

Long-Term Care Insurance Questions & Answers

September 19, 2000

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LONG-TERM CARE INSURANCE QUESTIONS & ANSWERS

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Current Status

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- When will long-term care insurance be available to Federal employees?
- What steps will OPM have to take after the President signs a long-term care insurance bill?

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- What are non-forfeiture provisions?
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- How many insurance carriers will participate in the program?
- What happens to coverage if enrollees leave their jobs?

Current Status

Why is the Administration offering long-term care insurance to federal employees?

In January 1998, President Clinton first announced major proposals that would help Americans to face the challenges of providing long-term care to a growing number of senior citizens. Those proposals included providing a tax credit for the cost of long-term care, expanding access to home-based care through Medicaid, establishing new support networks for care-givers, and serving as a model employer by offering quality private long-term care insurance to Federal employees.

The Federal “Long-Term Care Security Act” accomplished one part of that set of initiatives. With enactment of this bipartisan consensus legislation, the government has acted responsibly as the largest employer in the nation and will serve as a model for other employers.

When will long-term care insurance be available to Federal employees?

The new law provides that the program must be effective no later than the first pay period of the fiscal year that begins 18 months after enactment, that is, by October 2002 at the latest. Implementing this new long-term care program will take a lot of work, but we will strive to make it available as quickly as possible.

What are OPM's next steps?

- We will work with consultants and actuaries to develop the specifications for the contract solicitation
- We will work with HCFA to coordinate our LTC education plan with the education initiative they have underway.
- We will write and publish a contract solicitation
- We will review and evaluate the proposals

- We will award a contract
- We will work with the contractor to develop educational and enrollment materials
- We will work with the Department of Defense and others with eligible enrollees to develop a coordinated implementation plan
- We will train OPM staff and human resources staff of other Federal agencies
- We will prepare for the Open Season, including developing materials so that potential enrollees can make an informed decision

The Basics

What is long-term care insurance?

It is insurance that pays benefits to cover services that individuals may need because they are unable to care for themselves due to a chronic mental or physical condition.

When do enrollees receive benefits?

The long-term care insurance pays benefits if a health care professional certifies that the enrollee is

- unable to perform at least 2 activities of daily living without substantial help due to the loss of functional capacity,
- OR
- requires substantial supervision to protect yourself from threats to health or safety due to severe cognitive impairment.

What types of benefits does long-term care insurance cover?

The program will offer a flexible benefits package that covers a variety of services, including:

- **nursing home care** (includes all levels of care in a licensed nursing facility, including skilled, intermediate, and custodial care)
- **home health care** (includes medical and non-medical services, such as homemaker services, help with activities of daily living, and respite care)
- **assisted living facilities** (includes care in a licensed facility providing 24-hour care and other services for individuals)
- **adult day care** (a program for 6 or more individuals that provides social and health-related services during the day in a community group setting. It supports frail, elderly or other disabled adults who can benefit from a group setting outside the home).

How will the insurance company pay benefits?

We are considering a "pool of money" approach.

The enrollee chooses the daily cost of nursing home care and the number of benefit years. The pool of money is generally equal to 100% of the daily cost of nursing home care multiplied by the number of benefit years.

Participants may spend the amount at varying rates (100%, 80%, or 50%) over time, depending on the type of care they need. One participant might choose 4 years of nursing home care (100%). Another participant might choose an alternative care facility (80%) for 7.2 years or home health care (50%) for 8 years.

The "pool of money" approach is extremely flexible and can easily be adapted as the delivery of long-term care evolves.

For example:

An enrollee may choose \$100 per day for nursing home care x 365 days x 4 years. The pool of money equals \$146,000.

This same pool of money would last 8 years if the enrollee spent it on home health care (\$50 x 365 days x 8 years = \$146,000)

What are Activities of Daily Living?

They are:

- Eating
- Toileting
- Transferring (moving to/from a bed or chair)
- Bathing
- Dressing
- Bowel and bladder control (continence)

What is Cognitive Impairment?

It is a deficiency in:

- Short or long-term memory; or
- Orientation as to person, place and time; or
- Deductive or abstract reasoning; or
- Judgment as it relates to safety awareness

Eligibility

Who will be eligible for coverage?

Eligible participants will include active employees and retirees of the:

- Federal Government
- U.S. Postal Service
- Uniformed Services

And qualified relatives.

Note, husbands and wives who purchase policies will be insured as individuals.

Who is a qualified relative?

- Spouses of an (1) active or retired Federal employee; (2) active or retired member of the Uniformed Services,
- A parent, stepparent, or parent-in-law of an (1) active Federal employee; (2) active member of the Uniformed Services,
- A child 18 or older of an (1) active or retired Federal employee; (2) active or retired member of the Uniformed Services, and
- Any other person related to a covered individual as specified by OPM in regulations. (The Office of Personnel Management would publish any proposed changes and invite the public to comment before any change became effective.)

Who will be eligible for long-term care insurance under the Uniformed Services?

- Members on active duty or full-time National Guard duty for more than 30 days
- Members of the Select Reserve
- Members on retirement or retainer pay
- Qualified relatives

How many people will be eligible for this program and how many of them will sign up?

We estimate a potential pool of 13 million people. We estimate that about 3-6 percent of them will sign up for long-term care insurance.

Enrollment

How will eligible individuals sign up for coverage?

As soon as we have a long-term care insurance program, we will develop enrollment procedures and let eligible participants know exactly what they have to do to sign up for coverage. There will be an initial Open Season.

How will the Open Season work?

All eligible individuals will be able to enroll, subject to appropriate underwriting (health questions), during the first open enrollment for the new program.

All newly hired Federal employees and newly hired active members of the Uniformed Services will be immediately eligible to enroll, subject to the minimum underwriting.

