Pension & Health Benefits Committee

Agenda Item 5a

September 17, 2024

Item Name: Long-Term Care Program Rates

Program: CalPERS Long-Term Care Program

Item Type: Action

Recommendation

Staff recommends the implementation of two annual 10% rate increases for the California Public Employees' Retirement System (CalPERS) Long-Term Care (LTC Program), excluding Partnership plans. The first-rate increase would be effective in January 2025 and the second would be effective approximately one year later in 2026.

Staff recommends the implementation of three annual 6.7% rate increases for LTC Program Partnership plans beginning in 2025.

Executive Summary

This agenda item is a follow-up on the informational item provided to the Pension & Health Benefits Committee (PHBC) on Prospective Long-Term Care Program Rates on June 11, 2024. This recommendation is provided within the context of promoting the Program objectives of stability and sustainability.

Strategic Plan

This agenda item supports the CalPERS 2022-2027 Strategic Goal of Exceptional Health Care, as it relates to strengthening the long-term sustainability of the LTC Program and ensuring policyholders have access to their CalPERS LTC Program Benefits when they need them.

Background

The CalPERS LTC Program was established in 1995. As of June 30, 2024, the LTC Program membership stands at approximately 80,300 policyholders.

From its inception, Program experience has deviated from historical pricing assumptions. The LTC Program has experienced lower than expected investment income, higher than expected morbidity, lower than expected mortality, fewer than expected policy lapses, and higher than expected cost of care. Combined, these items have adversely impacted the financial status of the LTC Fund.

Similar to the commercial long-term care insurance industry, over time CalPERS has implemented various corrective actions, which included increasing policy premiums. The last premium increases were 52% and 25%, which were implemented over two years in 2021 and 2022. Since the last rate increase, the CalPERS Long-Term Care Program has experienced lower than expected investment income, and new information suggests that future Program costs will be higher than previously expected.

During the time since the last rate increase, the LTC Program collaborated with the CalPERS Actuarial Office (ACTO) and the CalPERS Investment Office (INVO) to explore and implement strategies to maintain the sustainability of the LTC Fund. These include a change in investment strategies and implementing innovative programs to assist our policyholders with aging independently and safely in their homes.

INVO reviews the Fund's investment asset allocation bi-annually and considers adjustments to improve risk and returns and achieve the projected discount rate. INVO has engaged an investment manager with long-term care fund investment expertise to advise on potential adjustments to the LTC Fund investment strategy that are more likely to achieve targeted returns while lowering risk. This information was presented to the Investment Committee on September 16, 2024.

Additionally, the LTC Program launched an Aging in Place Wellness Program, AgeAssured, in May 2024. AgeAssured will help policyholders by providing tools and information to help them age independently and safely in their home with the goal of delaying or reducing the duration of claims and increasing policyholder satisfaction. AgeAssured is free to policyholders. If successful, it will lower costs for the LTC Program.

The LTC Program recognizes the impact of these proposed rate increases on policyholders. As with all rate increases, the LTC Program will provide policyholders a benefit decrease offer as an alternative to the rate increase, allowing them to decrease coverage and either maintain or reduce their current premiums. Policyholders can also contact the LTC Program's third-party administrator, illumifin, to discuss additional benefit decrease options that may be available for their policy.

Analysis

The Long-Term Care Valuation Report as of June 30, 2023, was presented by ACTO to the Finance and Administration Committee on April 15, 2024. The Valuation indicated the fund was 90% funded with a margin of negative 19.01%. The underlying factors are the same mentioned in the background section.

The two 10% rate increases are necessary to address the funding shortfall based on the 2023 valuation and move the LTC Fund toward a 100% funded status. The LTC Program, along with ACTO, will continue to analyze the health of the LTC Fund, perform annual valuations, and make recommendations based on the LTC Program's ability to cover future liabilities.

The recommendation of two 10% rate increases is to address the shortfall as soon as possible. Analysis has shown that for each month the LTC Program delays the implementation of the rate increases, there is a $4.3 million present value loss to the program.

A small portion of CalPERS LTC policyholders have Partnership plans, which are subject to their own regulations regarding rate increases, including a mandate that rate increases be applied equally over a three-year period. Accordingly, the recommendation of three annual 6.7%

rate increases for policyholders with Partnership plans (as opposed to two 10% rate increases) is to meet the regulatory requirement.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The benefits of implementing a future premium increase(s) are:

- Increase the solvency and sustainability of the LTC Fund.

The risk of implementing future premium increase(s):

- Increase policyholder hardship and dissatisfaction.

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