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LONG-TERM CARE INSURANCE FOR FEDERAL EMPLOYEES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON THE CIVIL SERVICE

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

MARCH 18, APRIL 8, AND JUNE 14, 1999

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LONG-TERM CARE INSURANCE FOR FEDERAL EMPLOYEES

THURSDAY, MARCH 18, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:20 a.m., in room 2203, Rayburn House Office Building, Hon. Joe Scarborough (chairman of the subcommittee) presiding.

Present: Representatives Scarborough, Morella, Mica, Cummings, Norton, and Allen.

Staff present: George Nesterczuk, staff director; Edward Lynch, senior research director; Garry Ewing, legal counsel; John Cardarelli, clerk; Tania Shand, minority professional staff member, and Jean Gosa, minority staff assistant.

Mr. SCARBOROUGH. I would like to call this meeting of the House Civil Service Subcommittee to order.

Ladies and gentlemen, this morning we are going to consider legislative proposals to establish a program under which Federal employees may purchase long-term care insurance. Although our immediate focus is on the Federal work force, the long-term care issue has more far-reaching implications.

As one of the Nation's largest employers, the decisions we make here will influence employers across the country. Employer-based plans represent the fastest growing market for long-term care insurance. By offering this benefit to individuals in their working years, we can help encourage the purchase of this product at younger ages when premiums are obviously lower and more affordable.

We need some common-sense ideas to help this Nation solve a growing problem in financing the cost of long-term care. The fact is that most Americans now cannot afford to pay the average cost of $41,000 per year for a nursing home stay or the $98 average per visit fee of a registered home care nurse.

While many believe that Medicare will provide for their long-term care needs, they quickly learn that Medicare simply is not enough to help out. For two out of three Americans needing long-term care today, that help comes from the Medicaid program, but only after the individual is impoverished. Faced with a rapidly aging population, Medicaid will not be able to withstand the demand for long-term care services in the near future.

As we address this problem for the segment of the population in our jurisdiction—current and retired Federal employees, the ad-

ministration, the Congress—have already agreed on some basic principles involving long-term care. Both bills before the committee will rely on private insurance—privately managed and privately invested—to provide the financing for long-term care. Both bills also call for employees to fund the cost of the premiums.

These are very important principles, and the fact that we agree on them brings us much closer to a compromise because these agreements effectively eliminate the budgetary considerations on this issue from the budget. What remains for us to resolve is to how best to ensure that Federal employees are afforded an adequate variety of planned choices at prices they can afford.

Achieving maximum participation will require affordable premiums and an ability to satisfy the widely varying needs of a diverse population. Ultimately, the success of our collective efforts will be measured by the number of participants that decide to become engaged in this Federal long-term care insurance program.

I am a firm believer in the strength of competition to meet the needs of a diverse market. I don't believe that one-size-fits-all options work. Looking at the administration's proposal, I am concerned about a comparative lack of competition, limited choice, and seemingly limited capacity to serve our large Federal population.

As most of you know, we have a very diverse work force—1.5 million white collar employees and 250,000 blue collar workers. Our employees range from highly paid executives and professionals to more modestly compensated clerical and administrative support personnel. They are scattered throughout the country and across the world, in remote rural areas as well as large metropolitan centers where a higher cost of living is an important consideration. The average age is in the late–40's, and they are single, married, divorced, widowed, some with children, some without. Add to that 2,300,000 annuitants and survivors at an average age of 74 and it becomes obvious that their needs for financial planning and long-term security are going to be vastly different.

Variety of choice in long-term care plans is the optimum way, I believe, to ensure broad-based participation. I also believe that providing variety of choice is also the best way to guarantee value for the premium that each one pays.

Long-term care insurance is an important part of planning for the future. As American's step into the 21st century, living longer than ever before, this type of coverage can safeguard hard-earned savings and assets.

The Federal Government can set an example by encouraging its employees to consider this important benefit and to provide as wide a range of options as they might seek.

I look forward to hearing from our witnesses as we discuss these approaches in providing long-term health care insurance to our work force, and I am sure it is going to be very educational for all of us.

The ranking member is not here presently, but I would like to yield to Ms. Norton for any comments she might have.

[The prepared statement of Hon. Joe Scarborough follows:]

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Chairman Joe Scarborough
Subcommittee on Civil Service
Opening Statement
"Long Term Care Insurance for Federal Employees"
March 18, 1999

Ladies and gentleman, this morning we are going to consider legislative proposals to establish a program under which federal employees and annuitants may purchase long-term care insurance. Although our immediate focus is on the federal workforce, the long term care issue has more far reaching implications.

As one of the nation's largest employers, the decisions we make will influence employers throughout the country. Employer-based plans represent the fastest growing market for long-term care insurance. By offering this benefit to individuals in their working years, we can help encourage the purchase of this product at younger ages, when premiums are lower and more affordable.

We need some common sense ideas to help this nation solve a growing problem in financing the cost of long term care. The fact is most Americans cannot afford to pay the $41,000 average annual cost of a nursing home stay or the $98 average per visit fee of a registered home care nurse. While most believe Medicare will provide for their long term care needs, they quickly learn that it will not. For two out of three Americans needing long term care today, that help comes from the Medicaid program, but only after the individual is impoverished. Faced with a rapidly aging population, Medicaid will not be able to withstand the demand for long term care services in the future.

As we address this problem for the segment of the population in our jurisdiction, current and retired federal employees, the Administration and the Congress have already agreed on some basic principles. Both bills before the Committee rely on private insurance, privately managed and invested, to provide the financing for long term care. Both bills call for employees to fully fund the cost of premiums. These are very important principles, and the fact that we agree on them brings us much closer to a compromise because these agreements effectively eliminate budgetary considerations from the debate. What remains for us to resolve is how best to ensure that federal employees and annuitants are afforded an adequate variety of plan choices at attractive prices.

Achieving maximum participation will require affordable premiums and an ability to satisfy the widely varying needs of a diverse population. Ultimately, the success of our collective efforts will be measured by the number of participants in this federal long term care insurance program.

I am a firm believer in the strength of competition to meet the needs of a diverse market. "One size fits all" solutions rarely work. Looking at the Administration's proposal, I am concerned about the comparative lack of competition, limited choice, and seemingly limited capacity to serve our large federal population. We have a very diverse workforce -- one and a half million white collar employees and 250, 000 blue collar workers. Our employees range from highly paid executives and professionals to more modestly compensated clerical and administrative support personnel. They are scattered throughout the country and around the world, in remote rural areas as well as large metropolitan centers where higher costs of living are an important consideration. The average age is in the late forties, and they are single, married, divorced, widowed, some with children, some without. Add to that 2,300,000 annuitants and survivors, at an average age of 74, and it becomes obvious that their needs for financial planning and long term security are vastly different. Variety of choice in long term care plans is the optimum way to insure broad based participation. I believe that providing variety of choice is also the best way to guarantee value for premium paid.

Long-term care insurance is an important part of planning for the future. As Americans step into the 21st century, living longer than ever before, this type of coverage can safeguard hard-earned savings and assets. The federal government can set an example by encouraging its employees to consider this important benefit, and to provide as wide a range of options as they might seek.

I look forward to hearing from our witnesses as we discuss these approaches to providing long-term care insurance to our workforce.

- ### -

Ms. NORTON. I thank you, Mr. Chairman.

I want to both thank and commend Chairman Joe Scarborough for his work on long-term care, for bringing this problem forward early in this session of Congress, and for continuing the work this subcommittee began on this very important and difficult issue in the last Congress.

The large number of bills filed by Republicans and Democrats, and by the administration, is an indication of the need and concern that should encourage us to pursue a bipartisan bill this session. It is entirely appropriate for the Federal employer to take the lead for employers everywhere. It is a workplace well-suited to help the country develop a long-term care model.

These are unchartered waters, except for the much admired Federal Employees Health Benefits Program. Its genius has been, its free market base, within a refereed system. That has made competition work to hold costs far better than the unrefereed costly universe of health care which often spins out of control, in which many Americans are forced to fend for themselves.

Federal employees and their relatives are going to have to pay for the long-term care premium without a Government subsidy. This does not mean that their Federal employee should throw them to the wolves. It won't do much good to create a long-term care program fraught with the cost problems of health care in America today.

Both Democrats and Republicans believe that Government cannot, and should not, control costs. The question for Congress is, what will it take to produce the kind of competitive environment that will allow the marketplace to develop affordable, comprehensive varieties of long-term care that employees and families can tailor to their needs.

This is a very tall order, but I am convinced that there is enough goodwill, desire, and intelligence, on both sides of the aisle, to do the job. Let's go to Hershey and figure this one out. [Laughter.]

Mr. SCARBOROUGH. Well, can we figure it out without going to Hershey?

Thank you for your words, and I would like to now welcome Mrs. Connie Morella for any opening statements she may have.

Mrs. MORELLA. Thank you, Mr. Chairman.

Mr. SCARBOROUGH. It is good to have you here.

Mrs. MORELLA. Boy, what timing; I came just in time to, also, have my constituent be—[laughter]—one of the people on the panel.

A lot of talk in Washington these days is about Social Security and Medicare, and the financial crises that these problems face in the next decade. And as economic forecasters look in their crystal balls, they foresee one more system for seniors that teeters on the brink of bankruptcy, and that is Medicaid. And now, more than ever, we must take a long, hard look at that. But, also, with the aging of our population and greater life expectancies, we need to, also, plan for the financing of long-term care of older Americans, and that is why I am glad that you had this hearing.

In 1995, Federal and State spending for nursing home care, largely through the Medicaid program, amounted to $34 billion, and an additional $21 billion was spent for home care. With the av-

erage cost of nursing home care in Maryland averaging $50,000 a year—and I think that is pretty modest—and as high as $91,000 in some areas, long-term care can have a devastating financial impact on families, impoverishing them before a spouse, a parent, a grandparent becomes eligible for Medicaid. Situations in which long-term care costs force even the middle class into the Medicaid safety net are typical and not isolated. And in my State of Maryland, alone, nearly 85 percent of nursing home residents rely on Medicaid for their long-term health care needs.

I don't need to go into, Mr. Chairman, the statistics with regard to the number of people that will turn 65 and how long they are going to live, but I would like to have my entire statement included in the record.

Mr. SCARBOROUGH. Without objection.

Mrs. MORELLA. Thank you.

But, however, beyond nursing homes, there is a wide range of services available in the community to help meet long-term care needs. Care given by family members can be supplemented by visiting nurses, home health aides, friendly visitor programs, home-delivered meals, and adult day care centers, respite care for caregivers, and the litany goes on.

I sponsored in the 105th Congress a concurrent resolution, House Concurrent Resolution 210, to call our attention to this critical need of long-term health care financing and insurance-based approaches to relieve the financial burden already imposed on Medicaid. And now it is time for us to act.

We are making some strides in educating people and advocating the purchase of private long-term care insurance policies, but they have to be affordable, and that is why I introduced, just a few days ago, H.R. 1111—easy to remember—the Federal Civilian and Uniformed Services Long-Term Care Insurance Act of 1999.

The legislation creates an innovative program to meet the long-term care financing needs of Federal employees, Federal annuitants, active and retired military personnel, and their families. It was developed, this legislation, in consultation with, and has the endorsement of, the National Association of Retired Federal Employees, the Reserved Officers Association, the Alzheimer's Association, a number of organizations whose membership will directly benefit from having greater access to affordable long-term care insurance. And, Mr. Chairman, and, members of the committee, by so expanding the pool, we now have about 20 million people who would be eligible.

The bill would offer participating long-term care insurers a diversified risk pool to market a variety of policies. It also empowers OPM, that I see here, to leverage the advantages of a group of this size to obtain significant savings in premiums. It also is attractive because it gives OPM authority to enforce consumer protections and to monitor carrier performance, with the authority to terminate if a carrier is not performing.

H.R. 1111 gives guidance to OPM on asking insurers in their proposals to design benefit packages, and that would allow for care in a variety of settings, optional coverage in case of medical necessity, and a number of other possibilities that would be crafted.

No one likes to think of anything but a bright future, but I think the reality is that we have got to come to grips with offering long-term care. And I think that the Federal sector is the way to begin, and expanding the pool makes sense.

So I, obviously, am delighted that you had this hearing set up, Mr. Chairman, and I thank you for the opportunity of making an opening statement.

I look forward to the rest of the hearing.

Mr. SCARBOROUGH. Thank you, Congresswoman Morella.

Now I am pleased to introduce for an opening statement the distinguished ranking member, Elijah Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Long-term care is an important priority for me, as the ranking member of the Civil Service Subcommittee. We spent a considerable amount of time on this issue during the 105th Congress, holding one hearing and formally debating the merits of the bill introduced by former Subcommittee Chairman John Mica.

Though we failed to act on any legislation, there was a bipartisan consensus that we would continue to work together on this issue until we can reach agreement on a bill.

On January 6, I introduced H.R. 110, Federal Employees Group Long-Term Care Insurance Act of 1999. My bill is one of four elements of a comprehensive long-term care package announced by President Clinton.

H.R. 110 would authorize the Office of Personnel Management to purchase a policy or policies from one or more qualified private-sector contractors to make long-term care insurance available to Federal employees and retirees and family members whom OPM defines as eligible at group rates. Coverage would be paid for entirely by those who elect it.

The program would be available to Federal employees and retirees, and their spouses, a former spouse who is entitled to an annuity under a Federal retirement system, parents, and parents-in-law. All participants, other than active employees, would be fully underwritten, as is standard practice with products of this kind. Coverage made available to individuals would be guaranteed renewable and cannot be canceled except for nonpayment of premium.

Though each participant would be responsible for paying the full amount of the premiums, based on age at time of enrollment, group rates will save an estimated 15 to 20 percent off the cost of individual long-term care policies.

OPM will be responsible for the administrative costs of the program which is estimated to be only $15 million over a 5-year period. Initial year costs include developing and implementing a program to educate employees about long-term care insurance.

The proposal would provide a substantial benefit to Federal employees and retirees by providing access to quality long-term care insurance products at cost-saving group premiums.

H.R. 110 has been endorsed by the National Treasury Employees Union, the National Association of Government Employees, and the National Association of Retired Federal Employees. These organizations recognize the importance of the Federal Government setting the example for private-sector employers whose employees face

the same long-term care insurance needs. They also recognize that by further enhancing its benefits package, the Federal Government will be better able to attract and retain the best and brightest work force.

H.R. 110 helps to raise the public's awareness of the need for long-term care and underscores the importance of assuming personal responsibility and less reliance on public support for one's long-term care needs through Medicaid.

I understand that earlier this week, my colleague from Maryland, Connie Morella, introduced another long-term care bill. Her proposal would add active-duty military personnel and their family members as eligible participants. Further, it would index benefits for inflation. It would include annuitants in the same risk pool as active-duty Federal employees, thereby, potentially increasing premiums for the active employees.

I look forward to the testimony of today's witnesses and the insight it will provide into the relative merits of the three pending long-term care proposals.

Again, I thank you, Mr. Chairman, for placing this matter near the top of the subcommittee's agenda. I look forward to working closely with you and all the members of our subcommittee to produce a consensus legislation that can be enacted this session.

[The prepared statement of Hon. Elijah E. Cummings follows:]

STATEMENT OF CONGRESSMAN ELIJAH CUMMINGS AT THE CIVIL SERVICE SUBCOMMITTEE HEARING ON LONG-TERM CARE INSURANCE FOR FEDERAL EMPLOYEES

March 18, 1999

Long-term care is an important priority for me as Ranking Member of the Civil Service Subcommittee. We spent a considerable amount of time on this issue during the 105th Congress, holding one hearing and informally debating the merits of the bill introduced by former Subcommittee Chairman John Mica. Though we failed to act on any legislation, there was a bipartisan consensus that we would continue to work together on this issue until we can reach agreement on a bill.

On January 6th, I introduced H.R. 110, "Federal Employees Group Long-Term Care Insurance Act of 1999. My bill is one of four elements of the comprehensive long-term care package announced by President Clinton.

H.R. 110 would authorize the Office of Personnel Management

(OPM) to purchase a policy or policies from one or more qualified private-sector contractors to make long-term care insurance available to federal employees and retirees, and family members whom OPM defines as eligible, at group rates. Coverage would be paid for entirely by those who elect it.

The program would be available to federal employees and retirees, and their spouses; a former spouse who is entitled to annuity under a federal retirement system; parents, and parents-in-law. All participants other than active employees would be fully underwritten as is standard practice with products of this kind. Coverage made available to individuals would be guaranteed renewable and could not be canceled except for nonpayment of premium. Though each participant would be responsible for paying the full amount of premiums, based on age at time of enrollment, group rates will save an estimated 15-20 percent off the cost of individual long-term care policies.

OPM will be responsible for the administrative costs of the

program, which is estimated to be only $15 million over a 5-year. Initial year costs include developing and implementing a program to educate employees about long-term care insurance.

The proposal would provide a substantial benefit to federal employees and retirees by providing access to quality long-term care insurance products at cost- savings group premiums.

H.R. 110 has been endorsed by The National Treasury Employees Union (NTEU), the National Association of Government Employees (NAGE), and the National Association of Retired Federal Employees (NARFE). These organizations recognize the importance of the federal government setting the example for private sector employers whose employees face the same long-term care insurance needs. They also recognize that by further enhancing its benefits package, the federal government will be better able to attract and retain the best and brightest workforce.

H.R. 110 helps to raise the public's awareness of the need for

long-term care and underscores the importance of assuming personal responsibility and less reliance on public support for one's long-term care needs through Medicaid.

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Again, I thank you Mr. Chairman, for placing this matter near the top of the subcommittee's agenda. I look forward to working closely with you and all the members of our subcommittee to produce

consensus legislation that can be enacted this session.

Mr. SCARBOROUGH. Thank you, Congressman Cummings, and I would just like to add a little to what you said regarding military retirees.

We have obviously talked to TROA and other groups. We certainly support the efforts of Mrs. Morella to add them in. And, as with everything in 1999, we just have to figure out a way to pay for it. And I am sure we can do that.

Mrs. MORELLA. We can, Mr. Chairman, because my bill would not be paid for by the Federal Government.

Mr. SCARBOROUGH. Right.

Mrs. MORELLA. Yes; OK.

Mr. SCARBOROUGH. Thanks.

I would like to introduce Judy Kramer. Judy is a—well, actually, Connie Morella claims her as her own. [Laughter.]

Mrs. MORELLA. May I?

Mr. SCARBOROUGH. She is a resident of Silver Spring, MD, and is a private individual that has very extensive experience—personal experience—with the intricacies of the Medicaid system.

Mrs. Kramer's parents played by the rules. They worked hard their entire life. They saved an awful lot of money, but were placed in a nursing home at the age of 79. Within 2 years, they had spent their entire life's savings of approximately about $150,000 in order to qualify for long-term care under Medicaid.

Mrs. Kramer's husband is a Federal annuitant so, consequently, she would be eligible for long-term care insurance, under the terms of the bills that we are considering here today.

As a result of her experiences, she is a consumer advocate for long-term care reform, and I believe—as does everybody else up here—that she has a very compelling story to tell.

As it is customary to swear in the witnesses, could you rise and be sworn in.

[Witness sworn.]

Mr. SCARBOROUGH. If you could go ahead and testify, and I will give you a gentle reminder that we have a 5-minute limit, but will not have you dragged out if you go a few minutes over. [Laughter.]

STATEMENT OF JUDY KRAMER, SILVER SPRING, MD

Ms. KRAMER. Thank you.

Mr. Chairman, I appreciate the opportunity to address you and members of the subcommittee.

I have 5 minutes to tell you about 5 years of my life; I will try and work within those limits.

Healthy parents are both a genetic and a generational blessing. As their children, we can then hope for long life and the pleasure of benefiting from their accumulated wisdom and experience. But for so many of us, when our parents' health begins to fail, our relationship becomes one of increased responsibility—for the quality of their lives, for their daily activities, for their health care decisions, and for their financial management.

The ravages of age often cause us to invade both their privacy and their personalities, as roles reverse and we offer them, or must impose upon them, the kind of care that they once gave us.

My parents, Milton and Evelyn Lieberman, were solid citizens of the middle class. My father was in the shoe business for most of

his adult life, and my mother worked as a cashier in a bookstore. Between them, they put two children through college, lived frugally, and managed to save a nest egg of $150,000. My father retired in good health at the age of 62, and my mother followed him by several months when she was 62.

For 17 years, thereafter, they lived very carefully on Social Security and the interest from their savings. At the ages of 79 and in failing health, both of them made the decision to move into a nursing home so that they could receive the care required for their maintenance and their safety. My father had end-stage renal disease and needed frequent dialysis. My mother suffered from the ravages of 40 years as a diabetic.

Although they could no longer walk safely or care for themselves, their minds were clear, and they were able to participate in the decisionmaking process until they died 3 years later.

At the age of 52, I became their "paper persona," managing their affairs and responding to expenses that quickly devoured their nest egg. They shared a room in a nursing home at a monthly cost of between $3,000 and $3,500 each. Medications cost hundreds of dollars monthly for each of them. My father's dialysis required that he be transported to a hospital twice a week as I was working full-time helping to put three children through college and was unable to drive him. Private transportation bills grew to hundreds of dollars monthly. The cost of medical supplies to manage their incontinence grew. These were costs beyond what Medicare and their private health insurance policy covered.

Their health needs dried up any financial security they had been able to establish for themselves. Costs of paying for two irrevocable funeral trusts, bringing current their advance directives and health care durable power of attorney, and getting help applying for Medicaid totaled more than $22,000. Their savings lasted less than 2 years once they entered a nursing home.

As their money disappeared, I began to drown in the minutiae of their care—the bills, the laws, the regulations to be understood and met.

I attempted to understand the requirements of a Medicaid spend-down. Much of the required 3 years of financial documentation had been lost or discarded when my brother and I moved our parents from their tiny, cramped apartment into the nursing home.

After months of attempting to reconstruct their past financial lives, I applied for Medicaid on their behalf. I had not spent down all of their resources, I was told. Certificates of deposit, long held in trust for my brother and me, had been set up incorrectly and were, therefore, a part of their assets. I spent them willingly and quickly on their care.

In making a reapplication for Medicaid for both of my parents, I was guided by an elder law attorney, and, after another denial, the application was finally approved. My parents, with total assets of $2,500 each, became poor on May 1, 1994. After a lifetime of saving, it had taken less than 2 years for them to become destitute.

They lived together for another year in the nursing home before I was called upon to implement their advance directives and remove them from life support. They died within 6 weeks of each other.

Medicaid was not only their safety net, it was mine as well. I could never have afforded to provide the care they required. We all felt no shame in the spend-down of their assets. Rather, we saw it as our obligation to the Government. Neither my brother nor I expected or desired an inheritance. My parents' money was to be spent on their care. We hid nothing; we protected no revenues from scrutiny. We felt that, as taxpayers, our parents had contributed to the system, had supported the sustenance of others, and now it was their turn, their need, their entitlement to be supported by the Government and the rules they had lived by.

It is my growing understanding that Medicaid that sustained my parents in the last 2 years of their lives will not be there for my husband and me in the same form. My husband, a Federal retiree, spent 27 years in Government service. We have helped 3 children complete a total of 17 years of college and graduate studies. The debt incurred will take us years to reduce.

Based on my parents' experience, we would be interested in long-term care insurance but cannot afford it as presently available. Group rates might make this possible for us. Employer contribution in the future might make this a possibility for millions more.

The journey with my parents into their old age was a trip none of us wanted to make. It was expensive; it was lonely; it was frightening; it was frustrating, and it was infinitely sad.

As a writer and newspaper columnist for 5 years, I have chosen to share these feelings with thousands of readers seeking validation for their own experiences. They are responding with hundreds of letters and calls asking for back copies of my column. They are asking for my story because it is their story.

Thank you for the opportunity to share all of our experiences.

[The prepared statement of Ms. Kramer follows:]

STATEMENT OF JUDY KRAMER BEFORE
THE SUBCOMMITTEE ON CIVIL SERVICE

HEARING ON LONG TERM CARE INSURANCE FOR FEDERAL EMPLOYEES
MARCH 18, 1999

Healthy parents are both a genetic and a generational blessing. As their children, we can then hope for long life and the pleasure of benefitting from their accumulated wisdom and experience.

But for so many of us, when our parents' health begins to fail, our relationship becomes one of increased responsibility: for the quality of their lives, for their daily activities, for their health care decisions, and for their financial management. The ravages of age often cause us to invade both their privacy and their personalities as roles reverse and we offer them, or must impose upon them, the kind of care that they once gave us.

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At the ages of 79, in failing health, both of them made the decision to move into a nursing home so that they could receive the care required for their maintenance and safety. My father had end stage renal disease and needed frequent dialysis; my mother suffered from the ravages of forty years as a diabetic. Although they could no longer walk safely or care for themselves, their minds were clear and they were able to participate in the decision-making process until they died three years later.

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lost or discarded when my brother and I moved our parents from their tiny cramped apartment into the nursing home. After months of attempting to reconstruct their past financial lives, I applied for Medicaid on their behalf. I had not spent down all of their resources, I was told. Certificates of deposit, long held in trust for my brother and me had been set up incorrectly and were therefore part of their assets. I spent them willingly and quickly on their care.

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It is my growing understanding that the Medicaid that sustained my parents in the last two years of their lives will not be there for my husband and me in the same form. My husband, a federal retiree, spent twenty seven years in government service. We have helped three children complete a total of seventeen years of college and graduate studies. The debt incurred will take us years to reduce. Based on my parents' experience, we would be interested in long term care insurance but cannot afford it as presently available. Group rates might make this possible for us. Employer contribution in the future might make this a possibility for millions more.

This journey with my parents into their old age was a trip none of us wanted to make. It was expensive. It was lonely. It was frightening. It was frustrating. And it was infinitely sad. As a writer and newspaper columnist, for five years I have chosen to share these feelings with thousands of readers seeking validation for their own experiences. They are responding with hundreds of letters and calls asking for back copies of my column. They are asking for my story because it is their story. Thank you for the opportunity to share all of our experiences.

ADDENDUM I:

Senior Connection Column of the Gazette Newspaper
October 27, 1993

Tackling Medicaid System's Red Tape
By Judy Kramer

I struggled self-consciously with the huge, gray plastic laundry basket in the elevator as I took it to the lawyer's office.

Inside the basket, learning awkwardly against each other, were the five heavy white notebooks I had assembled to chronicle the past year of my parents' financial and medical lives: the nursing home book, the doctors book, the health care book, the banking book and the legal papers book.

They were making this trip to document my parents descent into poverty and eligibility for Medicaid. I was making this trip because I needed advice and help. It was a long, slow, uncomfortable ascent.

A year ago I wasn't sure of the difference between Medicare and Medicaid. I was overwhelmed enough dealing with my own family's medical costs, records and care.

When I assumed responsibility for my parents care and was authorized by them to act on their behalf, it was like opening a dark closet and having all of my worst nightmares tumble out.