After the initial Open Season, eligible individuals can ask to enroll in the Program, but will have to meet the more extensive underwriting requirements.

Will eligible individuals have to pass strict health requirements (underwriting) in order to enroll?

Our goal is to be as inclusive as possible, in balance with price and affordability considerations. In general, the stricter the underwriting, the cheaper the premiums.

- There will be minimal underwriting for active employees at their first opportunity to enroll. Minimal underwriting typically consists of a "short form" that includes only a few questions to determine if an individual is eligible for benefits immediately.
- The new law provides for spousal parity. This means that the spouse of a Federal employee, annuitant or active or retired member of the Uniformed Services will be treated, to the extent practicable, like that individual.

- Other individuals will have to answer more extensive questions about their health status.
- The legislation explicitly states that coverage is not guaranteed, and we recognize that some individuals may not meet the underwriting standards that apply to them. Because this protection is so important, we will be looking at alternatives that will allow us to offer some type of protection to these individuals as well.

Can disabled employees enroll?

The Federal government has distinguished itself as a leader in recruiting disabled people. As a result, we have significantly more disabled employees than most private sector employees.

Without some form of minimal underwriting (questions on health status), we would not be able to offer attractive and affordable long-term care insurance. We will look at options to accommodate the broadest possible group.

We will work with the Department of Health and Human Services, the disability community, and the insurance industry to develop ways to provide alternative products that will not adversely affect premiums for the program overall.

What are sample questions for “short form” underwriting?

Here is an example from a large public employer:

- Do you currently require the “hands-on” assistance of, or supervision by, another person in performing any of the following activities: moving in/out of bed or chair; controlling bowel/bladder; bathing; eating; dressing; or using the toilet?
- Are you currently receiving or have you received in the past 12 months:
 - Nursing home care (in a nursing home or in a nursing home unit of a hospital)
 - Home health care (nurse, therapist or health aides visits)
 - Adult day care services?

Cost

How much will Federal long-term care insurance cost?

We won't know exactly until we complete the procurement process. However, we hope to offer group rates that are approximately 15-20% lower than comparable individual policies.

The annual cost depends on—

- an individual's age at time of enrollment, and
- the design of the benefits package and the options an enrollee may select.

For example: A base policy could cost a 35 year old as little as \$150 a year and as much as \$1,000 a year. For a 45 year old the range might be anywhere from \$250 a year to \$2,000. For a 55 year old \$550 to \$2,750 may be the range. For 65 year olds, premiums are likely to be over \$1,000 a year, and for 75 year olds, over \$3,000 a year.

We expect that the base policy will include coverage for a broad range of services and provide considerable flexibility. The more expensive policies will offer enhancements that consumers will need to evaluate in terms of cost and benefit.

Can employees pay for the insurance premiums from their Federal salary?

Yes, agencies will withhold premiums from salary for enrolled employees and their enrolled spouses.

How will enrollees who don't have a Federal salary or annuity pay for long-term care?

There will be many enrollees in this category and we plan to have these individuals send their premiums directly to the insurance carrier under some type of debit system, such as automatic withdrawal from a checking account.

Will the government contribute a portion of the cost of long-term care insurance?

No, there will not be any government contribution. Participants will be responsible for 100% of the cost. This is typical of private industry practice for this type of insurance.

What is the benefit to an employee of purchasing this insurance if the government is not going to contribute toward the cost of premiums?

Even though the Federal government would not contribute to long-term care insurance premiums, participants would benefit from the group rates (estimated to be 15 to 20 percent below individual policy rates) that the large pool of potential enrollees would bring about. The program also offers the convenience of paying premiums through a payroll deduction. Finally, policyholders can be assured that OPM will look out for their interests over the life of the policies they purchase.

Tax Benefits

Are there any tax benefits related to long-term care insurance?

Yes there are, if the insurance contract is a “qualified” plan for purposes of the Internal Revenue Code. Because the Federal long-term care insurance will be a qualified plan—

- benefits will not be taxable; and
- enrollees can deduct long-term care insurance premiums as medical expenses. The amount of the deduction is limited on a sliding scale by age and further limited by the overall limit on itemized medical expenses (deductible only when they exceed 7.5% of adjusted gross income.)

Can employees pay the long-term care insurance premiums on a pre-tax basis (premium conversion)?

No. Section 125 of the Internal Revenue Code specifically excludes from the definition of qualified pre-tax benefits “any product which is advertised, marketed, or offered as long-term care insurance.”

Consumer Protections

What consumer protections will participants have?

The Federal long-term care insurance policy will include numerous consumer protections, including a contingent non-forfeiture provision and the option to purchase inflation protection.

What is a contingent nonforfeiture provision?

“Contingent nonforfeiture” means that if the insurer increases premiums beyond a specified percentage, an enrollee can choose to stop paying premiums and elect a policy with a shortened benefit period. We may offer other types of nonforfeiture protection on an optional basis.

We will conduct an extensive educational campaign to let eligible participants understand all about this provision and everything else about the new program.

What is inflation protection?

Enrollees can choose to pay for this optional provision which will protect benefits from inflation. There are several different types of inflation protection.

We will conduct an extensive educational campaign to let eligible participants understand all about this provision and everything else about the new program.

Can an insurance company cancel coverage?

The only time a carrier may cancel coverage is if the participant doesn't pay the premiums.

Miscellaneous

How many insurance carriers will participate in the program?

We will award contracts based on contractor qualifications, price, and reasonable competition.

The law provides that the Office of Personnel Management shall contract with one or more carriers to participate in the long-term care insurance program. This language gives us and the industry the flexibility we need to negotiate effective contracting arrangements.

What happens to coverage if enrollees leave their jobs?

The law expressly provides for portability of coverage. If an individual's status changes, coverage continues so long as they continue to pay premiums.