbursement for everything facilities-only coverage provides plus formal or informal care at home, care in adult day care centers, hospice care at home, and respite services at home. Facilities-only coverage provides reimbursement for services such as those provided in a nursing home, assisted-living facility, hospice facility, and respite care facility, as well as caregiver training.

[b]The daily benefit amount is the maximum amount insurance will pay for services on a single day.

[c]Instead of a daily benefit amount, FLTCIP 1.0 enrollees with comprehensive coverage could select a weekly benefit amount equal to seven times the daily benefit amount.

[d]The elimination or waiting period is the length of time an enrollee has to wait before insurance will provide coverage toward the cost of care. Elimination periods can be specified on either a service day (i.e., the number of days an individual must receive services before insurance will provide coverage toward his or her cost of care) or a calendar day basis.

[e]An enrollee's benefit period represents the length of time an enrollee's insurance will pay for covered services at the maximum daily benefit amount.

[f]Information about FLTCIP's payment for covered services is applicable only to the comprehensive coverage option; the facilities-only option was only available with the FLTCIP 1.0 plan.

Appendix V: Changes in the Cost of Long-Term Care Services Compared with FLTCIP Inflation Protection Options

To summarize changes in the cost of long-term care services from 2002 through 2010, we analyzed consumer price index data from the Bureau of Labor Statistics on changes in the cost of nursing home care and home care.[1] The nursing home care index provides information about changes in the cost of long-term care services provided in a residential setting, such as a nursing home or an assisted-living facility.[2] The home care index provides information about changes in the cost of nonmedical long-term care services provided in the home, such as agency or individual assistance with bathing, food preparation, or toileting.[3] Using data from these indexes, we compared the rate of growth in long-term care costs from 2002 (the year that FLTCIP began) through 2010 to the inflation protection offered by FLTCIP's automatic compound inflation options (ACIO)—5 percent ACIO and 4 percent ACIO.[4]

We found that FLTCIP's 4 percent and 5 percent ACIOs would both have provided substantial protection against increases in long-term care costs from 2002 through 2010. Specifically, according to our analysis of consumer price index data, the cost of nursing home care increased 38 percent from 2002 through 2010, which equates to an average annual increase of 4.1 percent. In comparison, a 5 percent ACIO would have increased an enrollees' daily benefit amount by 48 percent during the same time frame, while a 4 percent ACIO would have increased an enrollees' benefit amount by 37 percent. (See fig. 3.) According to our analysis of consumer price index data, the cost of home care increased

[1]These indexes each make up about 2 percent of the broader consumer price index for medical care, which provides information on the changes in cost of medical goods and services.

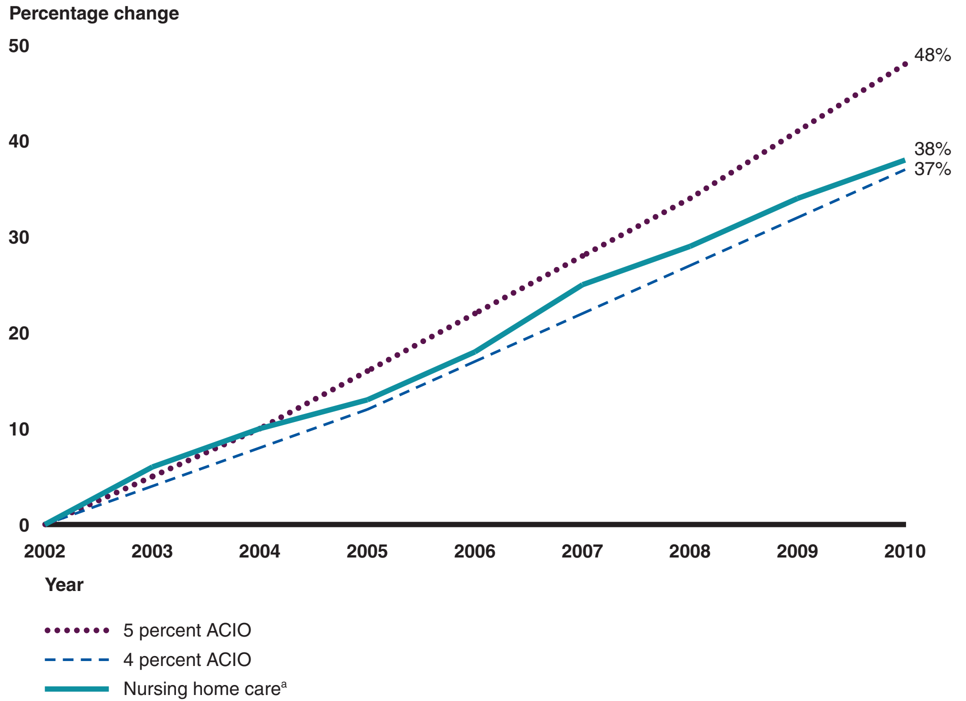
[2]The Bureau of Labor Statistics refers to this index as "nursing home and adult day care services." However, according to an agency official, while data are collected on consumer spending for adult day care services, this index does not reflect changes in the cost of care for these services. Rather, changes in the index only reflect the cost of residential facility-based services, such as those provided at nursing homes and assisted-living facilities.