Their "life papers" began to arrive at my house thick and fast: doctors' bills, subscription notices, bank statements, insurance reminders, hospital charges. I spent hours sorting, phoning, recording, and paying -- trying to balance the responsibility for their lives with the responsibility for my own. The notebooks saved me. They brought order out of chaos.

When the attorney who specializes in elder law came into the conference room, she took one look at the laundry basket and said furrowing her eyebrows, "That looks intimidating."

I liked her immediately. By the end of our hour-and-a-half meeting, we had opened and used every notebook. Although the fog had not lifted, I had a least found a navigator who knew the waters and could guide me around the shoals. And there were plenty of them.

Before I saw the lawyer, I had been misadvised to apply for Medicaid at a time when my parents' assets had not been sufficiently depleted. It took me twelve hours to get the papers together and provide the information requested in the two applications.

My brother made an appointment for us to meet with the County Department of Social Services. When he flew down from Boston for the meeting, he laughed at the laundry basket I brought with me.

Both of us emerged shell-shocked. Despite my record keeping, we had only about half of the information required. The applications were denied and we were left with an enormous list of documents to find before we could reapply.

Many of my parents' bank records had been lost or misplaced in moving them into the nursing home. It was a painful and chaotic time and my brother and I were not careful enough in sorting through and tossing out their 54-year collection of papers.

We found we needed three years of back bank records for every single asset and account. We needed to know the current value of every insurance policy. It took me three months of phoning and visiting the banks to accumulate the necessary papers.

Banking personnel were unanimously supportive and sympathetic and many when out of their way to get me what I needed. With phone calls and letters, my brother tracked down the insurance values.

Medicaid is shrouded in an intimidating fog of requirements and rules, and timing is a critical factor. We cannot apply until my parents each are down to their last $2,500 in assets. The slightest amount more will cause their applications to be rejected.

We must have paperwork that completely documents the past 36 months of their financial lives. Once again we must fill out the applications, apply in person, await a decision, and still continue to pay their bills.

It is a sad journey into emptiness. Yet we are grateful for the port and protection that Medicaid provides.

ADDENDUM II:

Senior Connection Column of the Gazette Newspaper
March 30, 1994

Caring For Aging Poses Financial Challenges
By Judy Kramer

I have found something better than an alarm clock to wake me up before sunrise in these waning days of winter. It's Medicaid.

A year ago, I really didn't understand the difference between Medicare and Medicaid. I'm still not sure of all of the details, except that Medicaid is the government's health assistance to the poor. We are at the front door, knocking to be let in. I say "we" because my parents are at the door, but I have guided them to this place.

How did this happen? I wander back in time, reflecting. I was born in Washington, grew up in nice neighborhoods, a child of middle class, hard-working parents. I never lacked for anything material.

My parents supported two children through college and helped launch them into marriage and careers. My father retired at 62 after a lifetime of working to support his family. For seventeen years after retirement, Mom and Dad lived comfortably and frugally, nurturing a nest egg that would carry them through their old age. But time has robbed the nest. My parents have outlived the resources of the egg.

A year ago, when they both entered a nursing home at ages 79, I became their financial manager. Each month, I have overseen the reduction of their resources. No one could have prepared them, or me, for the mountainous expenses of old age. So here we stand, depleted and determined to take the necessary next steps.

I received a letter yesterday from our elder law attorney. She outlined the steps I need to prepare applications for my parents to become eligible for Medicaid. That's what woke me up at 5 a.m. this morning.

The detailed documentation I need to provide for both of them is daunting. I have spent months collecting back statements from banks because my brother and I inadvertently tossed many important papers in the trash when we moved my parents into the nursing home.

I have spent hours on the phone calling insurance companies to find out the face value and cash surrender value of my father's insurance policies. I have visited banks to cash certificates of deposit, close accounts and consolidate their finances. I have hovered over my mailbox waiting to receive insurance documents that both of my parents must sign in order for me to account for all of their assets.

And all of this must be completed along an exquisite time line that is absolute. On the day that my parents apply for Medicaid, they must each have no more than $2,500 in assets...to the penny. I have to make this happen.

My husband and I have spent hours at the computer, calculating their monthly expenses, tracking their bills, projecting how far their resources will carry them. With the help of the attorney, we have determined that my parents will be poor on May 1, 1994.

The attorney has told me that I must also be sure to have copies of their social security cards, birth certificates, nursing home bills, three years of back bank statements, documentation of a funeral trust with current statement of value, notice of social security monthly benefits, copies of Medicare and health insurance cards, including a copy of the monthly health insurance premium statement, and letters stating insurance policy cash surrender values.

This is better than an alarm clock. This is what creeps into my consciousness as I drift in and out of sleep on these cold end-of-winter mornings. I've gotten most of it together...but not all of it.

I have to begin making copies of everything. I hold all the "what if's" that crowd my mind at bay, reminding myself of the current popular advertising phrase, "Just do it!" I am very grateful for the protection that Medicaid provides my parents. Having guided them to this door, I find that I am still intimidated by the process. And when the door opens, I know myself well enough to understand that I will be replacing the "what if's" with "what next's."

Mr. SCARBOROUGH. Thank you, Ms. Kramer, for your testimony.

You know, you are right; your story is their story for the millions and millions of Americans who go through this. It is a story that I know I have experienced in my family, and I am sure everybody else has experienced something like it in their family, too, where people play by the rules their entire life and they work hard. I can tell you that the tragedy for me, as a father of two young boys, the second you have children, you are thinking all the time, "How do I take care of them? I have got to work hard; I have got to not only worry about getting them through high school but, hopefully, to college and, hopefully, leaving them something," if you work hard your whole life.

Let me ask you this; you said you weren't expecting an inheritance but, obviously, it sounds like your parents planned for that, to give you some of that money to do the type of things that I think, instinctively, parents want to do for their children. What was it like for them?

You have told me what it was like for you, but what was it like for them? Seeing that everything that they had worked for to try to take care of their children, vanished in 2 years?

Ms. KRAMER. When my parents went into a nursing home, they asked me to manage their finances. I agreed to do that. As I began the spend-down, they did not want to know the details. They were busy trying to maintain themselves.

What I did not tell them was that they had set aside two certificates of deposit—one for my brother and one for myself—and in order to not impose a financial burden on us because we had three kids in college at the same time. My parents kept those certificates of deposit under my father's Social Security number. Therefore, he paid the taxes on them. Therefore, they were his assets. And my parents died not knowing that that money had gone toward their care.

Mr. SCARBOROUGH. You mentioned briefly about some of the administrative costs. I take it that you had to get an attorney that specialized in elder care?

Ms. KRAMER. I did, after the first Medicaid application that I filled out on my own was denied.

Mr. SCARBOROUGH. What did—[laughter]—did this attorney do it pro bono?

Ms. KRAMER. No.

Mr. SCARBOROUGH. I—[laughter]—that was sort of——

Ms. KRAMER. No.

Mr. SCARBOROUGH [continuing]. A leading question there, with a smirk.

Ms. KRAMER. No; it was not pro bono. [Laughter.]

Mr. SCARBOROUGH. As an attorney, I guess I can rib my profession. [Laughter.]

What was the price tag on legal fees?

Ms. KRAMER. You know, last year I threw away all of my records, because I had kept them for 3 years, and it was just painful to look at them. My recollection of the cost of the attorney was around $4,000 for all of her help—with the advance directive, with the irrevocable trust, with the durable power of attorney for health care.

When I went to her, I told her that I had no funds to pay her, that whatever her costs would be, they would have to come out of what my parents had. And that was the arrangement that we made.

Mr. SCARBOROUGH. OK.

And, again, you said you had no funds to pay her, you were——

Ms. KRAMER. I had none of my own funds available.

Mr. SCARBOROUGH. Right. At the time—and, again, the only reason I say this is because your story is the story of so many people. You had three children in college at the time. It seems, again in our families, that we see time and time again people work their whole life, and try to get their kids to schools. Usually, if you are lucky enough to get your kids out of school, then, unfortunately, the attention turns to the parents.

Ms. KRAMER. That is right.

Mr. SCARBOROUGH. And the stress is absolutely incredible.

I am going to give you a little more time, because I know that you rushed through your story to get within the 5-minute timeframe. But, could you share for the panel, for the committee and everybody listening, what was one of the more painful parts of the spending-down process for you?

Ms. KRAMER. I felt totally responsible for the quality of my parents' lives.

I can remember because it was around this time of year, trying to get together the necessary information, going to the banks with a laundry hamper full of notebooks and papers that I had collected from my parents' file cabinet and saying, "Can you help me with this? I know things are missing." Trying to fill out the form for Medicaid—night after night, I would get into bed and literally lay there shaking because I knew that if I didn't do this right, my parents were going to suffer. I felt totally responsible for their lives. And it was very difficult to get the information I needed.

There is no single point of entry for this kind of information. When most of us are first presented with this responsibility, it is in an emergency situation.

Mr. SCARBOROUGH. Right.

Ms. KRAMER. My father had an emergency; he had to go to the hospital. He had end-stage renal disease. The doctors came out, they told me, "He can't go home. He has to go into a nursing home." That day, I took over for them. And I didn't know their finances; I didn't know the difference between Medicare and Medicaid. I had no idea what was involved, and I began to look for answers.

And it is very hard to know where to turn. If you open the Yellow Pages and look for information to help you, do you look under "Aging?" Do you look under "Seniors?" Do you look under "Medicare?" Do you look under "Medicaid?" Do you look under "County Government?" "Federal Government?" It is a maze to wade through.

Mr. SCARBOROUGH. What strikes me, from what you have just said, is that you appear to be very educated, a journalist, and obviously know your way around things and subjects. And if this caused you to lie on your bed and shake, what in the world does

a less-educated person, who doesn't necessarily know where to go and look, do?

Ms. KRAMER. I agree.

Mr. SCARBOROUGH. OK. And, you know, if this causes you to collapse and shake on your bed, then what about those that aren't as equipped to handle this situation? It is frightening. What happens, not only to them and their families, but what happens to their parents? It is very frightening.

Ms. KRAMER. When you go through this process, you can't help but spend those nights also thinking, "If this is for them, what is for me?"

Mr. SCARBOROUGH. Right.

Obviously, with an aging population and the demographics the way they are, your story I think magnifies what is going to be happening in the next 10–15 years when baby-boomers start to retire.

Ms. KRAMER. There is one other thing I would like to—one other point I would like to make.

When my parents went into a nursing home, the first year they were there, they were there as private pay patients. Once they applied for Medicaid and were accepted, I have to tell you that their care never changed. The services never changed. The level of attention they received never changed. I don't know whether that is a quality of the nursing home they were in or it is a quality, in general, but I felt that they had paid their dues, and that they were receiving the services that they needed, and that it was done fairly to them.

Mr. SCARBOROUGH. Well that is great news, in that instance.

Mr. Cummings.

Mr. CUMMINGS. Thank you very much.

First of all, I want to thank you, Ms. Kramer, for being with us today and sharing your story. I think you make it abundantly clear that we need to do something, and I am sure all the members of our committee are committed to doing that. And what we constantly try to do up here and on the Hill, is to make sure that we are effective.

In other words, it is wonderful for you to come and share your testimony with us, but if we don't do something, then you have taken a day off of your valuable time and shared your thoughts and shared your feelings and your experiences with us—but as I have said, say, in meetings in my office—is that if we are still here 2 years talking about the same thing and haven't done anything, then I think that it is very, very, very sad. Because in the meantime, people will have gone through the same things that you have gone through. And to that end of effectiveness, I want to just ask you a few questions.

When you think about the things that—I take it that you had an opportunity to kind of familiarize yourself with the proposals that we put forth. Have you had an opportunity——

Ms. KRAMER. I have read two of them, once.

Mr. CUMMINGS. OK; all right. Are there particular things that—I mean based upon your experiences, are there certain things that you would look for in a long-term care policy—I mean, that you would like to see in one?

Ms. KRAMER. Let me tell you, I have discussed this with my husband at length. Yes, there are two things that I would like to see—two things that would make it possible for us to consider purchasing long-term care insurance, not necessarily being able to buy it. One is a group rate reduction of premiums and the other is employer contribution.

I am not even sure at this point, given our financial obligations in terms of paying our debts for our childrens college educations, that we could afford long-term care insurance without an employer contribution.

It is something that my husband and I have wrestled with, trying to determine what our priority is. You know, what you said was very moving. As soon as you have children, your children are your priority. You don't want to have to become their priority. And that is the point at which we are stuck right now. We don't want to become their priority when we get old, in the way that my parents and managing their finances became my priority. But right now, we can't afford long-term care insurance, as we understand it and as we have explored it.

Mr. CUMMINGS. One of the——

Ms. KRAMER. So that is what I would be looking for, and that is what I was looking for when I read the bills that I was sent.

Mr. CUMMINGS. When you were—so I take it that there was a—did there come a time when you, when all of these series of things began to happen with your parents, that you looked into long-term care insurance? I mean you just said——

Ms. KRAMER. It wasn't on my radar screen. I didn't know—I'll be honest with you—I didn't know it existed. I had not heard of it, and I didn't know it existed. I didn't know the possibility existed.

Mr. CUMMINGS. One of the things that my proposal does is that it gives OPM oversight, and it allows them to limit the companies so that we could get possibly the best group rate—because I think you make a very good point. I think what we—it is one thing to have it, to have the insurance available. It is another thing to be able to afford it. And if you can't afford it, you might as well not have it. I mean does that make sense?

Ms. KRAMER. It does. One of the things my husband and I discussed is that we have taken advantage of the Federal Employees Health Benefits policy over the years, and we have particularly appreciated the choices that we had, because, at different times in our life, we had different needs.

There was a time—we have a child with a disability—there was a time when we selected our insurance policy from those that were available, based on the coverage for her need. When that need lessened, we changed policies to one that would benefit more of us and our family in other ways.

So my feeling, based on that experience, is that, as you said, different families have different needs, and the more opportunity to tailor a long-term care policy to your desire, to your need, the better, as far as I am concerned.

Mr. CUMMINGS. You are a writer?

Ms. KRAMER. Yes, I am.

Mr. CUMMINGS. And is this your—what kind of things do you write about?

Ms. KRAMER. I began writing for the Gazette newspapers 5 years ago because I wrote, for myself, an article about my father. And I looked at that and said, "I cannot be the only one who is going through this." So, I invested in eight stamps, and I sent the article that I had written to eight local newspapers.

The Gazette picked up on it, published it, and received feedback that caused them to invite me to continue writing. I had no idea when I began writing in 1993 that I was going to document this experience with my parents.

What I wrote about in that first article was when my father moved into the nursing home—how I felt, how he felt. I began to just write articles about what was happening to them and what was happening to me. And the response was overwhelming, both to the Gazette and to me.

I ended up being asked to give a series of dialogs at a local hospital where I would just meet with people who were going through this experience, and we would trade success stories and share experiences and talk about strategies.

So, you know—I know that when people go through this, when families go through this, they go through it in isolation. They don't talk about their finances, generally. They don't share the difficulties of dealing with parents with whom you do, or do not, get along for whom you are responsible. And so I found, through the articles, that there is a tremendous market for sharing this experience, because it is lonely. It is very lonely, and it is also very painful.

Mr. CUMMINGS. I just have a few more questions.

You know, one of the things that we run into now with health insurance is that you get to a point where there is a dispute as to what is covered—and I am sure you know this; you may have even written about it. And folks are—the insurance company says one thing; the patient needs another thing.

And as I listened to you, I couldn't help but think about something like, in this instance, I imagine we might come up with quite a few disputes, because of costs. I mean the cost of taking care of—I mean when you told me that $150,000 had been exhausted in 2 years, I think you said?

Ms. KRAMER. Less than 2 years.

Mr. CUMMINGS. Less than 2 years.

Ms. KRAMER. Yes.

Mr. CUMMINGS. And then the $3,000 plus, for the nursing home room. That is a lot of money.

Ms. KRAMER. That was per month, per person, so it was really $7,000 per month.

Mr. CUMMINGS. $7,000 per month?

Ms. KRAMER. Yes.

Mr. CUMMINGS. And so I can just imagine insurance companies having some kind of—I mean saying, "Well, maybe we don't want to cover that." I mean do you—have you addressed that issue in your articles at all?

Ms. KRAMER. The articles that I—I have no expertise in this.

Mr. CUMMINGS. OK.

Ms. KRAMER. Yes.

Mr. CUMMINGS. I am just——

Ms. KRAMER. No, No. I am just saying I have no expertise in this. The articles I write don't deal with "how to." They deal with what it feels like to go through that process.

So if you are asking me if I had experiences like that with my parents about costs that were not met, I didn't.

Mr. CUMMINGS. OK. No, I am just going to the point where, if the insurance was available, if you had insurance, and I was just concerned because the bills. That is one of the key elements that we have to deal with in the legislation, because we can't see everything, but we certainly—I think it is kind of reasonable for us to foresee that. The fact that we, even if you—let's assume you are able to afford, you have it, and then there comes a point in time where you have to use it, and the disputes arise.

Ms. KRAMER. Let me give you an example of just how confusing it can be. When I made application for Medicaid for my parents, I wanted to know whether I could ask to be allowed to take out money for their—to continue their Blue Cross/Blue Shield coverage, their private insurance coverage, which they had carried all their lives.

I asked the nursing home; they weren't sure. I asked the attorney; she wasn't sure. I asked the county; they weren't sure. I could not get anyone to clarify for me whether or not it was reasonable to be allowed to continue to pay the $97, or whatever it was, for their health insurance.

Finally, I called the financial director of the nursing home back and I said, "I can't get an answer for this. Please, help me." And her answer—which I will not forget, was, "Well, it can't hurt, and it might help." So when I made the application for Medicaid, I asked to be allowed to use, from my parents' Social Security, money for their private health insurance, and that was granted.

The point of what I am saying is that there was nobody to tell me. There was nobody to advise me. There was nobody that knew, that I could find. And that is just a tiny, tiny part of the frustration of trying to understand what is available, what I am supposed to do, and what they were supposed to get.

Mr. CUMMINGS. Thank you very much.

Ms. KRAMER. You are welcome.

Mr. SCARBOROUGH. Mrs. Morella.

Mrs. MORELLA. Thank you.

Thank you, Mrs. Kramer, for being here and testifying.

In response to Mr. Cummings comment, the article appears in probably like 26 newspapers, because the Gazette goes into every community in Montgomery County and——

Ms. KRAMER. I think they have a circulation of something like 450,000.

Mrs. MORELLA. It is incredible.

And your articles are great. They are very sympathetic, empathetic, evocative, and everybody can kind of identify with them. I remember Browning's poem that you all know. "Grow old along with me. The best is yet to be. The last of life for which the first was made." But for many people, that isn't the case.

And I can empathize with what you say because my mother died at age 96. But when she was 95, she had to go into the nursing home. We had cared for her at home for well over 2 years. It finally

reached the point where nobody could even handle her. And we paid $200 a day, a day. The other nursing homes that we looked at were only about a $50 difference a day, and so we vied for what we thought would be giving the most attentive service. Well, obviously, that means that if you don't have Medicaid, you are going to be straining the resources, not only of the person, but of the children. And this is what we were able to assume for that period of time. But I know she wasn't cognizant of what was really going on. And if she were, she would have been so heartbroken, because she was one of those hard-working people who wanted to save for her children. Her children were her life.

And that is the kind of thing brought out in our questioning—and our chairman mentioned it, too—is that people in that situation lose their dignity as well as their independence by virtue of not being able to give anything to their children if, in fact, their resources are going to be used for that. The children, in turn, have their own children in college, have other fact qualities of life that are imperative that they save for, so it really is a situation where nobody wins. And in the society where the greatest numbers, in terms of the percentage increase of age, is 85 and over, then we just must take note of this.

With the bills that we have, then, in terms of long-term care, I think it is availability—people don't know they exist because we really haven't brought them out on the radar screen—and affordability and the kinds of services that they would offer. So truth in insurance is important but, in addition to that, it has to be affordable.

If, from what you know, you could have a premium that was about 20–25 percent less than what you saw, under a group rate, would you be interested in it?

Ms. KRAMER. That is hard for me to say because there is so much about long-term care insurance I don't yet understand, and I will give you one of my greatest fears.

What happens when one spouse dies and the other—or one spouse requires nursing home care and the other remains in the community? You know, what kind of assets—I understand, and I have not read it, that Senator Mikulski had legislation that allowed the community spouse to retain $65,000. I don't know what that means. When I think of everything, in terms of myself, that would mean selling my house. Where would I live, if I had to do that?

I have talked with my husband, endlessly, about this. We have really tried to understand it. I don't know at what percentage you would——

Mrs. MORELLA. Now, you are talking about Medicaid and spousal impoverishment.

Ms. KRAMER. Yes, I am.

Mrs. MORELLA. And I support Mikulski on——

Ms. KRAMER. Right, and you are asking me, if I understand you correctly——

Mrs. MORELLA. Insurance.

Ms. KRAMER [continuing]. About insurance, and how much would I be willing to spend? If it were offered at a 20 percent group re-

duction, would we be willing to consider it? Yes, we would be willing to consider it. Absolutely.

Whether we could afford it or not, I couldn't tell you because I have no idea what the premiums would be.

Mrs. MORELLA. I am looking at a plan here that we fashioned mine sort of after, CALPERS. California has done it, and I look at—[laughter]—you are much younger than this, but let's say somebody were 59, and they wanted to take out lifetime long-term care insurance, lifetime. At that rate, with the inflation that would, you know——

Ms. KRAMER. Yes.

Mrs. MORELLA [continuing]. Be entered into it, it would be $64 a month. So, I am not saying that this would ultimately be what would happen with my legislation or any other, but the point is, I think it can be affordable—and it depending upon what age you take it out, obviously. If you took it out at age 50, it would be like $35 a month.

Ms. KRAMER. Right.

Mrs. MORELLA. So I guess I am saying that if you felt it were affordable, you would be willing to——

Ms. KRAMER. Exactly.

Mrs. MORELLA [continuing]. Particularly, with your experiences?

Ms. KRAMER. If I felt it would be affordable, it is something I would do, not only for myself, but for my children.

Mrs. MORELLA. I don't know of any employers that subsidize long-term care, maybe in the future they will. I just don't know; I will have to learn more about that, but at this point, the bill that I have introduced expands the pool to allow the best rates and requires certain things like consumer protection with a variety of choices, in order to get the Federal Government moving toward something which, ultimately, could end up being in national—even go beyond the pool that we have suggested.

I just want to thank you very much for sharing with us such a poignant experience, in the hopes that we all learn.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you.

Ms. Norton.

Ms. NORTON. Just briefly, Mr. Chairman.

It is interesting that Mrs. Morella has spoken about $64 a month, and would that be affordable?

One wonders why there isn't long-term care, since many employers are paying a great deal more than that per month for health care, for example. And we are all paying much more than that because everybody now knows, and has known, that the taxpayers are going to spend $40,000 and $50,000 a year unless there is an incentive for people to buy their own long-term health insurance.

I found your testimony absolutely compelling. And I found it compelling because I had, in my mind's eye, your parents who, in the real sense, I think would be like my own. These are the generations that they are now beginning to write about as the "best generation"—I think they probably are—in the entire 20th century. These are people who saved. The people today aren't saving for their old age; many of their children will not have money and are not putting aside any money for their old age.

They, indeed, put aside money for their old age, and they put aside money for their children. Or, if there had been long-term care insurance, I bet they probably would have spent the money for long-term care insurance.

Ms. KRAMER. You are right; they would have.

Ms. NORTON. The importance of what you are initiating here, Mr. Chairman, cannot be overemphasized. Because the real question is, how are you going to pay for it? Because you are going to pay for it.

There is a safety net there for each and every one of us, and that safety net is Medicaid, which has become a giant benefit, essentially for the middle class in this country, and well should it be. Until we find a way to encourage people to buy their own long-term care insurance, there is no other solution. But that is the most outrageously costly solution. It is one of the great problems of this Congress. That is why it behooves us to quickly set the example by coming forward in, I think, this session of Congress so that employers can see that this will not break them, that in many ways it can save them, ultimately.

Ms. KRAMER. Do you know what they would benefit—what my employer would benefit from, if they provided that for me?

Ms. NORTON. Could you tell us? [Laughter.]

Ms. KRAMER. Well, I would feel very cared for, very loyal. There is a lot of give and take between an employer and an employee when you are caring for ill parents. And I am very happy to see that our society is becoming more cognizant of that, and more flexible about that.

But for an employer to contribute to a long-term care insurance policy that would potentially include me and my parents; I could feel very loyal to that employer.

Ms. NORTON. At the very least, you would think that employers would want to have, among their benefits, long-term care benefits, and more employers would want to do that—if we break the ice, Mr. Chairman, I think that may well happen.

Thank you very much.

Mr. SCARBOROUGH. Thank you, Ms. Norton. I agree with you that I think one of the most positive aspects not only of this hearing, but also this exercise that we are going through is hopefully to get one bill passed. I mean I think just about everybody has a bill now on the floor, except for you, Ms. Norton—[laughter]—up here, so—[laughter]—you need to go back and get to work on it.

Ms. NORTON. Mr. Cummings has my bill. [Laughter.]

Mr. SCARBOROUGH. Oh, he has your bill? [Laughter.]

OK, great.

So, anyway, I think that it is important as we do this, as we debate which is the best way to go, that we engage in an educational process. There are a lot of people like you who, before, had not even heard of long-term care. I know I certainly wasn't aware of it too far back.

So, I think you are right. I think we can certainly educate a lot of people across this country and, hopefully, put in a plan that works for the Federal Government and that sends a message to employers across the country about the importance of long-term care.

In closing, I just wanted to emphasize something that you said earlier in your testimony, when asked by Mr. Cummings, about what you would prefer in a package. You talked about choices and plans that were flexible—and, also, regarding what Mrs. Morella said, in talking about what you could afford and what you couldn't afford.

I certainly think, hopefully, we could get a package out that would provide as many choices as possible, so we could tailor it as much as possible to individual needs, and certainly allow beneficiaries to determine whether they want to be in an inexpensive plan, a mid-range plan, or what they call a "cadillac plan."

Ms. KRAMER. May I ask you a question?

Mr. SCARBOROUGH. I probably can't answer it, but go ahead. [Laughter.]

Ms. KRAMER. I had——

Mr. SCARBOROUGH. As I explained in a previous meeting, I went to the University of Alabama, undergrad.

Ms. KRAMER. My understanding of long-term care insurance is that you buy it in increments of time. If I were to purchase 2 years of long-term care insurance—2 years, or any amount of time—and outlive that, what happens? Who pays? Where does the money come from?

Mr. SCARBOROUGH. I would guess it would go back to Medicaid, but Mr. Cummings is an expert in this area. [Laughter.]

He will answer it for you now. [Laughter.]

Actually, I believe it would go back to Medicaid.

Ms. KRAMER. At that point, if you had set aside money for your children, purchased long-term care insurance, utilized your long-term care insurance, outlived your long-term insurance, your money is already in your children's hands, but it would be—fall within that 3-year period for which a Medicaid application requires that you not give away your money to your children.

Mr. SCARBOROUGH. Right.

