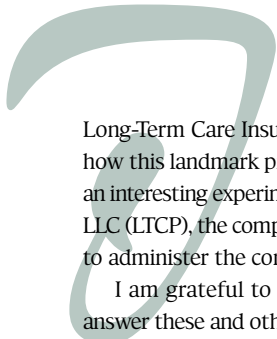


LEAVING A SIZABLE FOOTPRINT

An Update on the Federal Long-Term Care Insurance Program





AM FREQUENTLY ASKED about the Federal Long-Term Care Insurance Program (FLTCIP). People want to know how this landmark program is progressing. Is it a real success or just an interesting experiment? And what about Long-Term Care Partners, LLC (LTCP), the company jointly formed by John Hancock and MetLife to administer the contract?

I am grateful to LIMRA International for this opportunity to answer these and other questions on the FLTCIP — and to talk about my company, LTCP. I can say with confidence that the FLTCIP is an unqualified success from any standpoint used to evaluate an insurance program — number of persons who have applied, number of persons enrolled, annualized premium, general public reception, and general financial management. I can also affirm that LTCP is fulfilling the role envisioned by its parent companies.

By Paul E. Forte

*Chief Executive Officer,
Long-Term Care Partners, LLC*

The FLTCIP has already left a sizable footprint on the long-term care insurance (LTCI) industry: According to LIMRA's annual survey, *U.S. Group Long-Term Care Insurance*, the FLTCIP now accounts for almost 15 percent of the total employer group LTCI market premium in force in the United States, helping to lift total industry sales significantly in 2002

basis. It also authorized the U.S. Office of Personnel Management (OPM) to serve as sponsor, contracting agency, and regulator.

OPM's duties as contracting agency involved the study of private LTCI policies, the design and structure of employer-sponsored group LTCI policies, and the management of a bidding process in 2001. The program OPM put forward was based on input from experts and potential applicants alike and was designed with the needs of federal employees and retirees in mind. As with most LTCI coverage, insureds pay 100 percent of the cost. There is no employer subsidy. Since participants foot the bill, every effort is made to practice sound underwriting and to keep operating costs to a minimum. No commissions are payable on any FLTCIP sales: All enrollments are handled by staff who work on a salaried basis. Expenses cannot exceed predetermined caps. A significant portion of the profit charge is based on the actual performance of the insurers in such key areas as enrolled lives, speed of underwriting approvals, claims handling, and general expense management.

The FLTCIP is technically not under Federal Acquisition Regulations (FAR), since the federal program does not involve federal appropriations. Nevertheless, OPM has elected to follow the FAR in a number of areas, such as subcontracting to minorities and reviewing vendor contracts in excess of \$200,000 per annum. The initial contract

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and 2003. At the same time, LTCP is establishing new benchmarks for service.

But I think the real story is not what has already taken place, as impressive as it is, but what is yet to unfold. The FLTCIP is leading a massive wave that will carry millions of adults, and not just federal eligibles, to greater financial independence and a more secure retirement — especially the baby boomers.

In this article, I will try to show the reasons why this is so, how OPM and LTCP are working together to realize the spirit as well as the letter of the innovative legislation that enacted the FLTCIP. First, however, some background is in order.

HISTORY The FLTCIP was created by the Long-Term Care Security Act of 2000. This legislation, which was signed into law by President Clinton in September 2000 (Public Law 106-265), provided the framework for the establishment of a private LTCI plan for federal and postal employees and annuitants, active and retired members of the uniformed services, spouses, and other qualified relatives. The framers of the legislation, who were bipartisan, hoped that the FLTCIP might set an example for employers across the country, not only by promoting awareness of long-term care issues but by setting in motion a means of reducing reliance on Medicaid and other tax-based programs for long-term care financing. The legislation authorized the creation of a voluntary federal group LTCI program on a competitive

was awarded for seven years and expires September 30, 2008.

The legislation expressly encourages insurers and administrators to form "consortia" for the purpose of underwriting and administering the FLTCIP, whose scale was anticipated to be too great for any one entity to handle. There were various ways that interested bidders could partner, such as using existing corporate resources or outsourcing select functions to a third party. When John Hancock and MetLife began drafting their proposal in the spring of 2001, they decided that the best long-term solution was to form a new company, jointly owned by the carriers to administer the contract, called Long-Term Care Partners.