[3]This index, which was established by the Bureau of Labor Statistics in 2006, is referred to as "care of invalids and elderly at home," although it reflects the costs of care provided to individuals of any age who are convalescing at home.

[4]The inflation protection options are intended to help ensure that enrollees' benefits remain commensurate with the costs of long-term care. Since its inception, FLTCIP has offered a 5 percent ACIO, which increases an enrollee's daily benefit amount—the maximum amount insurance will pay on a single day—by 5 percent each year. FLTCIP began offering a 4 percent ACIO in 2009.

9 percent from 2006—the first year data became available—through 2010 at an average annual increase of 2.3 percent. Both the 4 percent and 5 percent ACIO would have protected enrollees fully against increases in the cost of such care during that period. However, past increases in the cost of long-term care services may not reflect future trends.

Figure 3: Percentage Change in the Cost of Nursing Home Care, 2002 through 2010, Compared with Automatic Compound Inflation Options (ACIO) Available under the Federal Long Term Care Insurance Program (FLTCIP)



Source: GAO analysis of consumer price index data from the Bureau of Labor Statistics and FLTCIP benefit options.

Notes: FLTCIP began offering the 4 percent ACIO in 2009.

[a]The Bureau of Labor Statistics refers to this index as “nursing home and adult day care services.” However, changes in the index reflect the cost of residential facility-based services, such as those provided at nursing homes and assisted-living facilities, but not those associated with adult day care services.

Appendix VI: Changes to FLTCIP Performance Metrics

A portion of the profit payments made to the FLTCIP carrier is based on the Office of Personnel Management's (OPM) evaluation of the carrier's performance. The FLTCIP contract outlines both the performance measures used and the target performance values that the carrier must meet in order to receive all of the performance-based portion of the profit payments. With FLTCIP's second contract, OPM and the FLTCIP carrier agreed to modify the performance metrics used to determine the carrier's profit payment. These modifications included adding or removing performance categories, revising performance measures, and changing target performance values. Table 4 outlines changes made to FLTCIP performance metrics since the second contract was awarded.

Table 4: Federal Long Term Care Insurance Program (FLTCIP) Performance Metrics, by Contract

	Target performance values	
Performance measure	**First contract**	**Second contract**
Administrative expense savings		
Actual administrative expenses less than budget	Actual administrative expenses less than 105% of budget	Actual administrative expenses less than 100% of budget
Claims experience		
Cumulative claims experience compared with expectations[a]	Cumulative claims experience is no greater than 110% of expectations	Not included
Customer service		
Billing: timeliness of posting payroll and annuity payments	90% of payments posted within 2 business days	Same
Billing: timeliness of processing automatic bank withdraw reversals[b]	90% of reversals processed within 2 business days	Same
Billing: timeliness of processing billing changes	90% of billing changes processed within 3 business days	Same
Billing: timeliness of sending payroll bills	95% of payroll bills sent within requisite time frame	Same
Call center: call abandonment rate	3% or fewer calls abandoned	Not included
Call center: call answering speed	85% of calls answered within 20 seconds	Same
Call center: customer satisfaction	90% of surveyed customers rate their satisfaction level with customer service as satisfied or very satisfied	Same
Call center: portion of customer service representatives certified as long-term care insurance specialists	Not included	95% of customer service representatives are certified as long-term care insurance specialists within 9 months of assuming duties
Call center: timeliness of callbacks	90% of calls returned within 1 business day, and 99 percent of calls returned within 2 business days	Same