Ms. KRAMER. What happens?

Mr. SCARBOROUGH. I think the average stay is 4 to 5 years in nursing homes.

Ms. KRAMER. My parents stayed 2; my father-in-law lived 5 years.

Mr. SCARBOROUGH. Right.

Ms. KRAMER. So, you know, that is another thing that my husband and I have talked about. If you buy it, you have limited coverage, you know. I guess they are betting you are going to die—[laughter]—or you are betting you are going to die within 2 years.

Mr. SCARBOROUGH. If I am not mistaken, you can buy lifetime coverage which, obviously——

Mrs. MORELLA. Would the chairman yield, please?

Mr. SCARBOROUGH. I certainly will.

Mrs. MORELLA. Or you pay a certain amount per month as long as your lifetime and, therefore, you get a lower amount that you pay. So when you die, you pay no more. I mean you will get the coverage that you negotiate for at the very beginning, so if you start young——

Mr. SCARBOROUGH. Right.

Mrs. MORELLA [continuing]. You are paying a very small amount for the rest of your life for that same kind of coverage that you would get later, but you would have some choices, and you could change the choices.

Ms. KRAMER. Yes.

Mrs. MORELLA. That is the simplest way.

Mr. SCARBOROUGH. I will tell you what, we are going to have some testimony from insurance people that will really expand upon this and I think probably will answer a lot of those questions.

Ms. KRAMER. There is only one other question I have, in closing, and that is, if you do this, if there is any way possible to make a single point of entry, for people like me, a number that they could call, as a beginning place to get information? That would be very helpful.

Mr. SCARBOROUGH. That is a great idea, and that is certainly something that I am sure most members on this committee, I think, would agree is a great idea, and so we appreciate it.

We certainly appreciate your testimony. It was moving, and I think it was something that all of us certainly can relate to and is going to help us frame the debate, I think, not only in today's hearings but also throughout this process.

Mrs. MORELLA. And, Mr. Chairman, the next panel with OPM would be the point of contact. It would be a very good one.

Mr. SCARBOROUGH. Exactly; that is right. Except, start asking them some questions, OK? [Laughter.]

Actually, I guess I should say two things before we go to our next panel.

The first thing is, if there is anybody from the University of Alabama, it was self-deprecating humor—[laughter]—which always seems to work—[laughter]—especially when you are talking about Alabama.

The second thing is we have a lot of people standing in the back, so why don't we take a 5-minute break? We will move some more chairs in before we have our next panel come up.

Thanks, again.

Ms. KRAMER. Thank you.

[Recess.]

Mr. SCARBOROUGH. All right. If we could start back up.

In our next panel, we have two distinguished guests from OPM. We have the Honorable Janice Lachance, who is Director of the U.S. Office of Personnel Management, and we have Ed Flynn, III, Associate Director of Retirement and Insurance Services for the Office of Personnel Management.

If you could, please, stand and take the oath.

[Witnesses sworn.]

Mr. SCARBOROUGH. Thank you.

Ms. Lachance.

STATEMENTS OF JANICE LACHANCE, DIRECTOR, U.S. OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY WILLIAM E. FLYNN, III, ASSOCIATE DIRECTOR, RETIREMENT AND INSURANCE SERVICES, U.S. OFFICE OF PERSONNEL MANAGEMENT

Ms. LACHANCE. Thank you, Mr. Chairman, and members of the subcommittee.

It is extraordinary for us to have the opportunity to work with people who are committed to getting a bill through, the way all of you apparently are, and I am very, very grateful for that.

I think we can all agree that this is an idea whose time has come. There are too many Mrs. Kramer's out there who are struggling with this problem, and I hope that we can move quickly to bring some relief to them and their families.

Before turning to my statement, I would like to note that your invitation did contain a number of questions, some of them rather complex, and we are working hard to put together those answers which aren't addressed in my statement, but we will get those to you as soon as we can, for the record.

Mr. SCARBOROUGH. Thank you.

Ms. LACHANCE. With your permission, I would like to summarize my remarks and ask that my full statement be submitted for the record.

Mr. SCARBOROUGH. Without objection, so ordered.

Ms. LACHANCE. On January 4, of this year, President Clinton announced an initiative to improve access to long-term care for all Americans. H.R. 110, entitled, the Federal Employees Group Long-Term Care Insurance Act of 1999, is one component of the President's proposal.

The bill would authorize the Office of Personnel Management to contract for long-term care insurance on behalf of the Federal Government, the Nation's largest employer.

The proposed statutory framework would enable the Government to offer more affordable coverage on an enrollee-pay-all basis to Federal employees and annuitants and their families. By negotiating group rates, we estimate that we can provide an attractive long-term care product at a cost that is some 15 to 20 percent lower than a comparable policy purchased in the individual market.

We expect that, initially, some 300,000 eligible participants would enroll in such a program.

We have seen a dramatic evolution of long-term care insurance products since the 1980's. H.R. 110 gives us a framework to work with stakeholders, including the insurance industry, employee and retiree groups, and Federal agencies, to design a flexible long-term care benefit. This would be coverage with the ability to evolve over time as the market changes, thereby, allowing the Federal Government to keep the policy consistent with industry standards.

The fact of the matter is that group insurance products are less costly than individual insurance. Economies of scale mitigate both administrative costs and underwriting risks, so if we offer long-term care on the same basis as employers in the private sector, the discounts available to Federal enrollees will be at least comparable.

Under the authority given OPM in H.R. 110, we would seek competitive bids for long-term care insurance that meets specified qual-

ity and price criteria in order to select the best contractor or contractors possible.

Now, under H.R. 602, the Civil Service Long-Term Care Insurance Benefit Act, OPM would be required to accept virtually any long-term care insurance product that meets only basic requirements. Our role would be reduced to ensuring that adequate payroll deductions are made and making information available on all offerings. There is no real advantage to this approach, since it gives our Federal population the same choices already available on an individual basis in the private market, with little or no additional financial incentive to enroll. This is decidedly contrary to existing employer practices. We would not be able to take advantage of the economies of scale that work in our favor, and we would not be able to pass any savings on to our enrollees.

It is our belief that H.R. 602 makes an incorrect assumption, that product and vendor competition will reduce costs, but I ask you to look at the numbers, since only about 6 percent of the eligible population typically purchases long-term care insurance. Segmenting the risk pool even further is more likely to increase, rather than reduce, premium rates.

Under H.R. 110, OPM would be able to offer a long-term care benefits package that not only reflects the requirements of the Health Insurance Affordability and Accountability Act, but also meets the standards endorsed by the National Association of State Insurance Commissioners in its long-term care model regulation.

The coverage would be more attractive because it would provide for a variety of services and offer flexible options to participants.

Eligible participants would pay the full cost of the benefit, based on age at time of enrollment. This is consistent with the practice among private employers who offer this benefit now. Our early estimates indicate that annual premium costs could range from $200 to $3,000, depending on the insured's age.

Consistent with other Federal benefit programs, H.R. 110 would require financial and program accountability from contractors and would give OPM the authority to determine the reasonableness of premium rates established.

We estimate OPM's cost to administer the program at approximately $15 million over a 5-year period. Initial costs cover the solicitation process, including actuarial analysis, to determine the reasonableness of rate proposals, as well as implementation of an extensive education program.

We feel very strongly that communication will be a major factor in determining the success of the program. We must make a commitment to inform employees about the costs of long-term care, the need for long-term planning, and the benefits of purchasing coverage sooner rather than later in life.

We firmly believe that the employer-sponsor model of H.R. 110 offers the best vehicle for delivering a quality product. We urge you to give it early and careful consideration. A new long-term care product, such as the administration is proposing, will certainly mean greater financial stability and peace of mind for Federal an-

nuitants, employees, and members of their families.

This concludes my statement, and I will be happy to answer any of your questions.

[The prepared statement and followup answers of Ms. Lachance follow:]

STATEMENT OF
JANICE R. LACHANCE, DIRECTOR
OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES

on

GROUP LONG TERM CARE INSURANCE
FOR FEDERAL EMPLOYEES

MARCH 18, 1999

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR CONVENING THIS HEARING TO DISCUSS THE DESIRABILITY OF INCLUDING GROUP LONG-TERM CARE INSURANCE IN THE FEDERAL EMPLOYEE BENEFITS PACKAGE.

ON JANUARY 4, 1999, PRESIDENT CLINTON ANNOUNCED AN INITIATIVE TO IMPROVE ACCESS TO LONG-TERM CARE FOR ALL AMERICANS. H.R. 110, ENTITLED "THE FEDERAL EMPLOYEES GROUP LONG-TERM CARE INSURANCE ACT OF 1999," IS JUST ONE COMPONENT OF THE PRESIDENT'S PROPOSAL. ALSO INCLUDED ARE TAX CREDITS OF $1,000 FOR QUALIFYING INDIVIDUALS OR THEIR CAREGIVERS, ASSISTANCE TO STATE AND LOCAL AGENCIES FOR THE ELDERLY, AND AN EDUCATIONAL CAMPAIGN TO INFORM MEDICARE BENEFICIARIES AND OTHERS ABOUT LONG-TERM CARE.

THE BILL WOULD AUTHORIZE THE OFFICE OF PERSONNEL MANAGEMENT (OPM) TO CONTRACT FOR LONG-TERM CARE INSURANCE ON BEHALF OF THE FEDERAL GOVERNMENT, THE NATION'S LARGEST EMPLOYER. THE PROPOSED STATUTORY FRAMEWORK WOULD ENABLE THE GOVERNMENT TO OFFER MORE AFFORDABLE COVERAGE ON AN ENROLLEE-PAY-ALL BASIS TO FEDERAL EMPLOYEES AND ANNUITANTS, AND THEIR SPOUSES, PARENTS OR PARENTS-IN-LAW, AND OTHER INDIVIDUALS OPM MAY SPECIFY. WHILE THE PROPOSED LEGISLATIVE LANGUAGE DOES NOT INCLUDE POSTAL SERVICE EMPLOYEES IN THE COVERED GROUP, A MINOR DRAFTING CHANGE WOULD MAKE THEM ELIGIBLE TO PARTICIPATE.

WE ESTIMATE THAT BY NEGOTIATING GROUP RATES WE CAN PROVIDE AN ATTRACTIVE LONG-TERM CARE PRODUCT AT A COST OF FROM 15 TO 20 PERCENT LOWER THAN A COMPARABLE POLICY PURCHASED IN THE INDIVIDUAL MARKET. WE EXPECT THAT INITIALLY ABOUT 300,000 ELIGIBLE PARTICIPANTS WILL ENROLL IN SUCH A PROGRAM .

LONG-TERM CARE POLICIES ARE DESIGNED TO PROVIDE COVERAGE FOR PERSONAL CARE, HOME HEALTH CARE, ADULT DAY CARE, NURSING HOME CARE, AND SIMILAR INSTITUTIONAL AND NON-INSTITUTIONAL COVERAGE FOR PERSONS WITH COGNITIVE IMPAIRMENT OR IN NEED OF ASSISTANCE WITH ACTIVITIES OF DAILY LIVING. AS YOU ARE WELL AWARE, THE COST OF

PROVIDING SUCH CARE CAN BE VERY EXPENSIVE.

CURRENTLY, ABOUT 70 PERCENT OF LONG-TERM CARE EXPENDITURES ARE FOR NURSING HOME CARE. HOWEVER, THERE IS INCREASED INTEREST IN HOME AND COMMUNITY-BASED ALTERNATIVES THAT MANY CONSIDER PREFERABLE. MEDICARE, MEDIGAP AND MAJOR MEDICAL INSURANCE POLICIES PROVIDE EITHER VERY LIMITED COVERAGE OR NO COVERAGE FOR THE KINDS OF SERVICES PROVIDED BY LONG-TERM CARE INSURANCE.

THE MEDICAID PROGRAM COVERS NURSING HOME CARE AND SOME COMMUNITY-BASED SERVICES FOR INDIVIDUALS WITH LIMITED INCOME AND ASSETS. MEDICAID, HOWEVER, HELPS MIDDLE CLASS INDIVIDUALS ONLY IF THEY "SPEND DOWN" UNTIL THEY REACH EXTREMELY LOW MEDICAID ELIGIBILITY THRESHOLDS. ALSO, IN 1999, ABOUT 70 PERCENT OF MEDICAID LONG-TERM CARE EXPENDITURES GO TOWARD NURSING HOME CARE RATHER THAN OFTEN MORE DESIRABLE ALTERNATIVES. THE COSTS OF THE CURRENT PROGRAM ARE CERTAIN TO INCREASE RAPIDLY AS THE BABY BOOM GENERATION AGES.

IN OPM'S MARCH 26, 1998, STATEMENT TO THE SUBCOMMITTEE, WE NOTED THAT OFFERING LONG-TERM CARE INSURANCE IS CONSISTENT WITH OUR OBJECTIVE OF DEVELOPING A TOTAL COMPENSATION PACKAGE THAT WILL BE

COMPETITIVE WITH THE PRIVATE SECTOR IN ATTRACTING AND RETAINING QUALIFIED EMPLOYEES. THE EVOLUTION OF LONG-TERM CARE INSURANCE PRODUCTS SINCE THE 1980'S HAS BEEN DRAMATIC. IN ADDITION, THE ENACTMENT OF THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996 (HIPAA), NOT ONLY GIVES FAVORABLE TAX TREATMENT TO LONG-TERM CARE INSURANCE PRODUCTS, BUT ALSO ESTABLISHES MINIMUM REQUIREMENTS FOR PRODUCTS TO RECEIVE SUCH FAVORABLE TREATMENT. AS A RESULT, LONG-TERM CARE PRODUCTS ON THE MARKET TODAY OFFER CONSUMER PROTECTIONS NOT AVAILABLE IN OLDER PRODUCTS. AS LONG-TERM CARE PRODUCTS HAVE MATURED, MORE PEOPLE HAVE PURCHASED COVERAGE. THE HEALTH INSURANCE ASSOCIATION OF AMERICA REPORTED THAT, BY THE END OF 1996, NEARLY 5 MILLION POLICIES HAD BEEN SOLD. BY NOVEMBER OF 1998, THE KIPLINGER RETIREMENT REPORT WAS NOTING THAT TO DATE ABOUT 6 MILLION POLICIES HAD BEEN SOLD.

THE RESPONSE TO LONG-TERM CARE QUESTIONS IN OUR 1997 CUSTOMER FEEDBACK SURVEY HIGHLIGHTS THE ANTICIPATED RELATIONSHIP BETWEEN THE ESTIMATED COST OF THE PRODUCT AND THE DEGREE OF CONSUMER INTEREST. SINCE PREMIUMS INCREASE WITH AGE AT INITIAL PARTICIPATION AND WITH KEY BENEFITS DESIGN FEATURES, WE WILL NEED TO GIVE CAREFUL CONSIDERATION TO A VARIETY OF FACTORS IN ORDER TO DEVELOP A VIABLE PROGRAM IN THE CONTEXT OF A TOTAL BENEFITS PACKAGE FOR THE FEDERAL

WORKFORCE.

H. R. 110 PROVIDES A FRAMEWORK THAT WOULD ALLOW US, IN CONSULTATION WITH STAKEHOLDERS--INCLUDING THE INSURANCE INDUSTRY, EMPLOYEE AND RETIREE GROUPS, AND FEDERAL AGENCIES--TO DESIGN A FLEXIBLE LONG-TERM CARE BENEFIT THAT CAN EVOLVE OVER TIME AS THE MARKET CHANGES, THEREBY ALLOWING THE FEDERAL GOVERNMENT TO KEEP THE POLICY CONSISTENT WITH INDUSTRY STANDARDS. IT ALSO PROVIDES US WITH THE OPPORTUNITY TO EDUCATE POTENTIAL PURCHASERS ABOUT THE IMPORTANT FEATURES OF ANY SPECIFIC PRODUCT AND TO PARTICIPATE ACTIVELY IN THE CAMPAIGN TO DEMONSTRATE THE NEED FOR THIS PROTECTION.

GROUP INSURANCE PRODUCTS ARE LESS COSTLY THAN INDIVIDUAL INSURANCE BECAUSE ECONOMIES OF SCALE MITIGATE BOTH ADMINISTRATIVE COSTS AND UNDERWRITING RISKS. IF WE OFFER LONG-TERM CARE ON THE SAME BASIS AS EMPLOYERS IN THE PRIVATE SECTOR, THE DISCOUNTS AVAILABLE TO FEDERAL ENROLLEES WILL BE AT LEAST COMPARABLE.

UNDER THE AUTHORITY GIVEN OPM IN H. R. 110, WE WOULD SEEK COMPETITIVE BIDS FOR LONG-TERM CARE INSURANCE THAT MEET SPECIFIED QUALITY AND PRICE CRITERIA AND SELECT THE CONTRACTOR OR CONTRACTORS ON THAT BASIS.

UNDER H. R. 602, THE CIVIL SERVICE LONG-TERM CARE INSURANCE BENEFIT ACT, OPM WOULD BE REQUIRED TO ACCEPT VIRTUALLY ANY LONG-TERM CARE INSURANCE PRODUCT THAT MEETS BASIC REQUIREMENTS. OUR PRIMARY ROLE WOULD BE TO ENSURE THAT ADEQUATE PAYROLL DEDUCTIONS ARE MADE AND TO MAKE INFORMATION AVAILABLE ON ALL OFFERINGS. THIS ALTERNATIVE GIVES THE FEDERAL POPULATION THE SAME CHOICES ALREADY AVAILABLE ON AN INDIVIDUAL BASIS IN THE PRIVATE MARKET WITH LITTLE OR NO ADDITIONAL FINANCIAL INCENTIVE TO ENROLL. SUCH AN APPROACH IS DECIDEDLY CONTRARY TO EXISTING EMPLOYER PRACTICES. WE WOULD NOT BE ABLE TO TAKE ADVANTAGE OF ECONOMIES OF SCALE AND PASS THE SAVINGS ON TO ENROLLEES.

IN ADDITION, ALTHOUGH EMPLOYER SUPPORT IS CONSIDERED A KEY FACTOR IN PROMOTING LONG-TERM CARE INSURANCE, OPM WOULD HAVE TO REMAIN NEUTRAL IF COMPETING PRODUCTS WITH DIFFERENT OPTIONS, BENEFITS AND PRICES ARE OFFERED.

H. R. 602 MAKES THE INCORRECT ASSUMPTION THAT PRODUCT AND VENDOR COMPETITION WILL REDUCE COSTS. SINCE ONLY ABOUT 6 PERCENT OF THE ELIGIBLE POPULATION TYPICALLY PURCHASES LONG-TERM CARE INSURANCE, SEGMENTING THE RISK POOL IS MORE LIKELY TO INCREASE, RATHER THAN REDUCE PREMIUM RATES.

UNDER H.R. 110, OPM WOULD OFFER A LONG-TERM CARE BENEFITS PACKAGE THAT REFLECTS HIPAA AND THE STANDARDS OUTLINED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS IN ITS LONG-TERM CARE MODEL REGULATION. THE COVERAGE WOULD PROVIDE FOR A VARIETY OF SERVICES AND OFFER FLEXIBLE OPTIONS TO PARTICIPANTS. A CONTINUUM OF SERVICES WOULD LIKELY INCLUDE HOME HEALTH CARE, ALTERNATIVE FACILITY CARE (SUCH AS ASSISTED LIVING), ADULT DAY CARE, AND NURSING HOME CARE.

THE SPECIFICS OF PRODUCT DESIGN WOULD BE DEVELOPED IN CONSULTATION WITH STAKEHOLDER GROUPS INCLUDING EMPLOYEE AND RETIREE ORGANIZATIONS, FEDERAL AGENCIES, AND REPRESENTATIVES OF THE INSURANCE INDUSTRY. STAKEHOLDER INPUT IS KEY TO THE DESIGN AND ACCEPTANCE OF A SUCCESSFUL FUTURE PRODUCT. YESTERDAY, WE HELD THE FIRST OF A SERIES OF MEETINGS WITH INDUSTRY REPRESENTATIVES TO BEGIN THIS DIALOGUE.

ELIGIBLE PARTICIPANTS WOULD PAY THE FULL COST OF THE BENEFIT, BASED ON AGE AT TIME OF ENROLLMENT. THIS IS CONSISTENT WITH THE PRACTICE AMONG PRIVATE EMPLOYERS WHO OFFER THIS BENEFIT. EARLY ESTIMATES ARE THAT ANNUAL PREMIUM COSTS COULD RANGE FROM $200 TO $3,000, DEPENDING ON THE INSURED'S AGE.

AS IN OTHER FEDERAL BENEFIT PROGRAMS, H. R. 110 WOULD REQUIRE CONTRACTOR FINANCIAL AND PROGRAM ACCOUNTABILITY AND WOULD GIVE OPM THE AUTHORITY TO DETERMINE THE REASONABLENESS OF PREMIUM RATES ESTABLISHED.

WE ESTIMATE OPM'S COSTS TO ADMINISTER THE PROGRAM AT APPROXIMATELY $15 MILLION OVER A FIVE-YEAR PERIOD. INITIAL COSTS COVER THE SOLICITATION PROCESS, INCLUDING ACTUARIAL ANALYSIS TO DETERMINE THE REASONABLENESS OF RATE PROPOSALS, AS WELL AS IMPLEMENTATION OF AN EXTENSIVE EDUCATION PROGRAM FOR EMPLOYEES, RETIREES, AND OTHER ELIGIBLE PARTICIPANTS ABOUT THEIR LONG-TERM CARE OPTIONS. WE FEEL STRONGLY THAT A MAJOR FACTOR IN THE SUCCESS OF THE PROGRAM WILL BE EFFORTS TO INFORM EMPLOYEES ABOUT THE COSTS OF LONG TERM CARE, THE NEED FOR LONG TERM PLANNING, AND THE BENEFITS OF PURCHASING COVERAGE SOONER RATHER THAN LATER IN LIFE.

A LONG-TERM CARE INSURANCE PRODUCT STRUCTURED SO THAT IT COULD SERVE AS AN INDUSTRY MODEL WOULD LIKELY INCREASE EMPLOYER INTEREST IN OFFERING THIS BENEFIT TO THEIR EMPLOYEES. IT ALSO WOULD HEIGHTEN PUBLIC AWARENESS OF THE GROWING NEED FOR INDIVIDUALS TO PARTICIPATE IN PLANNING AND PROVIDING FOR THEIR FUTURE LONG-TERM CARE NEEDS.

THE NATURE OF THE PROCUREMENT WILL DEPEND ON THE LEGISLATIVE FRAMEWORK. WE FIRMLY BELIEVE THAT THE EMPLOYER-SPONSOR MODEL OF H. R. 110 OFFERS THE BEST VEHICLE FOR DELIVERING A QUALITY PRODUCT. WE URGE YOU TO GIVE H.R. 110 EARLY CONSIDERATION. A NEW LONG-TERM CARE PRODUCT WILL GREATLY ENHANCE THE CURRENT FEDERAL EMPLOYEES' BENEFIT PACKAGE AND OFFER VIABLE OPTIONS FOR EMPLOYEES, ANNUITANTS, AND MEMBERS OF THEIR FAMILIES TO PLAN FOR THEIR LONG-TERM CARE NEEDS.

THIS CONCLUDES MY STATEMENT. I WILL BE GLAD TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE.

LONG-TERM CARE INSURANCE
QUESTIONS AND ANSWERS
TO CIVIL SERVICE SUBCOMMITTEE
LETTER OF MARCH 9, 1999

Q1. Identify specific sections of the bill which will promote participation to the fullest extent possible by federal employees and annuitants.

A1. Section 9002, Contracting authority, and section 9004, Long-term care benefits, will provide OPM with the greatest flexibility needed to offer a group long-term care insurance product at negotiated rates to eligible individuals.

Section 9002 gives OPM broad authority to procure and award contracts on the basis of contractor qualifications, price, and reasonable competition to the maximum extent possible. It allows the Government to design and offer eligible individuals a uniform benefit package that provides for flexible benefit options. While OPM intends to select a carrier or a limited number of carriers to partner efforts in offering a single product line to employees, it will not be "one-size fits all." It may be a single product line but it will have many levels of benefits and delivery modes that individuals can tailor to meet their own care and budgetary needs. The plan will include a full range of long-term care services, from nursing home care to home health care and various other options. Based on the provisions of H.R. 110, we are expecting an initial enrollment of approximately 300,000.

We intend to implement section 9002 in a manner that gives OPM the authority to be a vocal sponsor and advocate of a specific benefit program for employees and other eligible individuals. This will allow OPM to focus its educational campaign on the benefits and features of a specific product line as opposed to acting as a neutral administrator providing information on multiple products to interested individuals. Moreover, being a vocal sponsor of a specific benefit program will allow us to do all we can do to encourage younger employees to participate. The difference between being a neutral provider of benefit information and a vocal sponsor of a uniform benefit product line could make the difference between success or failure of the program.

Since the long-term care insurance market is still small and average enrollment is 6 percent of eligible employees, fragmentation among multiple insurers is extremely disadvantageous. Economies of scale will be lost and the probability of a large and diversified risk pool will be diminished. In a fragmented market with multiple products and providers, we would be hard pressed to negotiate significant discounts to pass on to the enrollees. We are not aware of any private employers offering a choice of long-term care insurance plans or providers.

We want this program to work and believe that it is important for the Government to be able to endorse a specific long-term care product line as opposed to generically encouraging employees and others to consider it.

Since long-term care insurance is a relatively new product, we expect the product will evolve over time as market demand for various long-term care services change. Section 9004 allows OPM to offer products to employees that are in line with the most recent industry standards on long-term care insurance. As the standards evolve over time, OPM will have the flexibility to incorporate these changes in new long-term care offerings.

Q2. Provide your target participation rates for each of the first five years of the program.

A2. We do not have a basis for calculating participation rates from current program data. Based on the experience of other employers, we will be satisfied with a 6 percent sign-up rate. Our objective is to expand the participation incrementally over the first five years of the program to reach that goal.

Q3. Since market penetration is key to success, describe your program for marketing long-term care to federal employees, and specifically indicate the roles OPM and participating carriers would play in this marketing efforts.

A3. While OPM does not possess marketing expertise in the long-term care insurance arena, we are confident of our ability to work with agency and industry partners and do a successful job. We plan to use industry expertise and experience to develop successful strategies that have worked well in the market and look at their plans for approaching the Federal workforce.

A successful marketing campaign will be a joint effort between OPM and the carrier(s). With such a large and diverse population to educate, different educational approaches will need to be applied to different segments of the population. Trying to convince a 40-year old employee to enroll is different than marketing to a 65-year old or to a 70-year old retiree. Peoples' priorities change over time as well as their perceptions of the future. As people age, there is more personal identification with the concerns of and services needed by the elderly and therefore a greater concern with providing for their own personal care / needs.

While OPM takes full responsibility for the outcome of the program, we feel that our best efforts will be constrained by trends seen in the larger employer market as a whole. That is, we would not expect participation to be much higher than 6 percent, which is the average participation rate in the employer market.