LTCP was awarded the FLTCIP contract in December 2001. The headquarters of the new company is located at Pease International Tradeport (formerly Pease Air Force Base) in Portsmouth, New Hampshire. The New Hampshire site allows LTCP to take advantage of competitive rents and the excellent labor market of the tri-state coastal region. Today LTCP employs over 90 professional, technical, and clerical staff, handling all program underwriting, marketing, billing, claims, technology, and financial reporting. LTCP works closely with the parent company managers, who approve capital expenditures, invest program assets, and assume all risk, as well as participate in general business policy setting.

One administrative challenge of the FLTCIP was the requirement that LTCP "federalize" group LTCI administration to meet federal

benefit requirements. While such requirements did not differ in every respect from requirements long established in the private employer sector, there were some important differences necessitating adaptation. For example, it was necessary to integrate some 70 payroll providers that administer payroll for some 1,300 separate federal payroll locations. There is now underway an initiative called "e-Payroll" that will consolidate payroll providers and standardize payroll policies so as to reduce complexity and expense. But the number of providers to be dealt with at the start of the FLTCIP was more than a little daunting.

MARKETING, UNDERWRITING, AND ENROLLMENT The application period for the FLTCIP began in early 2002, with a special opportunity early enrollment period that ran from late March to mid-May. This was designed for those eligible persons who knew something about LTCI and were interested in applying right away without the marketing, education, and customer service support that would be available during open season. More than 17,000 persons applied during early enrollment.

Open season, which began on July 1, 2002, and ran through December 31, 2002, involved the largest marketing campaign on LTCI ever conducted. The campaign itself was multifaceted and used a variety of media. This was a necessity, given the size of the eligible population: 4 million active employees, including 1.8 million federal civilian employees, 0.8 million U.S. Postal Service employees, and 1.4 million active members of the uniformed services; 4 million federal civilian and postal annuitants and retired members of the uniformed services; and approximately 12 million qualified relatives, including spouses, surviving spouses, adult children over 18 years of age, and parents, parents-in-law, and stepparents of active employees and active members of the uniformed services. The total eligible group includes some 20 million Americans, roughly 1 out of 10 American adults.

During open season, LTCP received more than 900,000 requests for its five-part educational bulletin series, *Get Smart About Your Future*; took more than 1 million telephone calls on its dedicated 800 number; fulfilled more than 1 million requests for information kits and applications; had hundreds of thousands of visitors to its Web site, www.LTCFEDS.com; distributed thousands of videotapes; ran advertisements in key federal publications; did satellite broadcasts through federal agencies; and conducted 2,300 meetings and seminars coast to coast.

FLTCIP enrollment results have been widely reported and have received favorable comment. Today there are more than 203,000 enrollees. Roughly two thirds of these enrollees are employees

and their spouses. The other third consists of annuitants, spouses of annuitants, surviving spouses, and qualified relatives. Since the FLTCIP is the first employee-pay-all benefit offered by the federal government and was rolled out shortly after 9/11 in an uncertain economic climate, we think the response has been excellent. LTCP's customer service center is still logging over 7,000 information calls per month. This is in addition to the more than 6,000 customer service calls per month we receive. Interest in the FLTCIP remains high, as measured by requests for information kits, requests for rate quotes, and visits to the Web site. In recent months, our Web site has received more than 70,000 hits and more than 43,000 unique visitors per month.

It is important to note that the FLTCIP requires that prospective applicants meet certain underwriting criteria. During open season, active employees had to answer seven health-related questions if they

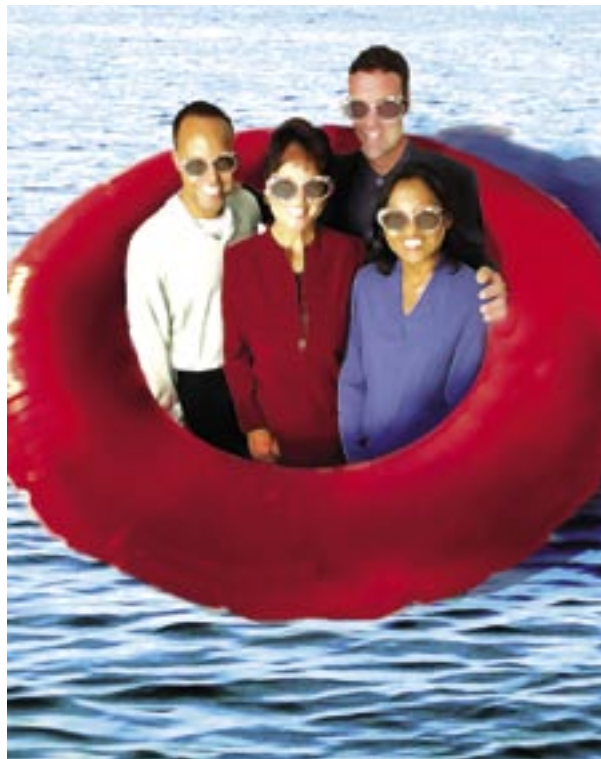
were applying for the three- or the five-year benefit period; spouses of active employees had to answer an additional two questions; annuitants, spouses of annuitants, and other qualified relatives had to furnish more detailed health information. The use of abbreviated underwriting for active employees and their spouses made it relatively easy for people to apply electronically. Indeed, more than 50,000 people elected to do this; 40 percent of all abbreviated applications were processed online, saving time and money for the program.

