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**Before the**

**Senate Special Committee on Aging**

**and the**

**Subcommittee on Oversight of Government Management, the Federal  
Workforce and the District of Columbia**

**U.S. Senate**

**Sticker Shock: What's the True Cost of Federal Long-Term Care Insurance?**

**October 14, 2009**

Chairman Kohl, Chairman Akaka, Ranking members Corker and Voinovich, and members of the committees, I appreciate the opportunity to appear before these two distinguished committees and to share the perspective of federal employees and retirees on the important subject of long-term care insurance plans. The National Treasury Employees Union (NTEU) represents more than 150,000 federal employees and retirees from over 31 different agencies and departments throughout the government.

Federal employees and retirees face the same issues that confront others in the workforce and the general public – they want an opportunity to make prudent and financially sound decisions when it comes to planning for their later years of life. This is particularly true in areas concerning health care needs and long term living arrangements. Like their friends and colleagues in the private sector, federal employees have witnessed the challenges facing aging parents and grandparents, and the enormous emotional and financial drain that can occur. All too often, federal families struggle as they attempt to care for their aging relatives who are unprepared either because long-term care insurance was largely not available in their generation, or not financially viable, or for other reasons. According to the Congressional Research Service (CRS) the average cost of care in an Assisted Living facility is \$33,900 this year. Nursing home care in 2009 averages \$66,886 a year, or \$74,208 for a private room. It is not uncommon for uninsured people, therefore, to deplete their entire savings in the last few years of life.

NTEU supported and was active in passing the legislation that began the Federal Long Term Care Insurance Program (FLTCIP). (*PL 106-265*) At that time, we worked with Congress on a bipartisan basis, and with our friends in the federal retiree community to help push the much needed legislation.

After enactment, FLTCIP was marketed by OPM and its Long Term Care partners—John Hancock Life Insurance Company and Metropolitan Life Insurance Company—in February 2002. The program began accepting enrollment applications on March 25, 2002. Today, the program has approximately 225,000 enrollees, representing the largest long-term care insurance tax qualified program in the country. Those who purchased policies, many of whom are in the baby boomer generation, and who witnessed the economic challenges facing the previous generation, made wise decisions to plan ahead for their long term needs when they enrolled.

The original 7 year contract with John Hancock Life and Health and Metropolitan Life expired in April of this year and after a competitive bidding process, OPM awarded the new contract to John Hancock as the sole insurer. The Long Term Care Partners (LTCP), now comprised solely of John Hancock, remains the administrator. However, when the new contract was announced, OPM also announced a large premium increase for those who purchased policies with the Automatic Compound Inflation Option (ACIO) feature. You can imagine NTEU's surprise when OPM said that those consumers who purchased insurance to protect their benefits against inflation, would realize a 25 percent increase in premiums if they were age 65 or under when they bought their policies. Those who were ages 66 through age 69 would receive increases scaled down in increments of 5 percent. At age 66 the increase would be 20 percent; at age 67 it would be 15 percent; at age 68 it would be 10 percent and at age 69, it would be 5 percent. For those who bought insurance at age 70 premiums would not go up.

It is not an exaggeration to say our federal families were stunned. After all, these employees and retirees age 65 and under intentionally chose the ACI option because it pre-funded future benefit increases in a sensible and forward looking way. This was supposed to be a protection against inflation and, while it was more expensive, it would be a comfort to federal

families in the future by offering a benefit that hundreds of thousands of today's seniors did not have a chance to get. As many of our members have reminded me, the ACI option was considered the wise choice by many, including by savvy financial planners.

To its credit, OPM has briefed NTEU and others concerning the shortcomings of the actuarial predictions and the complexities of calculating premiums to cover benefits tied to the skyrocketing costs associated with medical and long term care. The miscalculations made in these areas are extremely disturbing, but even more disturbing was the quality of advertising – or lack thereof – for the ACI option. I am submitting, along with my testimony for the committees to see, four different pieces of literature from 2002, that mischaracterized the program. These were sent to me by NTEU members.

Two are brochures with headers of “Act Smart” and “Be Smart.” They describe the two different inflation protection options, the Future Purchase Option (FPO) and the Automatic Compound Inflation Option (ACIO) I described earlier. Let me quote from the inside page of the first under the ACI Option description. The brochure states, “With this option, your Daily Benefit Amount and the remaining amount of your Maximum Lifetime Benefit will automatically increase by 5% compounded every year with **NO corresponding increase in your premium.**” The “NO” is in caps. The second brochure states, “The Automatic Compound Inflation Option automatically increases your daily benefit amount by 5% compounded every year with **NO corresponding increase in your premium.**”