With such a large potential population to educate, we will rely on consultants and industry experts to guide us in developing effective educational campaigns to reach different demographic groups. We anticipate an aggressive marketing and information effort, using a broad variety of avenues. Literature, web-sites, and call-in hotlines, in addition to other activities, are examples of the techniques we plan to apply.

Normally, insurance carriers pay for marketing and distribution costs by recouping such costs up front during the first few years of the program. OPM wants to remove most of this risk from insurers and bear much of the responsibility for the cost of marketing the program. This will allow reserves to build up at a faster rate than would otherwise occur during the first few years and will contribute to keeping premiums at the lowest rate possible.

We have estimated that it will cost $15 million for the first five years to cover the costs of procuring a contract or contracts, validating the reasonableness of rate proposals, and developing and implementing a program to educate employees about long-term care insurance. Requests for appropriations beyond the first five years are expected to be modest compared to initial years' cost.

Q4. Provide annual estimates of the total costs of this marketing program to the federal government for each of the first five years of the program.

A4. Based on the eligible population defined in H.R. 110, we estimate administrative expenses for staff and marketing costs to be $15 million over a five-year period. Approximately $7 million will be spent during the first year developing and implementing a long-term care insurance program and conducting an extensive educational campaign on the program. Approximately $2 million will be expended in each of the four successive years.

Q5. Please address how your plan would ensure a uniform benefit for employees nationwide.

A5. OPM intends to work with all interested stakeholders in designing a group long-term care benefit program at negotiated rates that we believe will be 15-20 percent lower than comparable individually priced products in the private market. In line with private employer practices, we intend to contract with one carrier or a small number of carriers and will work with them to deliver a single product line to our eligible population. The product line will encompass many levels of benefits and delivery modes which individuals can tailor to meet personal and budgetary needs, thus avoiding the need for different products in different places.

Q6. Under H.R. 110, the Office of Personnel Management will define the benefit packages and negotiate premiums.

a. OPM will be required to establish an administrative infrastructure to administer this program. How many employees will OPM need to administer the program? What percentage of them will be professional or technical employees? What do you estimate it will cost OPM to administer the program in each of its first five years?

b. What steps should Congress take to ensure that administration of the program will always remain market oriented rather than driven by special interests?

A6. a. Based on the current H.R. 110 proposal, OPM estimates it will need fifteen (15) full-time staff to administer this program. Approximately 80 percent will be professional positions and the balance, technical. We estimate, based on the eligible population defined in section 9001 of the bill, that $15 million will be needed over a five-year period, with $7 million needed the first year and $2 million for each successive year. If the eligible population were to expand to include a large population, e.g., the military, OPM would need to reassess this figure.

b. Market oriented to OPM means employee oriented. OPM needs the necessary oversight authority to ensure that the long-term care insurance program is reasonable in cost and designed for the exclusive benefit of the employees rather than for special interests.

LONG-TERM CARE INSURANCE
QUESTIONS AND ANSWERS
TO CIVIL SERVICE SUBCOMMITTEE
LETTER OF MARCH 29, 1999

Q1. The success of a marketing campaign depends on a strong partnership among carriers and the employer, in this case OPM. Who should bear the responsibility for the outcome of the marketing and education effort? What level of effort by OPM would help to insure high participation? Should this effort include monetary support?

A1. In the procurement process, OPM intends to evaluate potential carriers and their proposals on multiple criteria. One criterion will be their demonstrated success in marketing group long-term care insurance and another will be their proposed marketing plan for the Federal Government long-term care insurance product.

While we will look to the insurance industry for marketing expertise, we want the marketing campaign to be a partnering effort between OPM and the carrier(s). With such a large and diverse population to educate, different educational approaches will need to be applied to different segments of the population. Trying to convince a 40-year old employee to enroll is different than marketing to a 65-year old or to a 70-year old retiree. Peoples' priorities and needs change over time as well as their perceptions of the future. As people age, there is more personal identification with the concerns of and services needed by the elderly and therefore a greater concern with providing for their own personal care needs.

It is OPM's hope that the structure of the program will permit OPM to act as an active partner and advocate in marketing a long-term care benefit program to employees. Being a vocal sponsor of a specific product line will allow OPM to focus on educating eligible individuals on the benefit features and cost of one program instead of being merely a purveyor of information on different insurance products. Being an active advocate of a program will also allow OPM to do all it can to encourage younger employees to participate. The difference between being a neutral provider of benefit information and a vocal sponsor of a uniform benefit product could make the difference between success or failure of the program.

While OPM intends to select a carrier or a limited number of carriers to offer a flexible product line that will meet the diverse needs of our population, the plan will not be "one-size fits all." There will be an array of long-term care services, as well as different benefit design options to choose from to meet individual employees' needs and purchasing capacities.

The H.R. 110 proposed program structure of offering a uniform group long-term care product line to everyone will provide for the maximum participation possible. Since the long-term care market is still small at 6 percent participation rates, fragmentation is

extremely disadvantageous. Economies of scale will be lost and the probability of a large and diversified risk pool will be diminished. In a fragmented market with multiple products, we would be hard pressed to negotiate significant discounts to pass on to the enrollees. We are not aware of any private employers offering a choice of long-term care insurance plans.

We want this program to work and believe that it is important for the Government to be able to endorse a specific long-term care insurance product line as opposed to generically encouraging employees and others to make a purchase decision among competing products. This is also the practice among private employers.

While OPM takes full responsibility for the outcome of the program, we feel that our efforts should be measured against indicators in the employer market as a whole. That is, we expect participation eventually to be around 6 percent, which is the average participation rate in the private market.

We have estimated that it will cost $15 million for the first five years to cover the costs of procuring contracts, developing and implementing a program to educate employees about long-term care insurance, and validating the reasonableness of rate proposals. We estimate costs to be approximately $7 million the first year, and $2 million for each of the four successive years.

Q2. By offering long-term care insurance to individuals in their working years, the federal government can help encourage the purchase of this product at younger ages, since premiums increase with age at initial participation. What can be done to encourage meaningful participation among younger federal employees during the initial enrollment?

A2. OPM can encourage young entrants to purchase long-term care insurance by educating employees on the merits and benefits of enrolling at a young age when premiums are at their lowest rate and stressing the importance of planning for the future while guarding against unforeseen events in the near term. As noted in the response to the first question, an OPM role which will allow us to be a strong advocate for a specific product line will be vital to the success of the marketing campaign across all ages.

Q3. In H.R. 110, your definition of eligible individuals includes employees and annuitants, as well as their spouses, former spouses, parents, and parents-in-law. Your definition also declares "other individuals as specified by the Office" as benefit eligible. An important aspect of the marketing strategy will require communication to the carrier(s) of the demographics and cultures of the federal market. Please clarify how you define these other eligibles for the purposes of eligibility and their affect on the risk pool. Do any administrative difficulties result, (e.g. payroll deductibility of premiums), or are there insurance limitations that restrict the eligibility definition?

A3. The purpose of providing in H.R. 110 "other individuals as specified by the Office" is to give OPM the flexibility to consider the merits of including other groups. The provision allows us to be more inclusive without a legislative change. An example of adding another group to the Federal population is the provision in a companion bill which allows military active and retired personnel to participate in the program.

It is important to distinguish between the "eligible population" and the "risk pool". The eligible population could be between 15 and 20 million. However, the risk pool consists of only those who choose to participate in the program. Therefore, "other individuals as specified by OPM" has no direct impact on the risk pool.

OPM will be able to provide to insurance carriers demographic information about its active and retired populations and demographics on dependents enrolled in the Federal Employees Health Benefits Program. However, it will not be able to provide demographic data on parents or parents-in-law as they do not participate in any of the OPM programs for which we maintain data. We anticipate that premium rates per age group will be developed by carriers in part based on actual data from the employee and retiree populations and on their current experience with other employers.

We do not foresee any administrative difficulties as premiums will be remitted to carriers either via payroll or annuity deductions or on a direct-pay basis. We are not aware of any insurance limitations that would restrict the eligibility definition. However, certain types of underwriting can have an impact on enrollment eligibility.

Q4. The federal workforce is diverse. It includes full-time permanent workers, part time workers, temporary employees, and intermittent employees. Should all of these types of employees be permitted to purchase long-term care insurance through the federal government's program? If not, which groups should be excluded, and why? Would including any of these groups present special underwriting or administrative problems that would have to be dealt with legislatively? Should new employees be permitted to participate in the program immediately or should they have to wait for a period of time?

A4. OPM's goal is to allow for the broadest participation possible by the workforce. However, it may be advisable to provide for a waiting period before some eligible participants can enroll to avert the potential impact of adverse selection. For example, people in near-term need of long-term care services could seek short-term employment simply to obtain coverage. Employees whose pay is insufficient to cover premium deductions would be required to remit premiums directly to the carrier in order to remain in the program.

The categories of employees for whom waiting periods might be advisable, the length of the period, and underwriting requirements are all items that will be discussed with stakeholders and industry experts.

Q5. As discussed during the hearing, in the private market policies are sometimes issued with what is referred to as modified underwriting and sometimes with full underwriting. Are there particular groups in the federal market that you believe should undergo full underwriting. For example, should different underwriting standards be used for annuitants and active employees? Should each carrier be free to use its own understanding [sic] standards or should all carriers have to follow the same standards? If there is to be a uniform set of underwriting standards, who should establish them? Should they be negotiated between OPM and all participating carriers?

A5. While the nature and scope of underwriting for eligible employees are still under discussion, it is likely we will follow industry practice and use some form of minimal underwriting. All other eligible individuals would have to submit to full underwriting in order to participate. Were OPM not to require underwriting for the remaining eligible population, it would have to significantly increase premium rates to cover the adverse selection that would take place. People would enroll who were in immediate need of long-term care services in a program with no reserves. The high rates would in turn discourage healthy eligible individuals from participating in a program that is known to have modest participation rates. With this type of product, there are interacting factors of plan design, underwriting, cost, age of purchase, and participation rates that need to be balanced to be able to offer a group insurance program to the broadest population at the most affordable price.

OPM believes the best delivery strategy for offering a new product line is to have a standardized set of underwriting requirements. OPM intends to rely on industry expertise in this area and believes there will be consensus among interested stakeholders that standardized underwriting will be necessary.

Q6. In developing its proposal, did the Administration consider any cafeteria-style proposals to assist employees in paying for long-term care insurance? Perhaps, for example, some employees with more than 15 years of service might prefer to purchase long-term care insurance rather than gain an additional two weeks of annual leave.

A6. Proposing a Government contribution, even in the context of a cafeteria-style program raises issues that require greater study. We will be looking at compensation issues broadly as part of the Administration's long-term review of the current pay-setting process. Government contributions to all employee benefits will be encompassed by this review.

Mr. SCARBOROUGH. Thank you, Madam Director.

You talked about cost, and you said that right now you estimated that there was approximately $15 million in administrative startup costs. This really goes back to something that Mrs. Morella and I were talking about briefly at the beginning, I think, and before you stepped in, about the plans to possibly bring in active and retired military.

Do you have any estimates? Obviously, we have got to concern ourselves with the jurisdiction of HASC, the House Armed Services Committee, and, also, DOD.

Let me ask you, do you have any rough estimates on the administrative costs that would add to it, so we know what we have to offset?

Ms. LACHANCE. I am afraid we don't. That proposal is relatively new. We had been looking at this as part of the overall compensation package for Federal employees, as another benefit to enable us to attract and retain the best people. We have no objection, on the surface, to broadening the pool. There are benefits to being a Federal employee, whether you are in uniform or not——

Mr. SCARBOROUGH. Right.

Ms. LACHANCE [continuing]. And, obviously, retirees.

So we would have no objection and think it may actually help the risk pool to have it larger and include more people. So we would be glad to work with the Department of Defense on that and maybe get back to you with some specific numbers.

Mr. SCARBOROUGH. Great.

Do you foresee any underwriting problems, by adding this group?

Ms. LACHANCE. Not that we can see on the surface. When we look at underwriting, what we are hoping is that active employees will be able to have access to this insurance with either no or minimal underwriting, and then, certainly, all of the family members, as is customary practice in the industry, would undergo underwriting. And so, if we had a comparable rule for the additional population—or a comparable practice—it probably would be a "wash" and——

Mr. SCARBOROUGH. OK.

Ms. LACHANCE [continuing]. And probably would work out, but we would be glad to look at that.

Mr. SCARBOROUGH. Great. And if you could get us any of that information——

Ms. LACHANCE. Certainly.

Mr. SCARBOROUGH [continuing]. As soon as possible, that would be great.

I am already getting "letters to the editor" at home, why we didn't start with that process. [Laughter.]

So, the sooner the better.

You know, we have talked before about—in my opening statements—about how diverse the Federal work force is. Obviously, you have got full-time employees, part-time employees. You have got blue collar; you have got professional. Let me ask you, should all of these employees be permitted to purchase a long-term care program through the Federal Government?

Ms. LACHANCE. Absolutely.

Mr. SCARBOROUGH. Any areas at all——

Ms. LACHANCE. Absolutely.

Mr. SCARBOROUGH [continuing]. That should be excluded at all?

Ms. LACHANCE. I can't think of any offhand.

What Mrs. Kramer faced is what anybody faces and it, frankly, doesn't matter how much you make when you are faced with these tremendous bills. It is just a matter of how quickly your own personal savings run out.

This is something that makes sense for everyone, at every income level.

Mr. SCARBOROUGH. What about intermittent part-time employees—intermittent employees?

Ms. LACHANCE. Well, I think that they should be given an opportunity to have access to this as well. Since the administration proposal has no—or none of the proposals have an employer contribution——

Mr. SCARBOROUGH. Right.

Ms. LACHANCE [continuing]. We certainly could open it up to a much broader range of employees.

Mr. SCARBOROUGH. Which actually expands that pool——

Ms. LACHANCE. Yes.

Mr. SCARBOROUGH [continuing]. And, obviously, drives down the cost for everybody—which brings me back to something. Again, this is something I certainly hope that we can work out and negotiate. Obviously, one of the areas that we need to compromise on is the administration's view that is sort of a more "one-size-fits-all" approach, and our view where we offer the consumer as many choices as possible.

You had said earlier that—I think you had said 6 percent? What was it? I think——

Ms. LACHANCE. Yes, 6 percent.

Mr. SCARBOROUGH. Only 6 percent purchases now.

Ms. LACHANCE. Typical.

Mr. SCARBOROUGH. So fragmentation of those groups would drive costs up. Certainly I want to offer you an opportunity to rebut it. My only point would be, if we bring in this huge Federal work force and allow the military and everybody else in and, obviously, we expand our pool.

Don't you think the more we expand our pool, the more possibilities we have to offer choices without driving up prices.

Ms. LACHANCE. I think that fundamentally we agree, but we just have a different way of going at it. We do agree with you that one size does not fit all, but we think that we can get at that by the way the benefits are designed and providing the maximum amount of flexibility in the plans that we offer. We think it can be done without having to expand the number of insurers and then, consequently, keeping the price up. We think we can do both. And we would love to work with you on that, and maybe show you some of the studies, and introduce you to some of the experts who we have worked with who have given us information on this.

We think we can accomplish your goal.

Mr. SCARBOROUGH. Great. Well, I would look forward to doing that—and I see the red light is on, and I will pass it on to our ranking member, Mr. Cummings.

Mr. CUMMINGS. Tell me something, when you talk about—first of all, thank you for being here.

Ms. LACHANCE. Thank you.

Mr. CUMMINGS. We appreciate what you do everyday.

Ms. LACHANCE. Thank you, sir.

Mr. CUMMINGS. When you talk about limiting the pool, talk about—explain to us why you see that as being beneficial. In other words, the number of insurers.

Ms. LACHANCE. I think it is important for a number of reasons. And, as you know, Mr. Cummings, your bill and Mrs. Morella's bill both limit the number of insurers that are involved.

We are trying to accomplish a number of things with this legislation. First of all, we have to not only make it available, but we have to make sure that employees understand the need for it, and that they understand what is being offered to them.

Our experience, and the experts that we have worked with in developing our proposal have informed us, is that when people are faced with a complex array of choices, they have a tendency to just walk away. If things get too hard, if they are bombarded with too many choices, it is going to be very, very difficult for people to decide, or they will decide to just postpone the decision. And, obviously, what we need to do is get people enrolled early and soon.

So we think we can achieve a flexible package of benefits that will meet the needs of individuals with very diverse health backgrounds and still keep the premium down and keep the take-up rate as high as possible.

We think it can be done, but we are very concerned that having too many insurers involved would just defeat the purpose. And, in fact, Federal employees have access to all of those products now. And part of the problem this country is facing is that Federal employees aren't buying them.

So we have to do something better, something different, something to try to get employees to take a second look at this option.

Mr. CUMMINGS. You think one of the factors—and if you listened to Ms. Kramer, she talked about the cost. Do you think one of the major factors of this 6 percent that you talked about a little bit earlier, then, taking advantage of long-term care insurance—do you think a lot of it is the cost?

Ms. LACHANCE. I think that is a lot of it. I think that is what Mrs. Kramer talked about. That is what my parents talk about, and they end up postponing the decision, they end up just putting it off for another day.

We think that we can achieve a great advantage. It is a win-win for everybody. Our employees and their families can get a better deal if we limit the number of insurers that are involved in this.

Mr. CUMMINGS. How would you see the contracting process working? How would that work?

Ms. LACHANCE. Well, first of all, we have already started, and we are very excited about this, our stakeholder conversations. We want to bring everybody in who has a viewpoint in this. Yesterday, for example, we met with over 15 representatives in the insurance industry to start talking about the very problems that you are discussing among yourselves.

What we want to do is make sure the employee organizations are involved—NARFE, the retirement organizations, the management organizations. Of course, we want to work with you and try to find a broad consensus, with respect to product design and some of the other options, and make sure that there is industry capacity to handle this. There, hopefully, will be a great wave of people signing up for this insurance.

Once we have arrived at that consensus, which we believe we can achieve, we will issue a request for proposal which will look at each company's financial strength and their underwriting arrangements. We are going to look at the company's demonstrated success for offering insurance of this type to other large employers and how well they have done with that, their capacity to deliver top-notch services to our employees, the features of the product that they can bring to the table, and, finally, the price.

Mr. CUMMINGS. Ms. Norton spoke a little bit earlier about the cost that society pays when we don't have this. And I mean—I think we all see the urgency and we want to make sure this happens. What do you see, I mean the longer we put this off? Let's say it is put off for 2 or 3 years. I mean do you have any idea what that is costing society?

Ms. LACHANCE. I don't.

Mr. CUMMINGS. The taxpayers?

Ms. LACHANCE. Unfortunately I don't have a dollar amount, but I think—like Mrs. Kramer—I can talk about the emotional toll of that kind of strain, that kind of pressure, that is happening every day to families all across this country. And if we, collectively, can do a little something to alleviate it, I know I will sleep better at night.

Mr. CUMMINGS. I see my time has run out. Thank you.

Ms. LACHANCE. Thank you.

Mr. SCARBOROUGH. Thank you, Mr. Cummings.

Mrs. Morella.

Mrs. MORELLA. Thank you, as usual, for not only your testimony but the cooperation that we get from OPM. I value that very much.

And I know that my bill was reintroduced earlier this week and, therefore, you didn't have a chance to have it included within your testimony, but you were there at the press conference, and you've already alluded to some parts of it. It goes beyond the other bills that have been introduced that have merit. And I do want to see us come out with one bill. But let me point out—so I want you to feel free to comment on that bill. I mean do you think that that gives OPM the appropriate role?

Let me point out a few things that that bill has in terms of—and then ask you how you would respond to it.

Long-term care insurance policies are guaranteed renewable as long as the premiums are paid on time. What will be the procedure for dealing with the rights and responsibilities of the carriers, OPM, and the policyholders in the event that OPM terminates a contract? Have you had a chance to think about that?

Ms. LACHANCE. We are confident that—and I apologize, Mrs. Morella, for not knowing the specifics of your bill—but, in our scheme that we are proposing, the contract would expire every 5 years. But we are confident that if there is a change in carrier or

carriers, our beneficiaries and our employees will not suffer any adverse consequences for that—that the pool of money, their benefits, all of the premiums that have been collected can be appropriately transferred from one insurance company to another.

Mrs. MORELLA. And I would direct you to consider about what OPM would do, with respect to the valuation and the disposition of the reserves.

Ms. LACHANCE. Yes. Do you want to——

Mr. FLYNN. I might try that, just real quickly, Mrs. Morella.

Whether a contract terminates during the period or every 5 years on renewal, we look at this as something where individuals are building up the value of this insurance over a long period of time, and we would want to make sure that there was separate accountability and that the value that people built up, if a contractor changed, didn't diminish. It would just simply transfer to a new insurer, and we would move on from there.

Mrs. MORELLA. How do you see OPM satisfying its obligation to administer the program on behalf of those particular individuals who enroll with the carrier, once OPM terminates the carrier or allows the carrier to leave the program after that 5-year period?

Mr. FLYNN. The insurer? It would certainly be our intent to maintain an insurer or insurers in the program so as to make long-term care insurance available to all eligible individuals on a continuing basis.

There are always circumstances when a particular insurer pulls out, and we have seen that, of course. We have examples of that in the health insurance program. And we have always been successfully able to make arrangements to ensure continued coverage for the individuals that are participating. And I don't believe that there is anything in the proposal that would inhibit our ability to do that.

Mrs. MORELLA. You would have to do something like that——

Mr. FLYNN. Exactly.

Mrs. MORELLA [continuing]. In terms of preserving, you know, the consumer protections that would be absolutely necessary.

Ms. Lachance, you want to comment on that?

Ms. LACHANCE. No, I agree that I think there is a way to do this so that our employees would see a continuation of their coverage without interruption. And we are confident that we could resolve any administrative issues that may arise from that.

Mrs. MORELLA. And dispute resolution——

Ms. LACHANCE. We think that is an important——

Mrs. MORELLA [continuing]. Adjustments you could——

Ms. LACHANCE [continuing]. Feature of both——

Mrs. MORELLA. I think it is, too.

Ms. LACHANCE [continuing]. Your bill and our bill, that consumers have a place to go when there is a problem. There is not always agreement. We deal with insurance companies every day, and they are honorable people, doing their best to provide a very important service, but there are disputes, and we would like to make sure that people have one place to go to try to get a resolution for that.

Mrs. MORELLA. Do you think OPM could handle all of those points that I have mentioned—which I think are critical points in that what my bill would allocate to you—[laughter]—to handle.

Ms. LACHANCE. Yes.

Mrs. MORELLA. And handle well.

Are you familiar with the process of negotiating employer-based group long-term care insurance programs? I guess I am asking, what role does the employer play, acting on behalf of the group, to make these programs more affordable than an individual acting alone?

Ms. LACHANCE. We have looked at a lot of private-sector experience in this, Mrs. Morella, and what we find is that, generally, the employer will act as an advocate to try to get the most flexible benefit, at the best price. I think there is a recognition, particularly in the long-term care arena that individuals just aren't entering the market and aren't buying these policies as much as they should be. And this is a way to get those costs down and still provide flexibility that individuals need to enhance the enrollment rates. We feel we could replicate that if the Federal Government——

Mrs. MORELLA. So what I am getting at in my question is, here are elements that I think are important——

Ms. LACHANCE. Yes, ma'am.

Mrs. MORELLA [continuing]. That I have allocated to OPM. Can you handle them? And, you know, we go from there.

My final question; how will NARFE be involved in your process of working this out?

Ms. LACHANCE. NARFE is one of our most important stakeholders in this arena. Obviously, they have a lot of personal experience with these issues. They also have a wonderful amount of institutional knowledge and talented staff that they can bring to the table and they have shown their willingness to do that. So we are looking forward to continuing to work with them on this.

Mrs. MORELLA. I agree with you, and I thank you for that statement.

Ms. LACHANCE. Thank you.

Mrs. MORELLA. Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you.

Ms. Norton.

Ms. NORTON. Ms. Lachance, I am trying to see the difference between what you are proposing in the bills that would have you operate differently from the role you play in the FEHB program. What role would you have if you had—if any company could simply come forward and claim Federal employees? What role would OPM have, then?

Ms. LACHANCE. We would have a limited educational role because if there were competing companies, we could not, in fact, then, be the cheerleaders that we would like to be for this.

Part of the reason we want to do this is to get more people to buy at an earlier age. We are very concerned that, much like the FEHB program which has a variety of insurers involved, that we would have to stand back and be neutral. We think that is the wrong approach for this product, and we would like to be able to go in and be cheerleaders and encourage people to get that, so we would have a limited——

Ms. NORTON. You could not comment—are you saying you couldn't comment on the practices of the particular insurers?

Ms. LACHANCE. I think it would be very difficult to do that if we had people who were competing against each other.

Ms. NORTON. Even if you knew some things that people ought to know? Even if you knew some things that the employees ought to know?

Ms. LACHANCE. I think so.

In addition to that, we obviously would be the people who would withhold the premium payments from employees' paychecks or retirees' annuity checks and forward those on to the various insurance companies.

Ms. NORTON. So you, in a sense, would be doing the administrative work for the insurance company?

Ms. LACHANCE. Yes, ma'am.

Ms. NORTON. Because they would be working through you, rather than on an individual basis? So that would relieve them of, I take it, substantial amounts of money and administrative costs?

Ms. LACHANCE. That is possible.

Ms. NORTON. But those administrative costs would be paid by whom?

Ms. LACHANCE. OPM.

Mr. FLYNN. And the individual departments and agencies with their payroll systems.

Ms. NORTON. Would the employee pay any part of those administrative costs?

Ms. LACHANCE. I don't think so.

Mrs. MORELLA. If the gentlelady would yield?

Ms. NORTON. I will yield.

Mrs. MORELLA. In my bill, they would. I mean that is one of the differences, is that mine does not depend on governmental exigencies and vicissitudes. It has the stability in that it is passed on and is leaned away as possible because it would be——

Ms. NORTON. Oh, but listen to this.

Mrs. MORELLA [continuing]. To the employees.

Ms. NORTON. Well, listen to this.

Under Mrs. Morella's bill, the employee gets stuck with the administrative costs. [Laughter.]

And without her bill, the taxpayers get stuck with the administrative costs. But who does not get stuck with the administrative costs are the insurance companies.

Ms. LACHANCE. That is correct.

Ms. NORTON. I say this so my friends in the next panel will already know—[laughter]—I say this, although——

Ms. LACHANCE. They can leave now. [Laughter.]

Ms. NORTON [continuing]. Before I came to Congress, I was on the board of the Metropolitan Life Insurance Co., and I don't think life insurance companies—at least the ones at that level—are hurting terribly much. I do know some Federal employees that are hurting much. And I do know that—look, the health care dollar—the thing that kills me about the health care dollar is the way in which administrative costs eat it up. Not, of course, in Medicare, where the Government plays a role, but the administrative cost of health care and this problem, I would not like to see repeated for

long-term care, where we don't do what is necessary to contain those costs and end up paying those costs which could, otherwise, go to the underlying care.