After open season, all applicants, including active employees and their spouses, are required to go through full underwriting unless they are new employees, newly married spouses of eligible employees, or part of a newly eligible group. Annuitants, spouses of annuitants, and qualified relatives must all go through full

underwriting regardless of when they apply. For those applying with full underwriting, or for anyone applying for the unlimited benefit period, LTCP reserves the right to obtain medical records from attending physicians and to conduct telephone and face-to-face interviews to determine physical, functional, and cognitive health.

The aim of FLTCIP underwriting is not to insist on perfect health — many persons with a medical condition requiring treatment, including diabetes, are approved for coverage — but rather to accept people who have average health for their age group. LTCP's overall approval rate for underwritten applications (including abbreviated applications) is 85 percent, which is in line with the industry.

Declinations are led by cardiac conditions (20 percent), followed by bone/joint conditions (16 percent), co-morbid conditions (9 percent), and diabetes (9 percent). Another important category of declinations is auto-declines (16 percent). These are people who answer yes to one of the six questions in Part B of our application, e.g., whether the



applicant resides in or has been advised to reside in a nursing home or assisted living facility; whether the applicant needs assistance with activities of daily living (ADLs); whether the applicant uses any one of a number of medical devices, such as a walker; and other facts that underscore functional dependence. FLTCIP underwriters consider the nature and strength of the prescription drugs being taken by the applicant to treat disease or symptoms.

The FLTCIP has enrolled a mature population; more than 60 percent of our current enrolled population is between the ages of 41 and 60 with the age of the active federal civilian enrollee averaging 52. Over 65,000 enrollees (32 percent) are age 61 or older. Nearly 15,000 (7 percent) are age 71 or older. Reaching the older annuitant population requires direct mailings to the home. Post-open-season surveys indicate that many annuitants are still unaware of the FLTCIP, which means not only that more mailings will be necessary but also that solid enrollments from this group may be expected in future years.

To make the application process simpler, we encourage the selection of one of four prepackaged plans, which put together some of the more popular options for certain needs and income levels. Applicants have only to select the most appropriate prepackaged plan and to indicate the preferred method of adjusting for inflation, either automatic compound increase (ACI) or future purchase option (FPO). During open season, more than 60 percent of applicants selected

During open season, only 19 percent of applicants requested this option. In FY 2004, 28 percent are choosing unlimited. This would seem to contradict the trend just noted above that older applicants appeared to be electing less expensive plans. However, some insurers have discontinued issuing an unlimited benefit period, and a number of applicants looking for the benefit are now turning to the FLTCIP.

FLTCIP STRENGTHS The FLTCIP has numerous excellent features not commonly found in LTCI plans. These features include a generous informal care benefit allowing friends, neighbors, and family members to be reimbursed for their services; care coordination services for noninsured qualified relatives; international benefits; and a third-party appeals process for disputed claims.

Such features set the FLTCIP apart from most LTCI policies. But there are other, more subtle advantages. For instance, there is the ability to switch from the FPO mode of inflation adjustment to the ACI mode under more favorable terms than what are typically available in the market. This means that an enrollee has the opportunity to sign up for the FLTCIP at a lower cost and to get onto automatic adjustment later on, when personal finances allow. Another distinct advantage is that the FLTCIP is underwritten by two of the leading LTCI carriers in North America, John Hancock and MetLife, with excellent financial ratings. This is not immaterial when you consider that a number of large carriers have failed or exited the LTCI market, selling off their

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prepackaged plans. A significant number of applicants, however, chose to customize their plans. The FLTCIP actually makes available 528 plan design variations, the cost of which can be modeled on the FLTCIP Web site. The Web site also furnishes cost estimates of various types and levels of long-term care around the United States.