The two other products use similar language. On page 11 of the *Federal Long Term Care Insurance Program (Federal Program) 's Outline of Coverage*, a caption under the graph projecting the first thirty years of premiums and benefits, says, “As you can see from the first graph, **your ACI premium does not increase as the benefit increases.**” On page 4 of the

“Companion Guide to the NAIC Shopper’s Guide to Long-Term Care Insurance” a similar claim is made. It says, “The Federal Program offers two types of inflation protection. One is an Automatic Compound Inflation option, under which your benefits increase by 5% compounded annually, **with no corresponding increase in premium.**”

All of these four products –and there are more—were publications put out by OPM, John Hancock and MetLife Insurance Companies. When NTEU asked for an explanation of how these premiums could now rise, we were told that, while the program was not advertised well, the actual long-term care policies themselves did not guarantee against a premium increase under the ACI option. In other words, from the consumers’ point of view, it was necessary to delve into the actual policy and read the fine print, not rely on the promotional materials put out in 2002 by OPM and their insurance partners, John Hancock and MetLife.

We are now faced with the dilemma of a group of consumers who at first blush did the right thing. They prepared for their future; they bought policies that, while expensive, were sensible and forward looking. Some invested tens of thousands of dollars and are now seven years older, and cannot afford to lose that money. Yet they are asked to swallow a 25 percent premium increase, or to redesign, and possibly give up, some benefits and inflation protection to keep the same premiums. NTEU thinks Congress and OPM should find ways to correct this wrong.

It should come as no surprise that many NTEU members feel let down by their government. Some regret they bought policies in the first place. But most want assurances that the long term care insurance program will continue in the future – and will be reformed. They want a straight story from their government, not shallow promises and hefty hikes in premiums.

OPM needs to take a look at what specific options are available for enrollees. I

understand in a matter of weeks participants will begin receiving their personal packets of information that will enable them to keep their current policies, or change benefits, or take a percentage less in inflation protection to keep their premiums the same. OPM's website says the Special Decision Period is now open – October 1 through December 14 – for benefit changes, yet packets have not even been sent. I believe enrollees need more time to study their options, and NTEU supports extending the Early Decision Period beyond December 14<sup>th</sup> for current enrollees. Participants need time to study and absorb their various options.

OPM should also examine the current relationship between claims and assumptions that are used in the federal long term program to determine premiums. In its December 2006 report, the Government Accountability Office (GAO) (*GAO-07-202*) reported that OPM and its Long Term Partners, LLP experienced a less than expected number of claims in the program. GAO recommended on two occasions that OPM analyze the claims experience and assumptions affecting premiums. Has an analysis been done? If claims, as GAO found, are lower than generally expected for a program in this period, perhaps OPM needs to take another look at future premium projections.

The next few weeks will be busy ones for OPM and federal employees and retirees who have long-term care policies. Enrollees need to examine their plans once they receive the personal packets. While I understand there are some new, additional good benefits including higher daily benefits and more coverage for home health care and assisted living, these options and costs need to be calculated carefully by our members. To its credit, OPM has sought, in good faith, to provide additional options and choice for enrollees to lessen the scope of premium increases. Nonetheless, arriving at these so-called "Landing Spots" will not be easy.

For the future, Congress should examine ways in which it can help. There is an overriding need for better consumer protections, transparency, and more rate stability. NTEU supports your bill, Chairman Kohl, the Confidence in Long-Term Care Insurance Act of 2009, S. 1177, to ensure that tax qualified plans such as those sold under the Federal Long-Term Care Insurance Program will help provide consumers with a better understanding of the coverage and cost of their plans in the future. I think your measure will go a long way towards updating the NAIC standards and formalizing a process that OPM would be required to follow to help ensure transparency, and improved consumer information and protections, and most importantly, address rate stability. While OPM indicates it is complying with current NAIC standards, it should be noted these are minimum standards and OPM could, on its own, offer additional consumer protections and make its process more transparent. Standards need to be much stronger.

I am not here to say the scope of the long-term care program should be curtailed or weakened. What we cannot do is reduce the ability of the program to pay claims for those currently eligible, and for the future. The federal long term care insurance program needs to remain a viable, solid government insurance plan. But it must become the model in this new field of long term care insurance as it was originally envisioned.

But if I leave the committees with one message today, it is this: The new OPM can never let this happen again. It must be vigilant in the design of these policies. It needs to take a hard look at the program, and ensure that past mistakes—including past marketing campaigns—not be repeated. It must actively oversee actuarial predictions. It must be honest and forthright with enrollees. And OPM must be accountable to Congress.

Long-term care insurance is a relatively new field that has been available for only 7 years for federal families. Its beginning has been rocky. Hundreds of thousands of federal families deserve better treatment from their government. OPM and its partner John Hancock must get it right this time, and never let a premium fiasco like this ever occur again.