Let me ask you about the premiums. If you enroll early and pay a low premium, would your premium go up, or would it remain stable because you enrolled early?

Ms. LACHANCE. We are trying to envision a system where it would remain stable, although we would like to give the opportunity, at various points in time, for the enrollee to purchase inflation protection. But the premium would remain stable, and that is the advantage of coming in early.

Ms. NORTON. This is a huge incentive.

Ms. LACHANCE. Yes.

Ms. NORTON. Especially when people know what it could cost if they don't come in early, and especially since you are apparently talking about low premiums.

And you think low premiums would work because of the nature of our risk pool? That is to say that, because it is so diverse, that you could contain these premiums, because of the age diversity of the risk pool?

Ms. LACHANCE. That is exactly right, Congresswoman. We anticipate savings of 15 to 20 percent. And that has to be a better deal than what is available now.

Ms. NORTON. But how would this work if, in fact, these people were spread across hundreds of companies? I mean how could the low rates be maintained?

Ms. LACHANCE. Then we would lose the advantage of a group rate.

Ms. NORTON. So what we want is to encourage as many people to choose the best companies as possible—as many people as possible to choose the best companies because, together, they keep the cost down.

Ms. LACHANCE. And that would be very, very hard if we had a lot of companies, which is why we are very interested in limiting the number of insurers who are involved in this benefit plan.

Ms. NORTON. Well, how many companies are in this business anyway? I mean, a lot? [Laughter.]

Ms. LACHANCE. There were 15 yesterday. [Laughter.]

Mr. FLYNN. Good answer. [Laughter.]

I think that the number that offer group insurance policies run about a dozen, but there is a much larger number of companies that offer individual policies in the market.

Ms. NORTON. In your investigations, have you found the group insurance business growing at any particular rate? I mean is this something that is a growth industry in this country?

Ms. LACHANCE. Well, it is growing because I think employers see the need to offer this benefit to their employees, so that seems to be growing. I would have to defer to the insurance companies to find out how they are doing on their individual business.

Ms. NORTON. Are you modeling your group notions after anything that is now in the marketplace?

Ms. LACHANCE. We are using as a standard and as a model, the plan that has been developed by the Association of State Insurance Commissioners who have been working on this situation very hard

and who incorporate a number of the features that are in both Mr. Cummings' bill and Mrs. Morella's bill.

Ms. NORTON. Thank you.

And thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you, Ms. Norton. I am glad to know that you were on the board of MetLife, and I am sure they are still pleased with their wise decision. [Laughter.]

Especially after your questions today. [Laughter.]

Any MetLife representatives here?

Now, returning to us again is former chairman, Mr. Mica. Glad to have you back.

Mr. MICA. Thank you, Chairman Scarborough.

Ms. NORTON. Would the gentleman yield for a moment?

I would just like to note for the record that the youngsters coming into the room are from Barcroft Elementary School, and these are children from the District of Columbia who are part of a program that I have in the Congress called "D.C. Students in the Capitol"—so you won't grow up in Washington, DC, and never been to the Capitol, or seen a hearing, or met your own Congressman, or met Chairman Scarborough. [Laughter.]

Mr. SCARBOROUGH. All right. [Laughter.]

Which let me tell you, children, is a very important thing. [Laughter.]

[Applause.]

A very important thing for your education. Unfortunately, we are going to hurt your education now by letting you——

Ms. NORTON. Oh, no. [Laughter.]

Mr. SCARBOROUGH [continuing]. Speak to Chairman Mica. [Laughter.]

I am just joking. Go ahead. [Laughter.]

Actually, I would like to turn it over to Chairman Mica who has been extremely helpful in getting us to this point and also helping me out.

Mr. MICA. Thank you, Mr. Chairman. And I was going to say some nice things—[laughter]—but I will get right to my regular standard operating procedure which is to pick on OPM.

Where are we on our life insurance project? [Laughter.]

Are we still studying it?

Mr. FLYNN. We have a deadline of May 1, I believe, to submit a report. I believe that is the correct date and should have it in plenty of time for you, sir.

Mr. MICA. What disturbs me about your proposal for long-term care is it almost models what we are trying to do away with, with the life insurance fiasco that has been in place for 40 years without real competition and to me served a great disadvantage. I happen to be a Federal employee, believe it or not, and I don't like the terms of my life insurance, and I am not looking very kindly on what is being proposed to either a single system or very limited competition for long-term care. That wasn't my idea in the beginning.

I don't know how anyone can look at a group of 1.8 million Federal employees, 2.2 million Federal retirees, a pool of that number, and not be able to provide some access to very competitive rates in life insurance and long-term care insurance. And the people who

are part of employee groups ought to be just astounded that you can go back and face your Federal employees and tell them that it is March 1999 and they don't have lower life insurance costs, better benefits. The provisions in law are absolutely pitiful for spouses in the life insurance area.

Then we got by with this study which further delays the process. And now to not have long-term health care and access for a group like that—if this was a private organization and any of you all worked for me, I would fire every one of you.

So, those are my sort of—[laughter]—opening statements. And to come with a proposal like this today, to take us back to the dark ages of no competition, little access, and probably higher premiums, I think is a step in the wrong direction.

I don't know if that is a question, Mr. Chairman, or not, but——

Mr. SCARBOROUGH. That doesn't sound like one to me, Mr. Chairman, but——

Mr. MICA. But I am really stunned.

OK, Ms. Lachance, how can you tell me that having one carrier—and, again, how can we have the Government administer anything more efficiently than the private sector? You are going to do the administrative work you are saying? OPM is going to do it?

Ms. LACHANCE. Yes, sir.

Mr. MICA. Is there any calculation how many people will be involved?

Ms. LACHANCE. Approximately 15 full-time.

Mr. MICA. Oh, yes; we hear that. I want that—that should be encoded. We ought to get a chisel and stone and say, "approximately 50." If they could administer any program with 50 people, I would love to live to see the day, to service those kind of folks.

The intent here was to get the private sector to offer a group rate, get as many people competing, because we have hundreds of thousands of potential participants in this, not just in Washington, DC, but across the land, possibly overseas, and getting organizations out there to give us some benefit because we have a large viable group.

So you all are taking a simple idea and making it into a potential bureaucratic nightmare and delaying the process. So I just don't see, for the life of me, how a proposal that, again, relies on Government to administer, it limits the choices, and it does not create competition that can be effective.

Would you want to comment?

Ms. LACHANCE. Well, we certainly appreciate your perspective, Mr. Mica. And we enjoyed working with you for the last several years on some of the——

Mr. MICA. Unfortunately, I am still around.

Ms. LACHANCE. Well—[laughter]—and I am happy for that, because you do provide a unique perspective—[laughter]—on some of these issues that I think is important for us all to deal with.

But we believe, sir, that we can find a way to design these benefits that provide enough flexibility to meet the individual needs of all of the different kinds of people who are going to need access to this insurance.

We also believe that Federal employees have access to much of what you are describing today, and they are not buying it. Nobody is buying it, because it is so expensive.

Mr. MICA. Well that was the purpose for having a group come together.

Ms. LACHANCE. Well——

Mr. MICA. And also maybe offering some options, some benefits for assistance in payment from their Federal partner, their employer, so that this is available: One, on a more cost-effective basis; and, two, that we are a participant in making this available.

I don't know what kind of impact this will have on some of the other Federal health care systems, but I am sure some of our Federal employees are now relying on other Government programs for that assistance—so, some creative ways in which to access that care.

Ms. LACHANCE. Well, unfortunately, it has alluded us about how we would arrive at a group discount using your system. So perhaps we can sit down with you to try to talk to you more about what it is you are trying to achieve. But the way we look at it——

Mr. MICA. Well, I could achieve it in 30 to 60 days sitting down with some carriers and say, "This is basically what we want to offer. We have this many folks, and we would like to make this available. What kind of a group rate, if people enroll, can you give us? What kind of a special deal can you give us for people to participate?" Not turning this into some complex bureaucracy. It is just like life insurance.

It is appalling that we do not offer more options to our Federal employees. They are paying higher premiums and getting less. They are getting screwed.

Ms. LACHANCE. I believe——

Mr. MICA. The kids have gone. [Laughter.]

Ms. LACHANCE. Thank you. [Laughter.]

You made me nervous. [Laughter.]

Mr. MICA. And what are we doing? We are studying it more. All I want is to provide—and I have a selfish interest; I am a Federal employee. I need life insurance. I am getting older. You all are causing me great stress and pain. [Laughter.]

I could go at any minute, or I could end up in a long-term facility—[laughter.]

So I am very parochial about my interest in this. Just make it available; OK? And usually the private sector can do it, administer it, very well. And I think part of our role, or OPM's role, would be to monitor the quality, see who—set the standards for this, see that they are performing well. And we keep those pools available of life insurers, of long-term health care—and it is just like we do with FEHBP, to a degree. We have a small—it is a great program. It services 4 million people, retirees and employees——

Ms. LACHANCE. With 160 employees.

Mr. MICA [continuing]. And 5 million dependents, almost 10 million, Mr. Chairman. You oversee the largest health care system for employees in the country, with 100 employees?

Ms. LACHANCE. 160.

Mr. MICA. 160. Well, that is getting a little bit big but, in any event, that is what I had envisioned.

Mr. FLYNN. Mr. Mica, if I could offer just one observation. You cite the FEHB. I would simply say that if you looked at the Federal Employees Health Benefits Program and the number of insurers that offer products there, the type of market and the evolution of that market for long-term care is in striking contrast.

And one of the things that we want to do, given the fact that take-up rates for long-term care insurance are about 6 percent, is to focus a really good comprehensive, flexible benefit program on one or a handful of carriers so that we can do everything in our power to be a cheerleader, to get people to enroll, so that we can get to a level of maturity where perhaps some day, any number of carriers could participate because the products were, more or less, standards, the benefits were well-understood, and we could come in, like we do with the FEHB——

Mr. MICA. Well——

Mr. FLYNN [continuing]. Where you could see that work that way.

Mr. MICA [continuing]. I would rather that we opened it to all who qualifies, set those qualifications and do it now rather than later.

And, also, you find a changing market, just like in health care. In health care, 15 years ago, my sister called me from California and she told me that she was joining an HMO, and we thought she—the Kaiser plan or something. We thought she had joined a "hippie" farm—[laughter]—in California. I had never heard of an HMO, and I hadn't heard of Kaiser.

And today, you know, HMO's control a large portion of the market, so I don't see any reason why we can't make this available, sooner rather than later, have more competition rather than less, and, again, provide it across the broad spectrum. And some people don't fit into our neat Washington, DC environment. We have got Federal employers, as I said, all around the world, and if they want to access this, now, on these terms, we should do that and then make it flexible as we go along.

So, I have taken too long in my—I tried, Mr. Chairman, but——

Mr. SCARBOROUGH. Oh, I didn't even notice that the red light was on.

Mr. MICA. A former chairman gets some minor leeway. I thank you and yield back—[laughter]—the balance of my time. Extended time. [Laughter.]

Mr. SCARBOROUGH. Thank you, Mr. Mica, for making your presence known to the committee once again—and OPM. We actually have changed things. We actually have one of these little green lights now that when it gets to 5 minutes—this year.

But I do thank you for your insight, and I think you bring up a good point about FEHBP. In fact we have 300 insurance carriers right now to cover a pool of 4 million which, I think, that is a better approach, myself.

Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman. My apologies for being late. This is a difficult morning. As other Members know, you sometimes have everything going on at once.

But I want to thank both of you for being here and the others who have already testified.

I would like to continue a little bit along the lines that were being discussed when I came in. Mr. Mica said that he favored more competition rather than less, and I want to think about this question of price and how we get the best deal for employees. Because it seems to me, from my private-sector experience, that the existence of long-term care insurance does not mean that people go out and buy it. It is still a product that is not widely purchased. And it seems to me that we would be mistaken to equate more competition with more companies. Because I would believe that if you add, say, a handful—one or two or three or a handful—of carriers, who are able to offer long-term care insurance to this vast pool of people, that that is how you get the most competition, that is how you get the best price.

I would really be interested in your reaction to that. And please respond to the suggestion that you have 300 insurance carriers, I take it, under the FEH——

Ms. LACHANCE. BP—[laughter.]

Mr. ALLEN [continuing]. BP. What you think the differences are between the health care insurance and the long-term care insurance that you envision providing.

Ms. LACHANCE. I am sure that Ed could help me with more detail, but we agree with you Mr. Allen, that in fact trying to work with a small number of companies to come up with a flexible benefit designed at a group rate would be much more financially advantageous to our potential enrollees than just having a variety of choices, all of which are available now and which I think everyone will acknowledge, we are having a difficult time convincing people to buy.

It also would help us in our "cheerleader" role, as we have called it here. If we are involved with a number of companies, as we are with FEHBP, we maintain a neutral posture. What we have to do with this is go out there and convince people to spend extra money on this very important coverage, and do it at a young age when they are far more likely to think they will never need anything like this.

So there is a formidable challenge ahead of us, and we have really looked at this and thought this was the best way to achieve it.

One of the differences with the Federal Employees Health Benefits Plan is that 85 percent of those who are eligible to buy health insurance through the Federal Government do so. We don't have a penetration problem there. People understand the system; they have been doing it for years. Everyone wants health insurance. We make the information available. It is a very different kind of effort. This time, we have to convince people to even do this. That is not a hurdle that we have with the health insurance benefit.

Mr. ALLEN. Mr. Flynn.

Mr. FLYNN. Couldn't do any better than that, sir. [Laughter.]

Mr. ALLEN. OK.

I don't know whether this has been covered before, but I assume that inevitably, at some point down the road, there will be some sort of claims disputes that would typically happen, I assume, after someone has left Federal employment. Is there any role for OPM dealing with claims disputes?

Ms. LACHANCE. It could happen at any time, because what we are hoping is to try to get benefits that are so flexible that if something does happen to you during your work life and you need some additional assistance with it, you can use the benefit to pay for that. So, it could happen while you are still working.

But what we would like to do is similar to what we do with the health benefits plan, try to sort things out between the enrollee and the plan. We have a great, successful record in that, in trying to resolve issues, trying to explain the situation to all the parties, and we have been very, very successful. And we think we could do it with this benefit as well.

Mr. ALLEN. In the case that would come up when someone is still in Federal employment, is that a case of a severe disability, or am I missing something about the long-term care insurance?

Mr. FLYNN. Mr. Allen, it could be any of a variety of needs. The benefits of this type of insurance typically engage when you are unable to perform two or more of what are commonly known as activities of daily living, and that can occur for a variety of reasons, not just older age.

Mr. ALLEN. Right.

Mr. FLYNN. And so it is conceivable that you could have employees participating and getting benefits from this program, though, clearly, it is expected that the large majority of people would need it in their later years.

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you so much, Mr. Allen.

We need to let you all go on, and I would say that anybody else that has questions, feel free to submit them.

Ms. LACHANCE. We will be glad to answer.

Mr. SCARBOROUGH. I do want to ask you just one final line of questions, very quickly, because it is not exactly clear what the administration's position is, and I don't think Mr. Cummings bill really addresses this directly.

Do you believe that the Government should require carriers to offer policies on a guaranteed issue basis? If so, wouldn't that have a pretty substantial impact on the actual price of these policies?

Mr. FLYNN. Let me try that, if I could, Mr. Scarborough.

That is an essential component of the benefit design, and so all of those questions have not been fully flushed out right now. I think that what we are trying to do—and I think everybody is trying to do the same thing—is craft a benefit design and eligibility to participate in the program that, particularly for employees, offers the most access for the most people possible.

If we get into a situation where policies are issued with guarantee issue, no underwriting whatsoever, that will have an effect on premium, and we need to find the best balance of that. So we are looking at anything that ranges from guarantee issue to some form of minimal underwriting and trying to understand the implications of that, in terms of benefit design and premium.

As the Director has noted, we will be meeting, have started, and will continue to meet, on these issues and develop a consensus around that to meet that objective. So that is not something that has been completely nailed down at this point.

Mr. SCARBOROUGH. Well, great.

Mr. FLYNN. And I think that it is part of why we think it is very important to have a flexible benefit design because: One, we want to make sure that it reflects consensus, and, two, that as time goes on, we want to make sure that it remains contemporary.

Mr. SCARBOROUGH. OK. Well, thank you. We certainly can ask our next panel what, in fact, they believe that is. I have heard that having that in would possibly increase premiums anywhere from 25 to 35 percent for everybody. If this Federal Government plan is going to serve as a model for the private sector and employers, that causes me grave concern, because it prices almost everybody out of the market.

So thanks a lot. We certainly appreciate it and look forward to seeing you again soon.

Ms. LACHANCE. Thank you.

Mr. SCARBOROUGH. Thanks.

Now we will call up our next panel.

Before we start with our next panel, I would like to ask unanimous consent that the document from Fortis Insurance Co. that is contained in everybody's packet be entered into the record.

Without objection, we will order that.

[The information referred to follows:]

FORTIS

Solid partners, flexible solutions™

Allow Individual Long Term Care Insurers to Participate in the Federal Employee Long Term Care Insurance Program

"Individual long term care insurers can meet any criteria developed, to an extent at least comparable to what any group carrier would propose, for the various consumer touch points of this program. Such touch points include: Premiums/Costs; Product/Coverage Decisions (our large employer sales process closely resembles what group carriers would do under the program); Underwriting/Enrollment; Administration; Customer Service; Claims Payment; and Portability."

Fortis Long Term Care

Through the introduction of several bills, Congress is contemplating a program that would make long term care insurance available on a voluntary basis to federal employees, retirees, and their family members. The leading bill on the issue appears to exclude individual product carriers from providing the coverage under such a program. This would be a mistake. By limiting the program to group carriers, a viable and perhaps preferable segment of the market's competition and quality will be excluded based on misinformation and false presumptions.

Certainly the criteria for participation established by the Office of Personnel Management will set standards, procedures, and expectations, including those relative to the insurer's products and practices. However, interested group *and individual* carriers should be given the opportunity to apply and explain how they can in fact meet those criteria. Individual long term care insurers can meet any criteria developed, to an extent at least comparable to what any group carrier would propose, for the various consumer touch points of the program. Such touch points include: Premiums/Costs; Product/Coverage Decisions (our large employer sales process closely resembles what group carriers would do under the program); Underwriting/Enrollment; Administration; Customer Service; Claims Payment; and Portability.

Fortis Long Term Care is among the top ten long term care insurance companies in the United States. We have been designing, marketing and administering individual long term care insurance products since 1987. We strive to offer high value products and services that assist individuals and families in preserving their financial and emotional independence. One of our growing market segments is identified by sale of long term care insurance through employers who sponser a program to make the policies available to their employees and their employees' families. For example, we currently have exclusive arrangements to sell ***individual products*** to several large employers (over 10,000 employees), and anticipate continued growth in this market.

Contact for Additional Information, please contact Bill Bergum, Fortis Long Term Care, 414/299-8083.

Mr. SCARBOROUGH. Our third and final panel includes David Martin, of the American Council of Life Insurance; Kenneth Grubb, New York Life Insurance Co.; and David Brenerman, also from Mr. Allen's home State, on behalf of the Health Insurance Association of America.

We certainly welcome all of you and like to ask that you, please, rise to take the oath.

[Witnesses sworn.]

Mr. SCARBOROUGH. Thank you.

Mr. Martin, why don't we start with you.

STATEMENTS OF DAVID S. MARTIN, AMERICAN COUNCIL OF LIFE INSURANCE; KENNETH A. GRUBB, NEW YORK LIFE INSURANCE CO.; AND DAVID H. BRENERMAN, HEALTH INSURANCE ASSOCIATION OF AMERICA

Mr. MARTIN. Good morning, Mr. Chairman.

Mr. SCARBOROUGH. If you could move the mic further over.

Mr. MARTIN. Good morning, Mr. Chairman, and members of the committee.

I am David Martin, general director of long-term care at John Hancock Mutual Life Insurance Co. I also serve as chair of the long-term care committee for the American House of Life Insurance.

The ACLI represents 493 member companies; 88 percent of the long-term care insurance marketplace is represented by ACLI-member companies.

On behalf of the ACLI, I want to thank you for the opportunity to talk about the legislation introduced by you, Mr. Chairman.

ACLI supports the efforts of the subcommittee and the administration with regard to offering long-term care insurance to Government workers as an employee benefit. This benefit is an integral part of employees' retirement security. Without this protection, retirement savings can be wiped out with just one long-term care episode. We look forward to working closely with you and your subcommittee members on this issue, as well as with the Office of Personnel Management.

Within 30 years, 32 States will have the demographics that Florida has today. ACLI's 1998 study on "baby boomers" indicates that Medicaid and the individual out-of-pocket long-term care expenditures could rise by over 360 percent by the year 2030. That study was presented to the subcommittee last year. The aging of the population has focused national attention on long-term care, including bills to extend further favorable tax treatment such as an above-the-line deduction or tax credit.

Turning to the legislation introduced to offer long-term care insurance to Federal employees, we note that Senators Grassley and Graham have introduced S. 36, the same measure introduced in the last Congress by Mr. Mica, the former chair of the subcommittee. In addition, Senator Mikulski has introduced S. 59, the administration's bill, as Mr. Cummings, the ranking member of this subcommittee, has introduced H.R. 110, the administration's bill on the House side. Within the past couple of days, Mrs. Morella has introduced a long-term care bill as well. Your bill, Mr. Chair-

man, H.R. 602, has been introduced this year, along with Mr. Mica and others.

ACLI's long-term care committee believes that a competitive bidding process, where group and individual insurance carriers have the opportunity to compete on a level playing field, will result in the most successful Federal program.

Clearly, individuals have different long-term care needs. Based on our experience dealing with large employers, it is appropriate to offer employees a variety of options. We believe the criteria for offering long-term care insurance to Federal employees should also include the following.

Only HIPAA-qualified plans should be offered to Federal employees. In addition to their tax-favored status, qualified plans include strong consumer protections. The Federal long-term care insurance program should also reflect the June 1998 NEIC models which contain additional consumer protections. There must be a reasonable and affordable plan design and risk selection process that recognizes current practices in the private sector. The process used to evaluate and select carriers should be consistent so that there is a level playing field. Any program and participation requirements should be consistent for all carriers.

We believe OPM may choose a group of carriers, including a consortium of carriers, to ensure the program. We believe that the best way to provide for a successful program is for the risk to be spread over several carriers, since a group this large is many times greater than any group underwritten by a single carrier today.

A competitive bidding process will ensure that the Federal employees, annuitants, and other eligible family members will have a high-quality, long-term care insurance program with appropriate features and plan design options at reasonable rates.

Carriers participating in the Federal long-term care program must describe their care and claims management practices to OPM and to plan participants. A key service is assistance by RN's and finding services, that coupled with 800-numbers, oftentimes, with 24-hour service.

There must be a reasonable claim appeal process that will deal fairly with disputed claims. Carriers will be the final determinant of eligibility for benefits. This is in keeping with standard practice for ensured long-term care products today. Carriers must individually, or in a consortium, be licensed to provide long-term care insurance nationwide. Carriers must describe the resources they would commit to marketing the program, and overall administration of the program should recognize legitimate expenses and reasonable risk margin of the insurers.

Successful marketing efforts for the long-term care insurance program require a strong partnership between the employer and the carriers. We both share the common goal of maximizing participation in the plan, and both play an active role in developing and implementing a successful enrollment.

Carriers must describe their performance standards for their administrative services. OPM would have the authority to monitor the performance of the selected carriers and authority to terminate for cause. Once carriers are selected there should be a fixed period

of time during which those carriers are designated carriers for the program, except for termination due to cause.

An educational component is critical to the success of the program. Offering private long-term care insurance, as a core Federal Government benefit for its employees, needs to be coupled with an educational program to increase awareness among Federal employees and their families about the importance of planning ahead for long-term care.

The Federal Government can take a leading role in ensuring that people plan for their future by offering this benefit to its employees and their families.

Thank you, Mr. Chairman, and members of the committee. And, again, we look forward to working with you.

[The prepared statement of Mr. Martin follows:]

Statement
of the
American Council of Life Insurance

on

Offering Long-Term Care Insurance to Federal Employees
as an Employment Benefit

Presented by

David S. Martin
Chair, ACLI Accelerated Death Benefits / Long-Term Care Committe

General Director, Long-Term Care, Contracts & Legislative Services
John Hancock Mutual Life Insurance Company

Before the

Subcommittee on Civil Service
Committee on Government Reform and Oversight

of the

United States Congress

March 18, 1999

Good morning, Mr. Chairman and members of the Committee. I am David Martin, General Director, Long-Term Care, Contracts and Legislative Services, at John Hancock Mutual Life Insurance Company in Boston. I also serve as the chair of the Accelerated Death Benefits/ Long-Term Care Committee for the American Council of Life Insurance (ACLI). The ACLI is a Washington, D.C. - based national trade association that represents 493 member life insurance companies. Our member companies that provide long-term care insurance to the American public represent more than 88 percent of the long term care insurance marketplace.

On behalf of the ACLI, I want to thank you for the opportunity to talk about the legislation introduced by you, Mr. Chairman, to make available long-term care insurance for federal employees and their eligible relatives. We think it is crucial for the federal government to give their employees an opportunity to take greater responsibility for their long-term care needs through private insurance. ACLI supports the efforts of the Subcommittee and the Administration with regard to offering long-term care insurance to government workers as an employee benefit. Clearly, this benefit is an integral part of employees' retirement security because without this protection, retirement savings can be wiped out with just one long-term care episode. We look forward to working closely with you and your Subcommittee members on this issue as well as with the Office of Personnel Management (OPM).

Mr. Chairman, a lot has happened legislatively since I testified before this Subcommittee a year ago in support of what was then, a fledgling initiative. Before talking specifically about the legislation that you have introduced, H.R. 602, I want to take a minute to recap the long-term care legislation that has been introduced in Congress this year.

When I was here last year, a Congressional Resolution had been introduced in the 105th Congress which expressed the sense of Congress with respect to promoting coverage of individuals under private long-term care insurance and endorsing an educational outreach effort

by the federal government to make our citizens aware that long-term care is not covered by Medicare and that one needs to "spend-down" assets in order to be covered by Medicaid. That resolution has been reintroduced as H. Con. Res. 8 in this Congress and has already garnered 58 co-sponsors.

In addition, in the last Congress, Representatives Nancy Johnson and Karen Thurman introduced legislation that would provide an "above the line" deduction for long-term care premiums paid to purchase "qualified" long term care insurance. That legislation has been reintroduced (S. 35) this year by Senators Charles Grassley and Bob Graham.

Moreover, in early January the Administration unveiled a White House long-term care initiative that includes: (1) a $1000 tax credit for long-term care needs or for family care givers providing long-term care support; (2) a support program for care givers to provide information and referral on services such as home care services; (3) a national campaign to educate Medicare beneficiaries about the program's limited coverage; and (4) a proposal to have the Federal government serve as a model employer by offering private long-term care insurance to Federal employees.

ACLI applauds this initiative but would like to see it broadened to provide tax relief for those who take personal responsibility for their families' long-term care needs by purchasing private insurance. We support the Administration's focus that provides much-needed public attention on a problem that already plagues one in four American families, and that will reach crisis proportions as the baby boomer generation reaches retirement.