Today a greater percentage of total applications is coming from annuitants than we received during open season. Not surprisingly, a significant number are electing less expensive options: the three-year benefit period instead of the five-year, the 90-day waiting period rather than the 30-day, and facilities-only in lieu of the comprehensive. Many applicants, however, are continuing to elect the ACI. Since the inception of the FLTCIP, OPM has emphasized the importance of building in automatic inflation protection. We have made special efforts in our literature to explain the advantages of the automatic inflation approach, so the interest this option continues to generate is not unexpected. The popularity of ACI helps to account for the unusually high average per capita premium of the FLTCIP, as compared with other employer-sponsored plans. FLTCIP per capita annual premium is now averaging \$1,340, which will generate more than \$271 million in annualized in-force premium in federal fiscal year (FY) 2004. According to LIMRA's *U.S. Group Long-Term Care Insurance: 2003 Sales and In-Force, 2003 Sales*, group LTCI per capita annual premium averaged just slightly above \$700 in 2003.

One final note: The FLTCIP offers an unlimited benefit period.

blocks. Still another advantage is that the federal government uses its size and prestige as leverage in negotiations. OPM functions as the champion and advocate of the enrollee, making sure that real value is rendered and that all premium is put to optimal use. OPM's efforts to ensure quality are in turn supported by other federal entities, including the General Accounting Office, and of course, Congress. The importance of this last feature is not lost on enrollees. According to a recent FLTCIP survey, more than 50 percent of active buyers and 62 percent of retired buyers said that federal sponsorship was the chief reason for their decision to apply for coverage under the FLTCIP.

CARE COORDINATION AND CLAIMS As of May 31, 2004, LTCIP has received 592 claims and has approved more than 70 percent for benefits. A significant number of those not approved for benefits are from people who recovered faster than expected, or died. Only about 9 percent of claimants have been actually denied. Of the claims that were denied, some 50 percent have been the result of people not understanding what the FLTCIP is designed to cover. Consistent with HIPAA, we define long-term care as a person being in need of assistance with at least two of the six activities of daily living (bathing, dressing, moving from bed to chair, toileting, maintaining continence, and eating) and requiring such assistance for an expected period of at least 90 days, or having a severe cognitive impairment such as Alzheimer's disease.

Some claimants have acute muscular or skeletal problems resulting from injury, but are not expected to be dependent in the performance of daily activities for at least 90 days. Others file claims on receipt of a serious diagnosis like cancer, even though such a condition is not yet resulting in impairment. These people usually resubmit claims later and are often deemed eligible for benefits. Thus far we have not had any claimants who have availed themselves of the Third-Party Appeals process. This unique provision allows for the submission of a claim denied on medical grounds to an independent third party jointly chosen by LTCP and OPM for appeal. LTCP must abide by the finding of the appeal reviewer if that reviewer disagrees with LTCP's own finding.

The FLTCIP has already been of help to people with serious life-threatening illnesses that may be terminal in nature, as well as to those for whom the FLTCIP is principally designed: people with chronic and debilitating conditions requiring custodial help with the activities of daily living, or suffering from a cognitive impairment. In addition, we are providing care coordination services to the qualified relatives of those who enroll. As of May 31, 2004, our care coordinators have handled 7,581 calls for services. These calls consist of evaluating the needs indicated by the enrollees or qualified relatives, assisting them to set up a plan of care to answer those needs, identifying

changes to investment strategy, and must be notified of any significant events relating to the investments. Adherence to the investment strategy by the parent companies is subject to audit. Such measures ensure that FLTCIP assets will be managed prudently and will be available to meet liabilities when needed.

Expenses are, and will remain, a key factor in our success. Thus far, LTCP has been able to manage operating expenses within the agreed-on expense caps. LTCP passed its first important federal expense audit for FY 2002 – FY 2003, which encompassed more than \$70 million in expenses, without a significant finding.

GROWING THROUGH EDUCATION AND OUTREACH Growing the FLTCIP will bring many advantages, including lower unit costs and a better spread of risk. We have plans to grow the FLTCIP during the remainder of the initial contract period (FY 2005 – FY 2008). What follows is a brief overview of our strategy.

In 2002 the FLTCIP featured very broad marketing themes, large-scale mailings, and general messaging. In 2003 we conducted consumer research to learn how well we had succeeded in our aims and to learn why buyers, nonbuyers, and nonresponders behaved the way they did. This year we are applying the insights we have gained.

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and referring them to appropriate local services and informal care providers, and simply answering questions about long-term care. The enrollees especially like the personalized service they receive when they speak to the same care coordinator each time they or their qualified relatives call in. This facilitates a relationship with one nurse who will know their particular situation. As their needs change, the consistency of that nurse contact becomes a highly positive factor in their long-term care plan.