Performance measure	Target performance values: First contract	Target performance values: Second contract
Call center: timeliness of response to written or e-mail inquiries	90% of inquires responded to within 5 business days	90% of inquires responded to within 5 business days, and 99% of inquiries responded to within 10 business days
Care coordination: customer satisfaction	94% of surveyed customers rate their satisfaction level with care coordination as satisfied or very satisfied	95% of surveyed customers rate their satisfaction level with care coordination as satisfied or very satisfied
Care coordination: timeliness of benefit determinations	95% of determinations completed within 10 business days	95% of determinations completed within 5 business days, and 99% of determinations completed within 10 business days
Claims: accuracy of claims payments	98% of claims are paid accurately the first time	Same
Claims: timeliness of claims payments	98% of claims paid within 10 business days	98% of claims paid within 5 business days
Underwriting: timeliness of initial underwriting decisions	95% of applications underwritten within 5 business days, and 97% of applications underwritten within 10 business days	Same
Underwriting: timeliness of reconsideration decisions	95% of initial reconsiderations completed within 10 business days, and 97% of initial reconsiderations completed within 15 business days; 97% of secondary reconsiderations completed within 30 days	95% of initial reconsiderations completed within 10 business days, and 97% of initial reconsiderations completed within 15 business days; 99% of secondary reconsiderations completed within 30 business days
Enrollment		
Actual enrollment compared with enrollment goals	Actual enrollment is 90% of enrollment goal	Not included
Marketing and education effectiveness		
Success in increasing positive awareness of FLTCIP among employees	Not included	Conduct agreed-upon marketing and outreach activities, and 90% of surveyed Web users, callers, and seminar attendees say that their awareness of FLTCIP has increased
Responsiveness to OPM		
Timeliness of reporting significant events to OPM[c]	Significant events reported within 10 business days	Same
Timeliness of addressing deficiencies reported by OPM	Detailed plans for correcting deficiencies provided within 10 business days following OPM notification of deficiencies	Same
General working relationship with OPM	No documented inattention or indifference to effective operations or responsiveness to OPM	Same
Monitoring and reporting on industry trends to OPM	Monthly updates on industry trends and program recommendations provided to OPM	Not included

Performance measure	Target performance values	
	First contract	Second contract
Measures initiated by contractor to enhance productivity or reduce costs	Not included	OPM evaluation of contractor reports and audited financial statements
Web site		
Web site availability	Not included	99% of the time Web servers remain accessible and fully functional for FLTCIP customers
Web site satisfaction	Not included	90% of surveyed enrollees rate their Web site satisfaction level as satisfied or very satisfied
Return on investment		
Investment performance[a]	Meet or exceeded the investment return benchmark	Not included

Source: GAO analysis of FLTCIP contracts.

Notes: Unless otherwise noted, the carrier's performance on the metric was to be assessed annually. For the first contract period, OPM evaluated the FLTCIP carrier's performance in these metrics beginning in fiscal year 2006. OPM used different metrics to assess the carrier's performance prior to fiscal year 2006.

[a]During the first contract period, this performance metric was assessed every 3 years.

[b]Individuals may allow FLTCIP to deduct money from their bank accounts to pay premiums through automatic bank withdrawal. Reversals of these withdrawals may occur as a result of insufficient funds.

[c]Significant events are those that may be expected to have a material effect upon the carrier's ability to meet its contractual obligations to OPM. Such events may include the disposal of 25 percent or more of FLTCIP assets within a 6-month period, the termination of a contract or subcontract that may have an effect on the carrier's ability to meet its contractual obligations, or the discovery of fraud.

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

John E. Dicken, (202) 512-7114 or dickenj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Michelle B. Rosenberg, Assistant Director; Coy J. Nesbitt; Laurie Pachter; Patricia Roy; and Brienne Tierney made key contributions to this report.

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