ACLI would ask the Administration to broaden its tax credit proposal so it will help Americans purchase long-term care insurance. A tax credit for families grappling with long-term care needs today is vital for easing their immediate burden.

But over the long run, encouraging the purchase of private insurance will be crucial for meeting the nation's long-term care needs without crippling taxpayers and already strained government programs.

Mr. Chairman, within 30 years 32 states will have the demographics that your state, Florida, has today and ACLI's 1998 study on baby boomers indicates that Medicaid and individual out of pocket long-term care expenditures could rise by over 360% by the year 2030. That study was presented to the Subcommittee last year. There is still time to seek out private sector solutions to the looming long-term care crisis. As a very significant employer in America, the federal government can reach over 3 million workers. In addition, by offering this product to individuals during their working years, the government can help encourage the purchase of private insurance at younger ages, when premiums are very affordable.

Turning to the legislation introduced to offer long-term care insurance to federal employees, we note that Senators Grassley and Graham have introduced S.36, the same measure introduced in the last Congress by Mr. Mica, the former Chair of this Subcommittee. In addition, Senator Mikulski has introduced S. 59, the Administration's bill and Mr. Cummings, ranking member of this Subcommittee, has introduced H.R. 110, the Administration's bill on the House side. Your, bill, H.R. 602 has been introduced this year along with Mr. Mica and others. Similarly, Mrs. Morella introduced her bill on long-term care for federal employees on Tuesday of this week.

ACLI's Long-Term Care Committee has studied these measures and believes that a competitive bidding process where group and individual insurance carriers are given an opportunity to compete on a level playing field with each other will result in the most successful long-term care program for federal employees. Clearly, individuals have different long-term care needs.

Based on our experience dealing with large employers, it is appropriate to offer employees a variety of options For example, some policies cover two years of care in a nursing home, some 5 years and some a lifetime of care in nursing home. Prices vary with the duration and amount of coverage, whether an inflation protection option is chosen and a host of other choices. Long-term care insurance will pay for a variety of services when a person is unable to perform a specific number of activities of daily living. Today's long-term care policies cover a wide range of services to help people live at home, participate in community life, as well as receive skilled care in a nursing home. Policies may also include respite care, medical equipment coverage, care coordination services, payment for family care givers, or coverage for home modification. These options can enable people who are chronically ill to live in the community and to retain their independence.

Therefore, we believe offering a range of options can best serve the needs of the federal workforce and their eligible relatives.

In addition, the criteria for offering long-term care insurance to federal employees should include the following.

- Carriers must offer only HIPAA qualified plans. As you will recall, in 1996, Congress enacted the Health Insurance Portability and Accountability Act of 1996 (HIPAA) that allows individuals to deduct as medical expenses the cost of certain premiums for qualified long-term care insurance from their federal taxes. (Like health insurance premiums only premium amounts over and above seven and one half percent of adjusted gross income are deductible.) HIPAA also excludes benefit payments from qualified policies from taxable income. In addition, under HIPAA, employers may deduct long-term care premiums paid on behalf of employees. Just as important, qualified long-term care policies include strong consumer protections.

Accordingly, ACLI believes only HIPAA qualified plans should be offered to federal employees.

- The plan would also reflect the June 1998 National Association of Insurance Commissioners (NAIC) Model Act and Regulation which contains additional consumer protection provisions. These include suitability of purchase protection and the contingent nonforfeiture provision, which protects the insured from certain percentage levels of rate increases at various ages.

- There must be a reasonable and affordable plan design and risk selection process that recognizes current practice in the private sector. The process used to evaluate and select carriers should be consistent so that there is a level playing field. For example, underwriting standards and enrollment requirements should not be tighter for one carrier and looser for another carrier. Any program and participation requirements should be consistent for all carriers.

- OPM may chose a group of carriers including a consortium of carriers to insure the program. We believe that the best way to provide for a successful program is for the risk to be spread over several carriers, since a group this large is many times greater than any group underwritten by a single carrier today. A competitive bidding process will ensure that the federal employees, annuitants and their eligible family members will have a high quality long-term care insurance program, with appropriate features and plan design options at reasonable rates.

- We find that what constitutes "successful participation" for any employer sponsored long-term care insurance plan varies from employer to employer, depending on each employer's unique situation. To date, the industry has experienced widely different participation levels

among different employer groups. These results are based on variables such as the demographics of the employer population,(age, income and educational level), geographic concentration (or lack thereof) of the employee population, the extent of employer endorsement for the plan offering, the overall employee morale at the sponsoring employer, and ease of enrolling in the plan for employees. In the case of the proposed federal program, several of these variables have not yet been made known to providers, so estimates or projections should be considered in that light.

Beyond that, employers themselves have had different definitions of success. For some, merely providing education to their employees about long-term care and offering the opportunity to purchase such a plan is sufficient. For others, the degree to which employees participate in the plan is the most important determinant of success. Often the direction of the marketing and communications plan results from the employer's desires in this regard.

Typically, the industry average for new case enrollments has ranged from 5-10% of the total eligible population. However, with regard to the federal program, due to the overall size and geographic diversity of the organization a 3-4% initial enrollment may be more likely, growing to the 5-10% level over a five year time horizon. How that ultimate participation will be achieved will be a function of the marketing strategy agreed to between the federal government and the chosen providers. Without benefit of that we really can't project participation levels on a year by year basis.

- ACLI member companies believe that carriers that participate in this program must describe their claims and care management practices to OPM and to plan participants and that carriers participating in the program must have a reasonable claim appeal process.

In addition, carriers will be the final determinant of eligibility for benefits. At the same time, we support a claim appeal process that will fairly deal with disputed claims. This is in keeping with standard practice for insured long-term care insurance products.

- Carriers must individually or in a consortium be licensed to provide long-term care insuranc nationwide. Many carriers are not licensed to do business in every jurisdiction and therefor many sound and good carriers would be eliminated from participating in this program if the opportunity is not made available to form a consortium to be licensed nationwide.

- Carriers must describe the resources they would commit to marketing the program and overall administration of the program should recognize legitimate expenses and reasonable risk margin of the insurer. The effort undertaken to market long-term care to employee populations typically includes some or all of the following activities:

- An extensive Direct Mail Print Campaign- The purpose of this campaign is to make employees aware of the benefit offering, provide education to employees about the need for long-term care insurance, and generate interest on their part to calling to request more information about the plan.

- An Informational Enrollment Kit- This kit provides all the information an employee require to apply for coverage, including rate information, required NAIC and plan description materials, and necessary application and health forms, if required.

- An On-site Consultation Campaign- Informational meetings at key employer locations are

conducted to provide the opportunity for interested employees and annuitants to interface with carrier representatives or trained human resources representatives to get answers to questions about the plan.

- An On-site Marketing Campaign- Activities may include informational posters, table-tents, and closed loop videos displayed in prominent employer locations. The purpose is to reach employees with awareness and educational messages in a different context than direct mail.

- A Technology Campaign- For employees who are comfortable with technology as a means to get information and make benefit decisions, long-term care enrollment campaigns often include internet web-sites, use of voice response technologies to process information requests and enroll on line, and dedicated toll-free customer support lines. Educational videotapes and illustration software are also frequently used in marketing campaigns.

This type of campaign would generally be executed over a three to four month time period, and would at a general level be adaptable to the proposed federal employee and annuitant plan. As with each employer, specific elements of the Federal marketing plan would be determined in conjunction with the employer during the marketing planning process.

Typically successful marketing efforts for long-term care insurance involve a strong partnership between the employer and the carrier, where both share the common goal of maximizing participation in the plan, and both play an active role in developing and implementing a successful enrollment.

Carriers can be counted on to provide expertise regarding how best to market long-term care to employees generally, and for planning and implementing an employer specific marketing campaign that will maximize participation in the plan. Carriers are usually responsible for designing, producing and distributing communications materials, and for implementing any other

marketing approaches such as internet sites, videos or employee meetings that are appropriate for the employer's situation.

For the partnership and the enrollment to be successful, the employer, in this case the OPM, needs to be an active participant, in several critical ways, from early in the planning process through the initial and subsequent enrollment efforts. This role need not be time consuming, as experienced carriers are generally expert at managing the time consuming elements of the process, but there must be a commitment to success on the part of OPM.

The first role OPM must play is to communicate information to the carriers on the various aspects of the federal situation which make it unique, including employee demographic information, the federal employee culture(s), various federal employer environments, and methods of benefit communication that have worked well, and perhaps not as well, in these environments. This will enable the development of an effective marketing campaign.

A second and very important role for OPM is to provide a highly visible endorsement for the plan. Employees are often overwhelmed with information on their benefit choices and often look to their employer to "help them through the maze" of information. Typically an endorsement from a highly placed and well recognized individual in a corporation, or in this case the government, can credibly speak to employees about the need to seriously consider this benefit as part of their financial and health planning. With all the messages the typical employee is receiving today, and with long-term care insurance still relatively new and unknown, having a strong employer endorsement for the plan is critical to a successful enrollment.

A third key role for OPM is to actively support and advocate for the plan through enrollment activities. This support might include encouraging or requiring key human resource and department managers to attend training sessions on the benefit, allowing and encouraging employee and annuitant attendance at informational meetings, (including time off from work)

and supporting the use of organizational communication methods such as newsletters, web-sites, e-mail and phone-mail and common areas for publicity on the plan.

Perhaps the best way to think about the roles of OPM and the carriers in the marketing campaign of long-term care would be to look at the employees and their needs with regard to this benefit. They need and are asking for help in understanding this relatively new and complex benefit in the form of information and education. They are looking to their employer as a source of help. The carrier typically can provide and execute the informational content of the long-term care message. The employer, in this case OPM, is best at playing the role of enabler, making sure the carrier has every opportunity to deliver the message in ways that employees can best hear and understand it.

- Carriers must describe their performance standards for their administrative services.

- No selection of carriers should be based solely on the plan design or the rates of a product design other than a HIPAA qualified product. In short, we would oppose a program that would mandate benefits over and above those required by HIPAA and the June 1998 NAIC Model Act and Regulation.

- Of course OPM would have the authority to monitor the performance of the selected carriers and authority to terminate for cause. Once carriers are selected there should be a fixed period of time (for example–five years) during which those carriers are designated carriers for the program except for termination for cause.

- Offering private long-term care insurance as a core federal government benefit for its employees needs to be coupled with an educational program to increase awareness among federal employees and their families about the importance of planning ahead for long-term

care. Currently, many Americans underestimate the risk of becoming chronically ill and also have misconceptions about who will pay for long-term care. Workers need accurate and credible information about the limitations of government programs in paying for long-term care services, and the potential risk of needing those services.

In conclusion, protection and coverage for long-term care is critical to the economic security and peace of mind of all American families. However, planning for the future is a formidable task for anyone. It requires early and thoughtful preparation. Long-term care insurance is an important part of the solution for tomorrow's uncertain future. As Americans approach the 21st century,-living longer than ever before,-their lives can be made more secure knowing that long-term care insurance can provide choices, help assure quality care, and protect their hard-earned savings and assets when they need assistance in the future. The federal government can take a leading role in ensuring that people plan for their future by offering this important benefit to its employees and their families.

Thank you Mr. Chairman, and again, we look forward to working with you. I will be happy to answer any questions that the Subcommittee may have at this time.

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Mr. SCARBOROUGH. Thank you very much, Mr. Martin.

Next we have Kenneth Grubb, and Mr. Grubb, from New York Life Insurance, will present the views of carriers who sell individual, as opposed to group, insurance products.

Mr. Grubb.

Mr. GRUBB. Thank you, Mr. Chairman, and members of the subcommittee.

Those of us who believe in the importance of long-term care insurance appreciate your leadership in calling today's hearing to examine ways to bring this important benefit to Federal employees.

We, at New York Life, are very interested in working with you and the Office of Personnel Management to make long-term care insurance available to the largest possible number of people throughout the country.

Wide acceptance of long-term care insurance, on a private basis, is a win-win for taxpayers and the Government, especially in view of the fact that most Americans continue to mistakenly believe that Medicare and Social Security will cover their long-term care needs. Through the committee's efforts, more people will come to understand that Medicare and Social Security do not cover the cost of long-term care, except in very limited circumstances.

Under a Federal employee program, thousands of people will take it upon themselves to arrange for their own coverage, saving the Medicaid program billions of dollars and easing the financial burden on family and friends.

I am confident that the committee members are well aware of the high cost of long-term care; 2 million Americans are in nursing homes today, and nearly $56 billion of Medicaid's $161 billion budget is spent on long-term care. Combine the rapid growth of the over-age-65 population with the fact that 70 percent of single individuals and 50 percent of couples with one partner in a nursing home are impoverished within 1 year, then you quickly see the burden facing us all if insurance against this risk is not used on a broad basis.

Prompt availability of long-term care insurance to millions of Federal employees and annuitants will go a long way toward spreading the positive message about the availability of this product and the peace of mind it can provide.

Sadly, many relatively young people who are aware of private long-term care insurance believe this product is just for older folks. But think about this; of those currently in nursing homes, 40 percent are under the age of 65. Who would have imagined that actors Christopher Reeves, Superman, and Michael J. Fox, the picture of perpetual youth, would be facing years of long-term care need?

I am just like Mrs. Kramer; when she was telling her story, I was really moved because I have lived that same story myself. My parents—first my dad with Parkinson's and then my mother with emphysema—were faced with very painful choices. Blue-collar workers all their lives, with only Social Security and personal savings for support, they had very few options. They could spend-down their limited assets and take Medicaid coverage or—and this was the really good one that I could never bring to my parents' attention—get divorced, after 62 years of marriage and pass all my dad's assets to my mother so that he could qualify for Medicaid. Hardly

attractive choices for proud, hard-working taxpayers who never wanted a Government handout.

I was lucky enough to be able to pay for the care my parents received, but for millions of Americans, financial hardship in one's later years is all too real. That is why this effort to bring long-term care insurance to so many is a cost-effective way to help people maintain their dignity and give them the choices that they have earned after years of hard work.

Mr. Chairman, we are pleased to note that some of your colleagues are promoting bills to offer tax incentives and to encourage public education toward the purchase of long-term care insurance. The strengths of your legislation are many. Wide eligibility—including spouses, parents, in-laws, children, and step-children of Federal employees and annuitants—means a broader, younger risk pool and lower overall costs.

The use of a competitive, multi-carrier model that lets the marketplace dictate costs and benefits is key to both wide acceptance of the product and long-term commitments from strong, reliable carriers.

We are concerned about limiting the program to group policies. Many companies currently offer discounts on individual contracts or have specific, individual policy forms priced for offering on a sponsored group basis. These individual contracts are competitive with group coverage and ought not to be excluded from consideration of the program.

But most importantly, please ensure that the coverage is totally portable. H.R. 602 preempts State mandates, giving us the opportunity to offer a uniform package of benefits at the lowest possible price on a nationwide basis.

Like the American Council of Life Insurance and the Health Insurance Association of America, we strongly endorse the use of qualified long-term care insurance contracts, as defined in the Health Insurance Affordability and Accountability Act of 1996.

We urge that the committee move expeditiously to approve a long-term care insurance program for Federal employees. The longer it takes, the older we get, and the more it will cost.

Thank you for the opportunity to participate. And with my colleagues, I will be happy to answer questions.

[The prepared statement of Mr. Grubb follows:]

TESTIMONY OF KENNETH A. GRUBB

PRESIDENT, NYLIFE ADMINISTRATION CORPORATION,

THE LONG TERM CARE SUBSIDIARY OF

NEW YORK LIFE INSURANCE COMPANY

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON CIVIL SERVICE

MARCH 18, 1999

Mr. Chairman and Members of the Subcommittee:

Those of us who believe in the importance of long term care insurance appreciate your leadership in calling today's hearing to examine ways to bring this important benefit to federal employees. We at New York Life are especially interested in working with you and the Office of Personnel Management [OPM] to make long term care insurance available to the largest possible number of people throughout the country. As the fourth largest insurer in the United States, New York Life's experience, financial strength, and corporate commitment to product excellence have served us well for 154 years and we are gratified for the opportunity to share our views today.

We also appreciate the commitment that OPM and Committee staff have made on this issue. With continued willingness by all parties to negotiate in good faith and press forward, this program will become a reality -- and a success.

Wide acceptance of private long term care insurance is a win-win for taxpayers and the Government, especially in view of the fact that most Americans continue to mistakenly believe that Medicare and Social Security will cover their long term care needs. Through the Committee's efforts, more people will come to understand that Medicare and Social Security do not cover the cost of long term care, except in very limited circumstances. Under a federal employee program, hundreds of thousands of people will take it upon themselves to arrange for

their own coverage, saving the Medicaid program billions of dollars and easing the financial burden on family and friends.

I am confident that Committee Members are well aware of the high cost of long term care, especially when 24-hour care in a nursing home is required. Today, two million Americans are in nursing homes and nearly 35% of Medicaid's $161 billion dollar budget -- or $56 Billion -- is spent on long term care. Combine the rapid growth of the over-age-65 population with the fact that 70% of single individuals and 50% of couples with one partner in a nursing home are impoverished within one year, and you quickly see the burden facing us all if insurance against this risk is not used on a broad basis.

But long term care insurance as part of an employee benefits package is a relatively new phenomenon and its ability to meet a growing need is not yet widely known or understood. While efforts to educate the population through OPM, the Health Care Financing Administration [HCFA], and the Social Security Administration will be helpful, prompt availability of long term care insurance to millions of federal employees and annuitants will go a long way toward spreading the positive message about the availability of this product and the peace of mind it can provide.

Sadly, many relatively young people who are aware of private, long term insurance, believe this product is for older folks. Think about this: Of those currently in nursing homes, 40% are under age 65. Who would have imagined that actors Christopher Reeves -- Superman -- and Michael J. Fox -- the picture of perpetual youth -- would be facing years of long term care?

I have lived the long term care story personally. Five years ago, I watched as my parents, first my Dad with Parkinson's and, shortly thereafter, my Mom with emphysema, were faced with painful choices. Blue-collar workers all their lives, with only Social Security and personal savings for support, they had few options: spend down their assets and take Medicaid coverage, or get divorced after 62 years of marriage and pass Dad's assets to Mom. Hardly attractive choices for proud, hardworking taxpayers who never wanted a government handout.

I was lucky enough to be able to pay for the care my parents received for almost four years but, for millions of Americans, financial hardship in one's later years is all too real. That's why this effort to bring long term care insurance to so many is a cost-effective way to help people maintain their dignity and give them the choices they have earned after years of hard work. And by the way, my father's roommate at the nursing home was a 41-year old auto accident victim who had spent the last 18 years in that home. He will never leave.

Mr. Chairman, we are pleased to note that some of your colleagues, including Representatives John Kasich, Nancy Johnson, Karen Thurman, and Dave Hobson, and Senators Grassley and Graham, are promoting bills to offer tax incentives toward the purchase of long term care

insurance. These bills also encourage public education about the benefits of long term care coverage, and we trust that OPM, HCFA, and the Social Security Administration will respond to the need for sharing this information.

Mr. Chairman, the strengths of your legislation are many. Under your bill, wide eligibility -- including spouses, parents, inlaws, children, and stepchildren of federal employees and annuitants -- means a broader, younger risk pool and lower overall costs, something I believe we all desire. The use of a competitive, multi-carrier model that lets the marketplace dictate cost and benefits is key to both wide acceptance of the product and long term commitments from strong, reliable carriers. The risks of using a single company to administer what may be a large contract are substantial. Spreading enrollment among several carriers facilitates expeditious processing.

Another important feature that should be clarified is portability, that is, the right to continue your insurance policy after you leave the federal government simply by paying premiums directly to the insurer. Portability avoids the cruel hoax of losing employer-provided long term care insurance just because of a job change.

We also have concerns about limiting the program to group policies. Several companies currently offer discounts on individual contracts or have specific individual policy forms priced for offering on a sponsored group basis. These individual contracts are competitive with group coverage and ought not to be excluded from consideration for the program.

H.R. 602 also preempts state mandates, giving us the opportunity to offer a uniform package of benefits at the lowest possible price nationwide. The rigid, prescriptive requirements of other legislation would almost certainly boost costs and limit choice.

Like the American Council of Life Insurance and the Health Insurance Association of America, we strongly endorse the use of qualified long term care insurance contracts, as defined in the Health Insurance Portability and Accountability Act of 1996 [HIPAA] [P.L. 104-191]. Under HIPAA, several consumer protections apply to long term care contracts, including:

- mandatory offer of a policy in which benefits increase with inflation;
- policies must be noncancellable or guaranteed renewable; and,
- policies should have continuation of coverage, which would allow employees who leave government service to continue the insurance by paying the premiums directly to the carrier.

In sum, we strongly urge that the Committee move expeditiously to approve a long term care insurance program for federal employees. The longer it takes, the older we get, the higher the cost.

Thank you again for the opportunity to participate and I will gladly answer whatever questions you may have.

Mr. SCARBOROUGH. Thank you, Mr. Grubb.

Mr. Brenerman.

Mr. BRENERMAN. Yes. Good morning, Mr. Chairman, and members of the subcommittee.

I am David Brenerman, second vice president of Government Relations for UNUM Life Insurance Co. of America, based in Portland, ME. I am also the immediate past chairman of the long-term care committee of the Health Insurance Association of America.

HIAA is the Nation's leading health insurance trade association representing members that provide health, long-term care, disability, and supplemental coverages to more than 115 million Americans. My company, UNUM, is the Nation's leading provider of disability income insurance and is a leader in both the employer and the individual long-term care insurance markets.

I am here to comment on the bills H.R. 602 and 110, which propose to offer long-term care insurance to Federal workers and annuitants. And, also, I want to comment on the critical role this insurance can play in financing our Nation's long-term care needs.

I would first like to commend the subcommittee and the Clinton administration for realizing the potential of the long-term care insurance market. Today, more than 100 companies provide long-term care insurance to over 6 million people. In addition, over 1,800 employers have now sponsored a long-term care insurance plan for their employees. Long-term care-related expenses cost employers $29 billion a year in lost time, employees, and productivity.

Many believe that long-term care insurance can have its greatest impact in the employer-sponsored market. With the Federal Government, the Nation's largest employer, offering this benefit to its employees, this impact would be magnified tremendously.

HIAA would like to raise the following points, with respect to these bills.

First, the key to a successful Federal long-term care insurance program is an effective education and marketing campaign. Successful employer plans invest in multifaceted education and marketing programs. The Federal Government's endorsement and active role in educating employees is critical to the success of this program.

Second, it is essential that market competition determine carriers that will offer plans under the Federal program. All interested companies should be allowed to freely compete in a fair selection process that will determine eligible participating carriers.

Third, using artificially low premiums as a major determinant of, "good" long-term care products is a dangerous route to take. A policy with rich benefits at low premiums, offered with minimal underwriting, is a sure sign of disaster. Integrating such concepts for Federal employees signals a program with unstable premiums in a market that cannot be sustained. Such a scenario would likely discourage responsible companies from participating, thus, attracting only companies that participate to gain quick market penetration, but with the intention of raising premiums in the near future.

Fourth, the Office of Personnel Management should not be responsible for adjudication of disputed claims for benefits. HIAA opposes any type of third-party claims adjudication. There is little evidence of abuse in this area, but more importantly, there is no

precedent for this in any public or private long-term care employer plan. Given the exposure insurers face in paying potentially enormous amounts of long-term care benefits, it is an unwise and unfair public policy for the employer to make claims decisions. Instead, HIAA supports a fair appeals process within the insurance company for contested claims.

Fifth, program funds should not be maintained separately from a carrier's other contracts or lines of business. This requirement is unnecessary. The financial stability of a company's long-term care business is enhanced because of the diversity provided by the entire company's portfolio. This is especially important for the Federal program during its initial stage when its viability is still not proven. A more appropriate requirement would be that reporting of this program's claims experience be available and that this report be separate and apart from the carrier's other business.

Long-term care is the largest, unfunded liability facing Americans today. HIAA applauds long-term care programs that encourage personal responsibility, help people currently in need, and increase educational efforts.

The administration and congressional proposals have an important common factor. The recognition that private long-term care insurance plays is a vital role in helping people pay for their future long-term care costs.

I would like to commend Congress for passage of long-term care insurance tax clarification in the HIPAA law passed a couple of years ago. These have improved the climate for private long-term care insurance. Nevertheless, we believe that other tax-related changes could make long-term care insurance more affordable for a greater number of people—like Judy Kramer, who spoke earlier.

In summary, over time, HIAA fully believes that private long-term care insurance will give millions of people an opportunity to be financially independent throughout their retirement years. Recognition of the private long-term care insurance market in this hearing is a solid step in that direction.

Thank you, Mr. Chairman, and members of the subcommittee. And we look forward to working with you on this legislation.

[The prepared statement of Mr. Brenerman follows:]

Health Insurance Association of America

Statement

Of the

Heath Insurance Association of America

On

Offering Long-Term Care Insurance To All Federal Employees, Annuitants and their Families And the Role of Private Long-Term Care Insurance in Financing Long-Term Care

Presented by

David H. Brenerman
Second Vice President, Government Relations
UNUM Life Insurance Company of America

Before the

Subcommittee on Civil Service
Of the
House Committee on Government Reform and Oversight

UNITED STATES CONGRESS

March 18, 1999

555 13th Street, NW - Suite 600 East, Washington, D.C. 20004-1109 202/824-1600

Good morning, Mr. Chairman and Members of the Subcommittee. I am David Brenerman, Second Vice President for Government Relations for UNUM Life Insurance Company of America, based in Portland, Maine. I am also the immediate past chairman of the Long-Term Care Committee of the Health Insurance Association of America (HIAA). HIAA is the nation's most prominent trade association representing the nation's private health care system. Its 269 members provide health, long-term care, disability, and supplemental coverage to more than 115 million Americans. Association members include companies representing a majority of the long-term care insurance market and companies that provide services to the long-term care insurance industry, giving us a unique perspective on the issues under review by this Subcommittee. UNUM is the nation's leading provider of disability income insurance and is the leader in sales of long-term care insurance to employers and retirement communities. UNUM is also one of the top ten insurers in the individual long-term care insurance market.

On behalf of HIAA, I appreciate the opportunity to talk to you today about H.R. 602 and H.R. 110, which deal with offering long-term care insurance to federal employees, annuitants, and their families and the critical role of long-term care insurance in financing our nation's critical long-term care needs. I would like to commend the Subcommittee and the Clinton Administration for realizing the potential of the long-term care insurance market. The bills being considered today encourage federal workers to assume personal responsibility for their future long-term care expenses through the purchase of long-term care insurance.

Today, more than 100 companies provide long-term care insurance to over 6 million people. In addition, over 1,800 employers have now sponsored a long-term care insurance plan for their employees. High-quality private insurance coverage is offered

through a variety of mechanisms, including individual, group association and employer-sponsored arrangements, and riders to life insurance plans.