FINANCIALS With respect to financials, the FLTCIP is strong. All program funds are put into separate accounts managed by John Hancock and MetLife. The separate accounts track all amounts received, as well as all investment income earned, separately and apart from other insurance company funds. Together these accounts constitute what is called the Experience Fund. Claims and approved expenses are paid out of the Experience Fund, with the balance earning interest. The FLTCIP receives some \$67 million in premiums each quarter. The intent is to build up reserves in the early years of the FLTCIP to allow for large numbers of claims down the road.

The assets backing these reserves are invested in a mix of bonds and other qualified securities matched to the expected commencement and duration of liabilities. Investments are actually handled by John Hancock and MetLife investment managers and reported to OPM via an annual report. OPM must prospectively approve any material

We are refining our approach to demographic segments that we think have the highest potential to apply, as well as to people who responded but did not apply the first time around; making sure that those who are inclined to self-direction have all of the tools necessary for their decision, including a newly redesigned Web site; and we are adopting, where possible, personalized selling techniques proven effective in the individual market. When federal eligibles call in to our consultation services unit, they can receive assistance with a range of matters, including determining their future long-term care needs, modeling the cost of care in their area, developing a care plan for their specific needs, getting accurate comparisons of the FLTCIP versus other private LTCI plans, and even completing the FLTCIP application. Such support requires extensive training of LTCP customer service and sales personnel. LTCP associates are offered a variety of advanced training opportunities, including industry designation programs like the Certified Long-Term Care Consultant designation and the AHIP Long-Term Care Professional designation.

Because members of the federal family can apply for coverage under the FLTCIP at any time, LTCP is committed to educating them on an ongoing basis. Industry experience has shown that seminar workshops, combined with individual consultations, are one of the most effective ways to talk about LTCI. Fortunately, the federal government is placing renewed emphasis on educating its enormous workforce about planning for retirement. Some 40 percent of all

federal employees will be eligible to retire within the next five to six years, so there is a sense of urgency.

Recent industry studies conducted by LIMRA indicate that consumers are now better educated about what long-term care is and what LTCI products do, but they do not necessarily grasp how long-term care and LTCI are best integrated with personal financial planning activity (LIMRA's *Long-Term Care Insurance: Product Design Insights* and *Long-Term Care Insurance – Intermediary Insights*). LTCP research indicates that there is a strong correlation between those who do retirement planning and those who buy LTCI. Clearly, for these people, integration has taken place. Federal departments and agencies are hoping to expedite the process of integration for others by offering retirement seminars. LTCP regularly offers LTCI presentations within these retirement seminars at various federal facilities across the country, meeting with some 3,000 people per month. The purpose of the presentations is to educate attendees about the risk that long-term care poses to their financial security and about the value of LTCI.

Of course, seminars are not the only means we are using to communicate our message. We have been participating in conventions and meetings held by affinity groups like the National Association of Retired Federal Employees (NARFE), The Retired Enlisted Association (TREA), and the Military Officers Association of America (MOAA). These groups have welcomed substantive discussions about long-term care and the FLTCIP.

One factor that will be important to future growth is outreach to prominent legislators and opinion leaders. LTCP participates in

ongoing dialogue about the aging of the U.S. population and the growing need for long-term care services; the various strategies for financing long-term care services, both public and private; the benefits of private LTCI; and the incentives needed to grow the private LTCI market. LTCP representatives have testified before congressional committees, briefed legislators and their staffs, and conducted local meetings in congressional jurisdictions. LTCP representatives have also collaborated with nonprofit organizations representing the aging population, and participated in important national research conferences on long-term care. These actions not only serve to ensure that LTCP is in touch with best practices but also build awareness of the FLTCIP and what it is trying to achieve. While not the only model for LTCI, the FLTCIP may well serve as a model for other programs, especially those established by employer sponsors, as the framers of the Long-Term Care Security Act hoped.

We like to think that the FLTCIP and the company that administers it, Long-Term Care Partners, have already contributed to improving the LTCI customer experience. One thing is sure. The FLTCIP will be an important source of reliable information about long-term care and LTCI for years to come. As I've indicated, we intend to do our part to educate the federal family and, whenever possible, the general public, about the risk that long-term care poses to financial security and to the life of independence that we all dream of leading. If we succeed, many more Americans in the future will enjoy the peace of mind that comes with having made good choices. 🌐



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