Let me begin by summarizing the most important points of my testimony:

- HIAA supports the offering of long-term care insurance to all federal employees. However, it is imperative that the structure of a Federal Employee Long-Term Care Insurance Plan allow for market competition and design flexibility. This would assure that the long-term care insurance policies that would be offered to federal employees through this program would be affordable and encourage innovation in the coverage of long-term care services.

- Our nation faces a long-term care crisis. Long-term care is the largest unfunded liability facing Americans today. Despite the tremendous need for long-term care protection, there is a clear lack of adequate planning for it.

- The long-term care insurance market is growing, and the policies that are available today are affordable and of high quality. There is a critical role for private insurance to provide a better means of financing long-term care for the vast majority of Americans who can afford to protect themselves. Continued growth of the market will alleviate reliance on scarce public dollars, enhance choice of long-term care services for those who may need them in the future, and promote quality among providers of long-term care.

- There is a continued role that the government can play in financing long-term care for those without adequate resources to protect themselves. The government also plays a critical role in enhancing the growth of the private long-term care insurance market. Government initiatives which show support of the private long-term care insurance market emphasize to the public the importance of assuming personal responsibility and less reliance on public support for their own long-term care.

To address these concerns, HIAA believes the following steps must be taken:

1. When implementing the Federal Long-Term Care Insurance Program, it is essential that market competition determine availability, quality and affordability of long-term care plans that will be offered.

2. The government must continue to encourage personal responsibility for financing long-term care through the expansion of the private long-term care insurance market. Initiatives to stimulate the private insurance market through enhancement of the tax status of long-term care insurance must be encouraged as well.

3. The public and private sectors must continue to educate the public about the risks and costs of long-term care. Without understanding the problem, the public cannot be expected to understand the appropriate solutions. It is critically important for the public and private sectors to do more in this area.

4. The government's ability to target assistance to those most in need must be improved. The government must take full responsibility for providing care to those without the resources to do so.

5. Support for research and demonstrations related to the need for long-term care services and private and public sector partnerships in paying for long-term care must be encouraged.

This hearing is a very positive step in accomplishing these objectives. The public and private sectors must take the time to make the necessary investment now in designing a financing arrangement that our elderly can live with today, our future retirees can live with tomorrow, and our children can depend on in the next generation. We commend the Subcommittee for bringing this issue to the forefront and recognizing the important role that the private long-term care insurance market can play in solving our nation's long-term care dilemma.

Introduction

Long-term care is the major catastrophic health care expense faced by the elderly today and will definitely remain so for our retiring baby boomers. For the elderly who have out-of-pocket health care expenses of over $2,000 a year, an average of 80 percent is spent on nursing home care. With annual nursing home costs averaging $41,000 (increasing to about $100,000 in 1996 dollars by 2030), and easily double that amount in high cost areas, such expenses can indeed cause financial ruin. Instead of pooling risks, the current system places each household on its own, and when household resources have been depleted, Medicaid becomes the payer of last resort. This approach combining out-

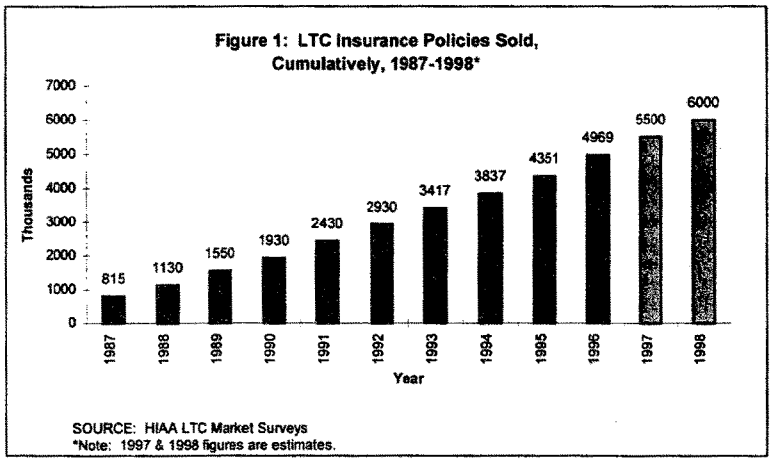
of-pocket outlays and welfare focuses upon remediation and relief, when prevention and planning should be the preferable approaches.

Today's situation, a population of approximately 8 million people, increasing to about 13 million in 2030, needing long-term care services and lacking preparation for this catastrophic event, calls for a thoughtful and deliberate approach. HIAA supports a comprehensive approach to financing long-term care that utilizes the inherent strengths of both the private and public sectors in a more efficient and equitable manner than the essentially unintended system created today.

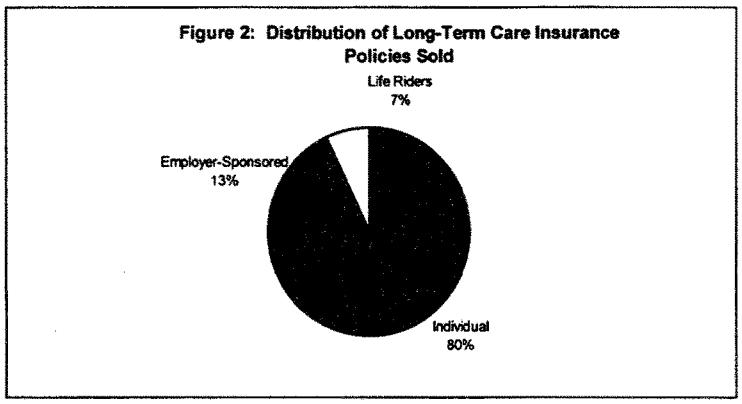
The Private Long-Term Care Insurance Market Today

The insurance industry is justifiably proud of the role it has played in the evolution of the largest private insurance system in the world. Now, we are entering the next logical phase of this evolution. Advances in medical technology and general health are increasing the life span of the elderly, but they are also increasing the number of people who will need treatment for chronic illness. At the same time, rising income, particularly among the current elderly and future baby boomer retirees, makes insurance against the costs of long-term care more affordable.

The market is developing rapidly, as evidenced by the number of companies developing long-term care insurance products, the number of individuals covered, and the variety of products available to the public today. HIAA estimates reveal that today over 100 companies have sold over 6 million long-term care insurance policies. The market has grown an average of about 20 percent annually. These insurance policies include individual, group association, employer-sponsored, and riders to life insurance policies that accelerate the death benefit for long-term care. (See Figure 1 below.)

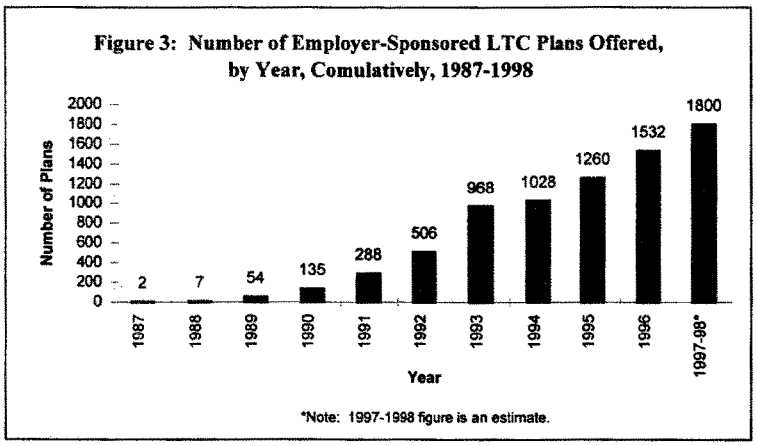


Approximately 80 percent of the 6 million long-term care insurance policies are sold through the individual and group association markets. The employer-sponsored and life insurance rider markets comprise about 13 percent and 7 percent, respectively, of the entire market. These two markets are growing faster than the individual market. In 1988, both markets comprised less than 3 percent of the entire market. (See Figure 2 on the next page.)



The majority of long-term care insurers continue to sell policies in the individual market. About one-third of the long-term care insurance carriers sold policies in either the employer-sponsored or life insurance markets, up from 14 percent in 1988.

Although all three markets have experienced significant growth through the past decade, most of the policies are still sold in the individual and group association markets. HIAA findings show that the total premium volume for the individual and group association policies sold in 1996 alone was about $750 million. The employer-sponsored market enhanced this growth by contributing close to 20 percent of the sales in 1996. HIAA estimates that over 800,000 certificates have been sold through about 1,800 employers. (See Figure 3 on the next page.) Although the growth in the long-term care life insurance rider market has been minimal in recent years, it continues to account for about 7 percent of the entire long-term care insurance market, with over 350,000 policies sold cumulatively as of the end of 1997. In addition, many carriers have recently expressed a renewed interest in this market.



As in previous years, the long-term care insurance market remained highly concentrated among a relatively small number of sellers. Twelve sellers represent approximately 80 percent of all individual and group association policies sold in 1996. HIAA conducted an in-depth look at the top sellers' latest policies and found that insurers offer policies with a wide range of benefit options and design flexibility at moderately priced premiums.[1]

In addition to examining each top seller's policy provisions and marketing materials, we also reviewed the premiums they offered for their most recent policy. Premiums for long-term care insurance policies varied widely depending on multiple factors, including entry-age of the policyholder and benefit designs chosen. (See Table 1 on the next page.)

[1] A summary of the benefit options offered by the leading sellers of long-term care insurance may be found in HIAA's publication, *LTC Insurance in 1996.*

Table 1: Average Annual Premiums for Long-Term Care Insurance

AGE	Base	With 5% Compounded Inflation Protection (IP)
40	$209	$503
50	$328	$665
65	$964	$1761
79	$3803	$5276

(NOTE: These are based on 1997 premiums of 12 individual carriers and two employer-sponsored plans. Such premiums do not necessarily exist for any one insurer or specific plan. Premiums are generally for a $100/$50nursing home/home health coverage, 4 years coverage, and 20-day elimination period.)

SOURCE: HIAA LTC Market Surveys

HIAA studies have shown that average premiums among leading sellers of long-term care insurance have been decreasing over time. For example, 1996 premiums decreased an average of 5 percent when compared to the average premiums for the leading sellers in 1995. This is a strong indication that market competition and insurers' increasing confidence with their pricing and anticipated claims experience have kept premiums stable, if not more affordable. In addition, given the tremendous changes in long-term care insurance policy design (i.e., elimination of prior hospitalization requirements, expansion of available benefits, coverage of additional sites and levels of long-term care), buyers are now clearly receiving more benefits for their premium dollar.

The Employer-Sponsored Long-Term Care Insurance Market

The growth in employer-sponsored plans is particularly promising. Employer plans offer the opportunity to reach a large number of people efficiently during their working years when premiums are more affordable. Coverage in the workplace offers the additional

advantage of employers selecting the best plan at the best price for their employees. Enrollment experience shows that the average age of the employee electing this coverage is 43. This is strong evidence that with education and availability, younger people can and will purchase long-term care protection. Most of these plans offer coverage to the elderly as well, by including retired employees and their spouses and parents of the employee or employee's spouse.

Currently, over 1,800 employers are offering a long-term care insurance plan to their employees and retirees. There were over 800 employer-sponsored plans introduced between 1995 and 1998 alone. Most of these plans were employee pay-all plans. However, at least 432 of these employers paid part or the entire employee premium for long-term care insurance. Many of these employers were very small firms (under 100 employees) and were insured by one insurance company. Among the employee pay-all plans, employee participation rates varied widely by insurer and employer.

For employer-sponsored plans without any employer premium contribution, the average percent of active employees participating in this coverage per employer group is about 6 percent. The highest participation rate reported in the 1997 HIAA LTC Market Survey was 46 percent. The lowest was less than 1 percent. As data shows, participation rates among employers vary widely. Many factors impact participation: employee age; salary level; job classification; corporate environment; and most importantly, the degree to which a sponsoring employer encourages participation and educates employees about the program. Communication is the key to success in employer-sponsored LTC plans. The higher the input of the employer, the more likely that better participation rates will occur. Examples of employer and insurer activities that have enhanced participation are: holding frequent "benefit fairs" in different locations for all eligible employees; facilitating face to face meetings with insurers where potential insureds can ask questions they may have

regarding their plan; offering toll-free numbers for both the employer and insurer so insureds and potential enrollees may inquire about the plan; developing integrated response systems for enrollment; and using technology (e.g., Internet Access), if available, for quick responses to plan inquiries and enrollments. Experience has shown that a mere announcement of the availability of a plan and distribution of plan materials are not sufficient to experience good participation rates. Follow-up communication is essential and has proven to be extremely effective in increasing participation rates.

Offering Long-Term Care Insurance to Federal Government Employees

Long-term care related expenses cost employers $29 billion a year in lost time, lost employees, and lost productivity. Many believe, therefore, that private long-term care insurance coverage can have its greatest impact in the employer-sponsored market. With the federal government, the nation's largest employer, offering this benefit to its employees, this impact would be magnified tremendously.

A Federal Employee Long-Term Care Insurance Program is particularly encouraging because of two main factors. First, such a program would be the clearest signal of government support for encouraging personal responsibility and planning for long-term care through avenues such as long-term care insurance. Second, the sheer size of the federal government as an employer would assure an immediate and heightened awareness of long-term care financing issues among working adults.

HIAA supports the offering of long-term care insurance to all federal employees. However, it is imperative that the structure of a Federal Employee Long-Term Care Insurance Program allow for market competition and design flexibility. This would assure that the long-term care insurance policies offered to federal employees through this program would be affordable and allow for future product innovation. In this regard, below are some HIAA recommendations regarding the structure of such a program.

➢ ***Important Roles of the Office of Personnel Management (the "Office"):***

1. Authorization: The Office shall establish the program under which eligible group and individual long-term care insurance contracts are made available to federal employees, annuitants; and eligible family members.

2. Determination of Eligible Population: The Office shall determine the population of federal employees and annuitants eligible for this program. Such a population may also include eligible family members (i.e., an employee's or annuitant's spouse, children, parents, and grandparents) and such other individuals as the Office may specify.

3. Withholding: The Office will be responsible for withholding (either from the employee's salary or retiree's annuity) from each enrollee the premiums for eligible long-term care insurance contracts. Such withheld amounts shall be paid in a timely manner by the government to the carrier for each such contract.

4. Determination of Qualified Carriers: The Office will determine carriers that would be appropriate for the provision of long-term care insurance, taking into account the financial soundness of the carrier and its administrative capability to serve covered insureds.

5. Enrollment Season and Communications: The Office shall provide initially a period of not less than 4 weeks during which any employee or annuitant shall be permitted to apply for coverage with a carrier. In addition, employees may apply for coverage any time during a calendar year. The Office shall, after consultation with the carrier, make available to each such employee and annuitant information as may be necessary to enable the individual to exercise an informed choice in selecting between eligible contracts.

6. Reports and Audits: As a condition of participation in the program, carriers must agree to furnish such reasonable reports as the Office determines to be necessary to enable it to carry out its functions under this program, and permit the Office

and representatives of the General Accounting Office to examine records of the carriers as may be necessary to carry out the purposes of this program. In addition, each government agency shall keep such records and furnish the Office with such information and reports as may be necessary to enable the Office to carry out its functions under this program.

7. Review of Federal Long-Term Care Insurance Program: The Office shall determine appropriate time (i.e., 3 or 5 years) to review and evaluate successes and shortcomings of the program and recommend to Congress changes that could facilitate the program's success and remedy the program's shortcomings.

8. Regulations: The Office may prescribe appropriate regulations necessary to carry out this program.

- ***Standards for Eligible Long-Term Care Insurance Contract:*** Any group or individual long-term care insurance contract (including reimbursement and per diem type policies) must:

  1. Be a qualified long-term care insurance contract (as defined in Section 7702B of the Internal Revenue Code),

  2. Be a product that complies with the mandatory provisions of the July 1998 NAIC Long-Term Care Insurance Model Act and Regulations,

  3. Be issued by a carrier that is licensed by the state or other jurisdiction in which the insured resides to issue insurance contracts,

  4. Provide benefits and coverage that cannot be unilaterally changed by the carrier (except for nonpayment of premiums, and in the case of misrepresentation, that would permit a carrier to contest a qualified long-term care insurance contract), and provides premiums that are determined on a noncancellable or guaranteed renewable basis.

  5. Be fully insured by the carrier or reinsured in all or part with other carriers.

- ***Continuation of Coverage:*** If an individual (whether or not an employee or annuitant) is covered under an eligible contract and withholding ceases to be available or sufficient (such as after a divorce), such individual shall be entitled to pay premiums directly to the carrier to continue the insurance in force.

- ***Jurisdiction of Courts:*** The district courts of the United States have original jurisdiction, concurrent with the United States Court of Federal Claims, of a civil action or claim against the United States founded under this program.

- ***Coordination with State Laws:*** Any requirements or standards relating to the Federal Long Term Care Insurance Program shall supersede and preempt any state or local law or regulation which relate to long-term care services or insurance contracts. This rule shall not be construed to alter the requirement that an eligible contract must otherwise constitute a qualified long-term insurance contract.

- ***Authorization of Monies:*** There should be sufficient funds appropriated to carry out this program, including amounts to cover administrative costs that may be incurred. In addition, there should be an authorization of future government contribution for a portion of the cost of any eligible contract covering an employee or annuitant or the spouse of any such persons as may be necessary to encourage the purchase of long-term care insurance coverage.

Concerns with Specific Provisions/Requirements in H.R. 602 and H.R. 110 For Future Federal Long-Term Care Insurance Program:

HIAA has reviewed H.R. 602 and H.R. 110 that have been introduced to try to implement this program. HIAA strongly feels that the intent of both legislative proposals is to provide quality and affordable long-term care insurance to as many federal employees, annuitants and their families as possible. The success, therefore, of such a program is not in initially being able to provide "lower cost policies" to a few of the eligible individuals from a handful of carriers. Rather, the true measure of the program's success is offering high-quality products at affordable premiums and eventually experiencing high penetration rates. In this regard, it is important that the following points/concerns be raised to assure a viable and thriving Federal Long-Term Care Insurance Program.

- ***The key to a successful Federal Long-Term Care Insurance Program is an effective education and marketing campaign.***

  Successful employer plans that have experienced high participation rates are those that have invested in multi-faceted education and marketing campaigns. The federal government's involvement, in partnership with the participating carriers, is critical to the success of this program. Without substantial employer participation and commitment in educating employees about the importance of a long-term care insurance policy, this program will not be successful.

- ***It is essential that market competition determine availability, quality and affordability of long-term care plans that will be offered under the Federal Long-Term Care Insurance Program.***

  The current long-term care insurance market has grown and developed into a strong viable industry that offers quality products at affordable premiums. This has come about because companies have been allowed to freely compete with each other in the marketplace and not because of the imposition of federal or state requirements that would regulate premiums, hinder product development, and stifle market competition. HIAA studies have shown that for carriers to remain in this market, they continually need to design innovative products and keep their premiums competitive. Those who do not, have seen their market share minimized or have been forced out of the market. As a result, we now see many reputable and financially sound companies offering long-term care products that offer a wide array of benefits at premiums that have remained stable, if not decreased, through the years.

  To be fully viable and continually offer quality products, the federal program must learn from the successes of the current marketplace and follow this lead. Companies should be allowed to freely compete in a fair bidding process that is based on a level playing field. In implementing this program, HIAA would like to caution the federal government that the combination of limiting qualified carriers to only a handful, mandating "rich" benefit packages and requiring discounted premiums could have an opposite result from what we have witnessed in the current marketplace. Instead of having quality LTC coverage, Federal workers may need to look outside the program for coverage that is more affordable and of better quality.

- ***Using premiums as a major determinant of "good" LTC products is a dangerous route to take. "Low" or "discounted" premiums coupled with "rich" benefits and limited underwriting is a sure sign of disaster or failure for any LTC plan.***

  The main factors that determine premiums for long-term care insurance are the insured's age and benefit designs or options selected (i.e., type of coverage and daily benefit amounts, elimination or deductible periods, addition of policy features such as inflation protection and nonforfeiture benefits). As age increases and benefits selected increase, so do premiums for long-term care insurance.

  In today's marketplace, a policy with "rich" benefits at lower than usual premiums offered with minimal underwriting does not mean a better product and is a sure sign of disaster. Integrating such concepts within the Federal Long-Term Care Insurance Program signals a program with products that have very unstable premiums and a market that cannot be sustained. In addition, such a scenario would likely discourage responsible companies from participating in the program and attract companies that are willing to participate only to gain quick market penetration and with the intention of increasing premiums or reducing benefits in the near future.

- ***Only carriers that are licensed to sell in all states can participate in this program.***

  Given that the vast majority of companies are not licensed in all states, HIAA is concerned about the requirement that all carriers participating the program be licensed to sell long-term care insurance in all states. HIAA suggests that companies must be licensed by the state or other jurisdictions in which the insured resides to issue insurance contracts. Mandating a license in all 50 states may drive carriers from the program, reducing competition and consumer choice.

- ***The regulatory or administrative body (i.e., Office of Personnel Management) of this Program should not be responsible for management and adjudication of claims for benefits.***

  HIAA opposes any type of independent third party involvement in claims management, determination and adjudication. HIAA is not aware of any private or public employer that adjudicates disputed long-term care insurance claims. HIAA supports the establishment of a fair appeals process for contested claims. HIAA also supports product requirements that assist consumers in understanding their coverage and policy requirements and that prevent carriers from unfairly denying claims payments such as: uniform terms and definitions; clear articulation of benefit triggers; disclosure of policy benefits and limitations; preexisting conditions limits of six months; prohibitions against prior level of care requirements or higher level of care requirements as condition of covering lower level; and prohibitions against post-claims underwriting.

  HIAA also opposes the requirement that filing of claims would be available for extended periods of time (i.e., up to four years). Extending the time for filing claims invites fraud and abuse and exposes carriers to unexpected claim liabilities. For individuals that may be cognitively impaired (i.e., unable to file due to forgetfulness), HIAA supports the application of current NAIC Model provisions on Unintentional Lapse, where upon proof of cognitive impairment, the insured may request benefits or reinstatement of coverage within 5 months of claim or lapse. It is imperative that participating carriers be allowed to maintain their right to administer and manage claims to assure premium stability within the program.

  Furthermore, there is no proof of abuse in this area in the long-term care insurance market. Leading long-term care insurance sellers have claims paying experience in excess of 97% of claims filed. Benefit eligibility disputes more often result from consumers' misunderstanding of policy benefits than disagreements regarding their functional status. In addition, transferring the claims adjudication function to an outside party exposes the insurer to unpredictable claims liabilities. This is inconsistent with and would jeopardize rate stability in the marketplace. Such a requirement would also drive carriers from the program, reducing competition and consumer choice.

- ***Program funds should not be maintained separate and apart from a carrier's other contracts or lines of business.***

  The requirement that program funds be maintained separate and apart from a carrier's other contracts and lines of business is unnecessary and may prove disadvantageous to the program. In general, insurance companies have diverse insurance lines and businesses. The financial stability of a company's individual products (i.e., long-term care business) is enhanced because of the stability and diversity provided by the entire company's business portfolio. Supporting funds with the carrier's other business lines is especially important for the federal program during its initial stage, when its viability is still not proven. A more appropriate requirement would be that reporting of the program's experience be available and that this report be separate and apart from carriers' other long-term care or insurance businesses.

Challenges to the Long-Term Care Insurance Market

HIAA applauds the Administration's and this Congress' call for programs to encourage personal responsibility for long-term care, help people currently in need of long-term care, and increase educational efforts on long-term care. It is a welcome boost for what most consider to be the most pressing financial problem facing the baby boom generation. Administration and Congressional proposals all have an important common factor, the recognition that private long-term care insurance plays a vital role in helping the elderly and disabled, as well as baby boomers, pay for their future long-term care costs.

The heightened public awareness brought about by these proposals coupled with the passage of incentives for the purchase of long-term care insurance that were included in the Health Insurance Portability and Accountability Act of 1996 (HIPAA) have been essential first steps in solving our nation's long-term care crisis. These recent developments have improved the political climate for long-term care insurance. Nevertheless, they are not panaceas and will not, by themselves, achieve the optimum public-private partnership for long-term care financing. HIAA believes that several

factors could hasten the development of private long-term care insurance and strengthen its ability to respond to the baby boomers' demand and need for long-term care protection.

Educating the Public is Essential -- The need for better consumer education is the responsibility of both the private and public sectors. It is virtually impossible to sell a product to someone who already believes they have it or they will never need it. However, this is where we often find ourselves with long-term care insurance. Education should begin early, so that working age people understand their risks for long-term care and can plan for their potential long-term care needs while they have the income to do so. HIAA commends the Administration for including a proposal to launching a $10 million National LTC Information Campaign to educate Medicare beneficiaries about the program's limited coverage of LTC and how best to evaluate their options. This educational effort would provide many people with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home- and community-based care services that best fit their needs.

Public Expenditures Should be Targeted – HIAA also recognizes that the private sector alone cannot realistically meet society's entire need. There will always be a significant need for public sector involvement. For those unable to finance their own long-term care services, a "safety net" program of public assistance must continue to be provided. This is true especially for the current generation of elderly and disabled individuals, who have not had the time, product availability, or financial resources to provide effectively for themselves. In this regard, HIAA supports initiatives to improve the current long-term care public assistance programs and research and demonstrations on innovative needs-based public long-term care programs.

Expansion of Long-Term Care Insurance Coverage Should be Encouraged through Tax Incentives - Federal and state governments have an important role in encouraging the growth of the private long-term care insurance market. This could be achieved by enhancing tax provisions for long-term care insurance. Encouraging additional tax provisions for these products would reduce the cost of long-term care insurance for many Americans, would increase their appeal to employees and employers, and would increase public confidence in this relatively new private insurance coverage. Further, enhancement of tax incentives for the purchase of long-term care insurance would demonstrate the government's support for and its commitment to the private long-term care insurance industry as a major means of helping Americans fund future long-term care needs. It also reinforces the message to the public about individual responsibility.

These efforts will lead to an increase in the portion of the population who seeks to protect themselves against catastrophic long-term care expenses. Some examples of specific actions that could be taken are to:

- Enhance the deduction for long-term care insurance premiums, such that premium dollars are not subject to a percentage of income;
- Permit the tax-free use of IRA and 401(k) funds for purchases of long-term care insurance;
- Permit premiums to be paid through cafeteria plans and flexible spending accounts;
- Provide a tax subsidy for the purchase of long-term care insurance; and
- Encourage state tax incentives for the purchase of long-term care insurance.

These tax incentives would largely benefit two groups: those who did not have the opportunity to purchase such coverage when they were younger and the premiums were lower, and as a result, now face the greatest affordability problems because of their age;

and those younger adults. our current baby boomers, who need incentives or mechanisms to fit long-term care protection into their current multiple priorities (e.g., mortgage and children's college tuition) and financial and retirement planning. Further, the educational effects of such tax incentives could far outweigh its monetary value by educating consumers about an important issue and, as a result, would help to change attitudes as well.

Encouragement of Delivering Quality Long-Term Care Services and Focus on Research Affecting Long-Term Care Use and Costs is Critical – Rather than spending tax dollars to provide long-term care to those who can afford to protect themselves, HIAA believes it is a higher priority to devote public expenditures toward encouraging the delivery of quality long-term care services. Reimbursement policy under public programs must be adequate to ensure high quality patient care and deter cost shifting to private-paying patients. Public expenditures should also focus on research affecting long-term care use and costs and support of budget-neutral demonstrations involving public-private financing partnerships. In addition, more resources are needed in basic and applied biomedical aging research to facilitate the management of chronic disease and disability. Treatments that ameliorate or control conditions such as Alzheimer's disease, incontinence, and osteoporosis will greatly enhance the quality of an older person's life and significantly reduce or delay the need for costly long-term care services.

Summary and Conclusions

We all agree that solving the nation's long-term care problem is vitally important. The flexibility and versatility that private long-term care insurance could offer federal employees and their families make it the preferred approach to pre-funding catastrophic

long-term care costs. In addition, private insurance also provides maximum flexibility to present and future informal caregivers. Many of us have experienced or will soon experience, either needing or providing long-term care for our loved ones. Over time, HIAA fully believes that private long-term care insurance will give millions of people an opportunity to be financially independent throughout their retirement years. Recognition of the private long-term care insurance market in this hearing is a solid step in this direction.

The public and private sectors must combine their efforts and knowledge to create a solution that will benefit most Americans today and in the future. This Subcommittee's consideration of offering long-term care insurance to all federal employees is an investment that will pay off many times over as our population ages and will help our nation avoid placing an insupportable tax burden on our children.

Thank you Mr. Chairman and Members of the Subcommittee. We look forward to working with you to provide further assistance in this area.

Mr. SCARBOROUGH. Thank you, Mr. Brenerman. We certainly appreciate your testimony and the testimony of the panel.

I want to start my questioning with the question that I ended with our friends from OPM, and that has to do with the guaranteed issue basis. There is some question right now whether the administration is going to want to move in that direction or not. That means, as you all know, if they do, that everybody is eligible. It doesn't matter how young or how old, how healthy, how unhealthy. Our approach is more modified for active employees, and we allow underwriting for everybody else that applies.

Could you delve into this issue? I think this is a critical issue for us to clean up. What type of impact would it have on premiums for employees, not only in the Government, but employees in the private sector if their companies had a guaranteed issue requirement?

Mr. MARTIN. Yes, actually, you know I think you have to look at guaranteed issue as a plan design feature that does carry with it some price consequences. You know, what you want to do, I think, is certainly have as many insureds as you can reach in the Federal program, but you want stability of premiums for those insureds. And the looser the underwriting is, then the more likely it is going to be that you will have some immediate claim exposure.

So there are examples in the private sector of both guaranteed issue for employees. Some plans will not allow guaranteed issue employees to come immediately into claim. There are alternatives, perhaps, what is called, "modified guaranteed issue," where there are three short-form questions that are answered—basically, a statement that you are not currently receiving long-term care services. And there are different ways to do it and still keep the plan simple and not put the plan at the risk of having higher premiums. But they are all options that you would have in designing the plan.

Mr. SCARBOROUGH. If we did have a guaranteed issue, that would drive the prices up fairly radically, in your opinion?

Mr. MARTIN. It would drive them up, certainly. I think I would have to rely on actuaries to look at the demographics of the Federal population, but I would certainly think that you are talking, at a starting point, at least a 10 percent premium increase because of some immediate exposure.

Mr. SCARBOROUGH. Right.

Mr. MARTIN. But looking at, you know, what the demographics of your population would be, I think would give you a better feel for that.

Mr. SCARBOROUGH. Mr. Grubb, or, Mr. Brenerman, I have heard that it would cost as much as 25 to 35 percent increases. Have you heard any numbers like this? Does that make sense to you?

Mr. BRENERMAN. Go ahead.

Mr. GRUBB. I am sorry.

I would think 25 to 30 percent would be on the high side, but I think that you are faced with some other dilemmas. All three of us here represent companies that have been in the guarantee-issue business. And, in fact, we have current accounts that we have written on a guarantee-issue basis.

One of the dilemmas that you face is that you are considering offering this to multiple carriers. And one of the things in a guarantee issue program that is very important is the participation

level. Obviously, the higher the participation level, the more minimal the risk. If you spread the risk amongst a number of carriers, and you have a guarantee issue program, how would the three of us distribute the risks fairly and equitably. If we were the three carriers—maybe David gets all the bad risks; I get all the good risks. His premiums are going to need to be increased dramatically. So you layer a level of complexity in the guarantee issue program.

I think we all support the multiple carrier model, and guarantee issue would make that a little bit more complex.

Mr. SCARBOROUGH. Should each company in that model have the freedom to underwrite, based on their own policies?

Mr. GRUBB. I think I would agree with David, in that you can come up with simplified underwriting for actively at-work employees. I think that is a more reasonable solution to what you are facing and really gets most of what it is that you would like to accomplish.

Mr. SCARBOROUGH. Who should—I am sorry, Mr. Brenerman.

Mr. BRENERMAN. I would agree with the comments that we just had. Typically, in the employer group market, there is only one insurer selected—and we are talking about cases that are much smaller than this one—and guaranteed issue for basic amounts of coverage, not for the entire amount that someone might buy, may work well in that setting. But when you have more than one carrier, which we recommend here because the case is so big, guaranteed issue, would be difficult for the reasons that were stated, such as anti-selection. This means that people may find the company that they think works best for them and they are soon to be in benefit status.

So I think some kind of modified guarantee issue where we ask three or more questions to find out whether there are some people who are close to being disabled, or are already disabled, will work.

Mr. SCARBOROUGH. Great. I think this might be why the administration just wants one carrier, to have a monopoly. If that is the case, they may actually be able to force whatever policies, including guaranteed issue, on that company.

My concern there is, what sort of an example does that leave to the private sector and private-sector employers that we want to get into this business?

Mr. BRENERMAN. I think we all believe that this case is too large for one carrier, and so we think that a number of carriers could handle it together.

Mr. SCARBOROUGH. From my understanding, only about 15 carriers right now could even afford to get into this, because of the expensive costs up front.

Mr. Cummings.

Mr. CUMMINGS. Just trying to figure out, first of all, when you say a "multi-carrier," I just want to make sure I understand because I didn't understand you, Mr. Martin, as being—I think we have two different—I have got a different definition of "multi-carrier."

The one situation would be where you have OPM limiting it to a number of carriers—whatever you call that. Let's call it "limitation," a limited pool of carriers. And, then, on the other hand, you have the world, all carriers. Which would you prefer to see?

Mr. MARTIN. I think in my remarks and comments, we were talking about more than one carrier.

Mr. CUMMINGS. Right.

Mr. MARTIN. So it could be a small number of carriers, as we have heard from OPM. I think all of the issues that we have heard about, you have a huge variance in the expected penetration for the long-term care plan than for the Federal health plan. So, to the extent that you have, you know, a smaller number of carriers so that you can effectively administer the plan, you would want to have a level playing field. Whatever the rules are for—you know, if one carrier has guaranteed issue, then, certainly, you would want similar rules for everyone.

If there are three underwriting questions for the whole population—or maybe for spouses or however you did those plan design features—you would want those consistent, so you don't advantage one carrier over the other or shift, you know, the risks, so that your premiums for the groups become unstable.

Mr. CUMMINGS. Now, you heard the testimony earlier from OPM where they were talking about trying to keep rates down. When we have the universe as the insurers, do you all disagree or agree with OPM that it is harder to keep the rates down?

Mr. MARTIN. I think if you have——

Mr. CUMMINGS. In other words, when you, say, do what you just said when you talked about having all insurers, as opposed to a limited pool of insurers?

Mr. GRUBB. I am sorry if I left the impression that it should be all insurers. My view of multi-carrier would be some limited number of highly qualified carriers.

I think it is critical, and one thing that I would absolutely recommend to you, is that whatever selection process you or OPM goes through, that the financial strength of the company be an overwhelming factor. Before you look at anything else, you should look at the overwhelming financial strength of the company. That, in itself, is going to limit the number of carriers. There are 120, 130-some-odd companies that currently are selling long-term care insurance today. Pick the ones that are financially strong, because you are buying a coverage today—I bought it for my three kids who are in their early-20's—I want that company to be there to pay benefits 50 years from now when they are going to need it. So be very careful in that. I think that, in itself, will limit the number of carriers. It would be parochial to say that, you know, "pick the carriers that were in the meeting with OPM yesterday." That would be the easy way to do it. [Laughter.]

Or the three of us; that would be good, too. [Laughter.]

But, pick carriers that are very well-qualified. And that is going to get it to a reasonable and limited number of carriers. I don't know if the number is 6 or if it is 10; I don't think it would be a whole lot more than that. Maybe—I don't know, but it wouldn't be the universe of carriers. If I left that impression, I apologize.

Mr. CUMMINGS. So, automatically, we get just a few insurance companies doing this and based upon what you have just said. So as far as what is in the policy, the benefits, right now, is there a lot of leeway, with regard to—I mean is there a broad scope?

Mr. GRUBB. Very wide, very wide.

You can select benefit amounts in increments of $10. You can get nursing home only; you can get 2-year, 5-year, unlimited; you can get nonforfeiture; you can add inflation protection. You can customize a plan to fit whatever your particular needs are. All of our plans provide those kinds of options and benefits.

And we would strongly recommend that you do that, to simplify it, as we have done in our normal marketing. We could work with OPM on developing what they view as the most commonly available plan, or something that most people would like to use, and make it easier for people to make that choice. But there is an unlimited number of choices, and that is one of the things that we could certainly recommend that you endorse.

Mr. CUMMINGS. Mr. Chairman, just one more question.

Can you just give us, in a kind of snapshot, brief way, if you can—I mean what is that average plan? What is the kind of things that would be in that most common plan?

Mr. GRUBB. What does it look like now?

Mr. CUMMINGS. Yes.

Mr. GRUBB. I will speak for us and let these gentlemen speak for themselves, but our average plan is a 90-day elimination period—which is like a 90-day deductible—a 5-year benefit, $100 a day, without inflation. That is the typical plan that people buy. Now you go to California, you go to Alaska, you go to New York, people are going to buy a lot more than $100. And the younger you are, the more you ought to buy inflation protection. My children have inflation protection on their plan.

Mr. BRENERMAN. And we do similar things. We offer a basic plan which would include nursing home coverage, let's say $100 a day or $3,000 a month. And then the applicants would have a choice of higher amounts, depending on where they live. In the case of the Federal plan, if they live in New York, they can buy up to $300 a day. If they live in North Dakota, they may want to buy the $100 a day, as an example. UNUM also offers professional home care as one plan, and another plan is total home care, which pays for informal care provided by relatives at home. So there are various kinds of care settings, including assisted living. Those are all benefits that you can get, and there are many more than that. Inflation protection is an offer.

Mr. MARTIN. I would just agree the typical plan is $100 and the care can be in a nursing home, institutional care, community-based care. That is the real focus of today, a choice of where the care is delivered, where the insured picks where that care is delivered. That is a key piece of where policies are today.

Mr. CUMMINGS. Thank you all very much.

Ms. NORTON. Could I yield for 1 second—on that question about if you go into a nursing home, what percentage of nursing home care today does this $100-a-day standard policy pay?

Mr. GRUBB. It depends on where you are.

Ms. NORTON. I mean the average—we have average figures for nursing home care for——

Mr. GRUBB. About $100 to $120 a day for nursing home care—California is a lot higher; New York is a lot higher; Alaska is a lot higher.

Mr. SCARBOROUGH. Thank you.

Mrs. Morella.

Mrs. MORELLA. Thank you.

Thank you, gentlemen.

Mention was made in the testimony that approximately 10 million people currently have long-term care insurance; pretty accurate?

Mr. GRUBB. Six.

Mrs. MORELLA. Six million?

Mr. GRUBB. Six million.

Mrs. MORELLA. OK. [Laughter.]

Take a look at H.R. 1111. [Laughter.]

I think you have already, but this was not part of what you were advised, with regard to this hearing, because it was just introduced earlier this week. But actually in it, it would increase the pool to 20 million. Obviously given that, you would expect that you would be able to offer a group rate—I mean you speak in general—a group rate that would be, not only competitive with what is currently offered, but it could beat it by a mile? A half a mile? Significantly—[laughter]—dramatically? [Laughter.]

Just say, "Yes."

Mr. GRUBB. Yes. [Laughter.]

You are just so easy to say "yes" to. [Laughter.]

Mr. SCARBOROUGH. Do you have anything else? [Laughter.]

Mrs. MORELLA. Well, OK. Among the array of plans that you might propose, is there any reason why you could not offer a non-HIPAA-qualified plan, such as a plan that would pay benefits for medical necessity, only if there was a demand for that kind of coverage and individuals that would be willing to pay for it?

Mr. BRENERMAN. I think "medical necessity" benefit triggers are not ones that many carriers would prefer to offer because the current typical plan uses activities of daily living or cognitive impairment as the triggers for benefits. Those are the most objective measures of disability that we know of; "medical necessity" is not, and so it is more—the potential in a "medical necessity" trigger for abuse is far greater. And as I said, it is a less objective measure. The doctor says you need care and, that would be the extent of the "medical necessity" trigger. I think most companies would prefer to use the activities of daily living and cognitive triggers as the only triggers.

Mrs. MORELLA. But you wouldn't want to see a prohibition to being able to offer it if you thought you could?

Mr. BRENERMAN. I wouldn't want to see it mandated that we have to offer it.

Mrs. MORELLA. Oh, no, no, right. But you would not want to see it prohibited by law either, that you offer it?

Mr. MARTIN. One thing, just in response. Looking at the current employer market now, and within my company at John Hancock, we do not have any clients that have asked for a non-qualified plan, and that is in their role as the employer. I think there is a concern certainly that they don't pass muster relative to HIPAA. You get into a dilemma as to what you tell the certificate holders and individual policyholders as to the tax status. And I think some of the employers have some fiduciary concerns about that, too.

Mrs. MORELLA. I think that is absolutely true. It is just simply that one of the pieces of legislation that you have looked at says that it has to be a HIPAA-qualified plan, and I am just saying that it seems to me that if you wanted to offer one of the others, recognizing the difficulties that, you know, under certain circumstances you might be able to do it.

What I envision is that a limited number of insurers offering a multitude of plans, each one of them. Is this the kind of thing that you think is quite workable? Maybe one insurance company could offer seven different kinds of plans, you know?

Mr. GRUBB. We do today.

Mrs. MORELLA. Right; right.

Mr. GRUBB. That is exactly right.

Mr. BRENERMAN. Well, you could consider a——

Mrs. MORELLA. So, instead of a broad number of insurers, you see offering different things.

Mr. BRENERMAN. You could consider it one plan with a broad range of choices.

Mrs. MORELLA. That exactly—absolutely. OK; great.

Let's see, are you familiar with the process of negotiating employer-based group long-term care insurance programs? And I wonder, what role do you see the employer playing? In this case, probably OPM.

Mr. MARTIN. Yes, I am familiar with it and, you know, I think what you would expect to have happen is certainly a discussion of what is best for the employee population that you are talking about. And we are talking about the most diverse population of any employer that is out there. So you do want flexibility of options. I think at the same time, as you have a back-and-forth on what is a good plan design, you want it to be affordable. If there is a common goal, it should be that there should be a successful penetration of this group, if you want to provide valuable coverage at affordable rates, and stable rates, rates that aren't going to bump out because they are racheted down too far. So there are concerns, I think, in clearly negotiating issues that have to be contended with.

Mrs. MORELLA. Could I just, very briefly, ask you, are there companies that pay for long-term care for their employers?

Mr. GRUBB. Yes.

Mrs. MORELLA. I mean, such as—give us some examples that we could—any that we could look at?

Mr. BRENERMAN. Well, I guess I am not here to promote my company, but while I am here—[laughter.]

Of the 1,800 cases that I mentioned that have been sold, UNUM has 1,400 of them. And most of them are small employers. In half of our small employer cases, the employer pays something toward the premiums, usually for a base level of coverage, maybe some nursing home coverage, and then the employee can buy additional coverages from there. So there are a number of employers in the less than 500 employee companies that do pay premiums.

Mrs. MORELLA. They probably have choices that the employees make, in terms of do you want some help here or here or——

Mr. BRENERMAN. If you want, I can——

Mrs. MORELLA. Smorgasbord.

Mr. BRENERMAN [continuing]. Get the committee the names of some of those companies if you——

Mrs. MORELLA. I am curious about any experiences with that, basically.

Mr. GRUBB. We have had similar experiences in that, just to give you a couple of examples. We are finding a number of school districts that are interested in providing a minimal level of care, and they fund that, and then the employee, with underwriting, can buy up. We have also had significant success in selling to archdiocese who are interested in no longer self-insuring priests.

Mrs. MORELLA. I can understand that.

Mr. GRUBB. They are—the archdiocese is——

Mrs. MORELLA. I wish they would include nuns in that category, too. [Laughter.]

Mr. GRUBB. Well, they haven't so far, but they offer it to them on a voluntary basis. [Laughter.]

I don't understand that.

But it is the same thing as David was speaking about.

Mrs. MORELLA. I would like you to, at some point in the very near future to get me your response to the bill that I mentioned to you—1111. I would appreciate it.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you, Mrs. Morella.

And, again, we certainly want to get that information in front of all of our——

Mrs. MORELLA. Yes.

Mr. SCARBOROUGH [continuing]. Committee members today, obviously. She dropped it a few days ago, and our material had gone out before that.

Let me just say, briefly, one concern that I have and one problem that we are going to have in this committee is, if we go outside the HIPAA requirements, obviously, we are talking about the possible tax liability on $3,000 worth of benefits, and that is obviously something that Mr. Archer is going to want to have to say something about it in Ways and Means.

So, let me now turn it over to Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. I think I ought to say that I very much endorse the notion of OPM paying for administrative expenses, as it does under FEHBP, notwithstanding the chairman's joke at my expense. [Laughter.]

But I would think that when the Government picks up those expenses, that the employee has to get something for it, as it does in FEHBP, and as I think it would in the way your testimony has discussed the plan.

I was interested—I guess it was you, Mr. Brenerman, that talked about small employers——

Mr. BRENERMAN. Yes.

Ms. NORTON [continuing]. Actually giving this as a benefit, and that is not what we are doing. We are simply saying, "We will form a group," and—[laughter]—we will say, "Go for yourself."

Mrs. Morella implied that this may be because they choose this rather than something else, but I wonder. I think most people would have to have health insurance. So I would like to know something more about that, especially since you mentioned smaller

employers here. We are the grand daddy of them all, not coming anywhere near that. And I would like to ask what the premium—what is the average? Here we go to averages again—premium cost of a long-term care policy?

Mr. BRENERMAN. Well, premiums are based upon the benefits that are selected, as well as the age of the person selecting the policy. So for a typical policy of $100 a day with half of that for home care coverage, a 4-year benefit, for example, an elimination period or deductible period of—in this case, the numbers I have are based on a 20-day—most companies have more than that. A 40-year-old would pay, with inflation coverage, would pay about $500 a year. A 50-year-old would pay about $650—this is all with inflation coverage; it is much less if you don't have it. A 65-year-old would pay between $1,500 and $2,000, and then it goes up from there, if you are over 65.

Ms. NORTON. This is very interesting, because I think most probably pay far more than that in health insurance, even though the Government picks up about 70 percent of our payment. I just think that one of the things we need to do is to find out how much of this cost is myth and how much of it is real. You heard Ms. Kramer's testimony. She just assumed that this was way out of anything that she or her parents could have afforded. It may not be the case.

I also want to clear up this notion about monopoly. OPM has testified one or more companies and has not said it should be only one company. I certainly would hope there would be more than one because I want to see as much competition and to have something to choose from, and because I am used to FEHBP, which gives me something to choose from.

I would like to hear what you might have to say about the scenario if there were not competitive bidding, if it was, you know, open to everybody. What kind of scenario do you see developing?

Mr. MARTIN. Well, I think you can get to a point where you have high-quality competitive plans if you have a good competitive bidding process. And that is what the companies are used to.

Ms. NORTON. When you say "competitive bidding," you mean based on what factors, for example?

Mr. MARTIN. Well, I think you would have to look—as, you know, as Ken mentioned—you know, how the companies that are able to meet the criteria of some of the things we have talked about like being able to offer singly or in consortium, nationwide coverage, meeting whatever the specifications of the plan design would be, and carrying——

Ms. NORTON. Would OPM set broad parameters, or would people simply come forward with notions?

Mr. MARTIN. Well, I think you would want to have some measuring stick so that you could assess all the players equally. So that you would want some standards in there. Typically, what happens in the private sector is, you know, 8 or 10 companies may respond to a bid proposal. And you have to maybe hit 90 percent of the things they are asking for in there in order to be considered for a finalist presentation. So there is a selection process; there is competition, and what you want to do is have good competitive rates, high-quality coverage, but you want to be able to explain the plan

design options. And you can have quite a number of them in either scenario, certainly, but you want it to be understood by people when the plan rolls out.

Mr. BRENERMAN. When we say "competitive bid," we don't mean that you only have to say how much coverage is going to cost. You get a whole booklet that employers ask you to fill out. It includes financial information about the company. What is your marketing plan? What is your experience in the employer market or whatever market you are competing in? What is your claims paying experience? And how do you deal with reserves? Just a whole group of questions upon which the employer makes a decision about which company to select for the program.

So, in this case, we are saying individual and group carriers ought to be able to compete for the final selection that OPM would make of the carriers to participate in the program.

Ms. NORTON. Mr. Chairman, thank you.

Mr. SCARBOROUGH. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

I want to welcome all members of the panel and say particularly, David Brenerman, who lives in Portland, ME, and works for one of the leading companies in my district that we are very glad to have you here.

I would be interested in what the current industry practices are with regard to dispute resolution. How does that aspect of the business work now, in the private sector?

Mr. BRENERMAN. I guess I was the one that raised it so—so the few times that there are disputes about benefit payments, there is an internal appeals process that the insured is educated about. It is in their policy. When a claim is denied, they are alerted to the fact that they can appeal the claim. And sometimes there are even second appeals, within the company. And then after that, the choice for the insured, in all cases, is judicial.

There are no employers that I know of that settle disputes.

Mr. ALLEN. That settled, that arbitrate them, or do you mean——

Mr. BRENERMAN. Right. Employers——

Mr. ALLEN. No employers, or no employers that settle disputes——

Mr. BRENERMAN. On behalf of their employees, they don't have the employee come to them and say that they can't get benefits and they want the employer to settle the claim with the insurance company. They don't have the expertise to do that. And, also, I guess we reserve the right to make decisions on claimants.

Mr. ALLEN. Sure, and I take it from that, there wouldn't be a practice of having some form of external appeal or arbitration or mediation? It is, basically, you have got an internal appeal and then you have an ordinary judicial remedy.

Mr. BRENERMAN. Yes. The judicial remedy often leads to arbitration or mediation.

Mr. ALLEN. Of course.

Mr. BRENERMAN. They don't always have to end up in court.

Mr. ALLEN. Right. OK.

Mr. MARTIN. Just one thing, Mr. Allen, on that. Most employer groups—the Government wouldn't fall into this category—are sub-

ject to ERISA; so there is a formal claim appeal process that is in place there. And, you know, certainly something like that I think is what companies are used to doing. A big difference, too—as Dave has pointed out—we are talking about a fully insured block of business, as opposed to a self-funded arrangement, which is more typical with health benefits.

Mr. ALLEN. Are there any numbers out there about how often claims are disputed? Does the industry collect them, or does the Government collect them?

Mr. MARTIN. Well, it is interesting——

Mr. ALLEN. I would think it would be far less than your ordinary health insurance?

Mr. MARTIN. Yes, and Dave might have some comments on this, too, but a part of what happened with the passage of HIPAA was a requirement that insurance companies have to report information every year to State insurance departments. Certainly, the feeling we get from the regulators, as well as talking among ourselves, is this isn't a problem. But the National Association of Insurance Commissioners is working on a form that would be used to be a model filing for any of these claim issues that would go in yearly. So I think the information can be obtained. And there is a mechanism within HIPAA for that.

Mr. BRENERMAN. First of all, long-term care insurance is a relatively new business. So, while we do have a number of claims, you don't nearly see the number of claims as you would have in the health insurance policy where most people some time take advantage of their policy. But people would hope never to take advantage of their policies if they had long-term care insurance.

Mr. ALLEN. Like fire insurance, sir.

Mr. BRENERMAN. Exactly, yes.

So claims disputes are not as frequent, because the benefit triggers are more objective. While we do have disputes over whether an insured is disabled or not, they are not nearly as great as they are in disability insurance or in health insurance.

Mr. ALLEN. Thank you.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you, Mr. Allen. The chairman appreciates your questions and appreciates the panel's testimony. I just want to conclude.

I am sure we might have some questions that we will be sending to you to address.

In particular, Mr. Brenerman, you had cited a 5 percent decline in the cost of premiums for long-term health care because of some innovation and competition. Obviously, that is something that we are very interested in. OPM has said in their testimony that, I believe, vendor competition and product competition would actually make prices more competitive is something that they disagree with, and would certainly appreciate you filling us in, in that area.

Mr. BRENERMAN. I think what we meant was that, since long-term care has been sold, price of the policies has gone down, because of innovation and competition.

Mr. SCARBOROUGH. Right.

Mr. BRENERMAN. Sure, we will provide you some more information.

Mr. SCARBOROUGH. Great. All right, thanks a lot. We appreciate it.

This meeting is adjourned.

[Whereupon, at 12:10 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

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DEMOCRATIC AT-LARGE WHIP

OPENING STATEMENT OF
REPRESENTATIVE TOM ALLEN
BEFORE THE GOVERNMENT REFORM SUBCOMMITTEE ON CIVIL SERVICE

MARCH 18, 1999

Mr. Chairman, thank you for calling this hearing on long-term care insurance for federal employees. I commend you on your leadership in advancing the ability of federal employees to plan and provide for their long-term care needs.

As we are well aware, the baby boomers will begin to retire soon. By 2025, the number of Americans over 65 will be approximately 60 million. The population will grow old at the same time that health care, nursing home care, and other services for the elderly will continue to increase in cost. While annual nursing home care costs the elderly $40,000 today, the cost will rise to about $97,000 per year by 2030.

Our future retirees will need long-term care services in order to live as independently as possible. But our current tools to assist seniors with long-term care costs are insufficient. Medicare offers little to no long-term care coverage. Medicaid covers some long-term care services, but only if the individual has exhausted his financial resources. Clearly, future retirees will need additional means to provide for their medical, personal, and support-services care.

Long-term care insurance is one such tool to ensure that the elderly are assisted with their daily living needs. We have an opportunity to encourage families to provide for their own medical, social, and support-service needs by facilitating access to affordable long-term care insurance. To maintain services for the elderly and to reduce dependence on Medicaid for seniors' needs, we must look to the private sector. Long-term care insurance is a private sector product, which helps families afford the costs of aging.

The President has called for initiatives to help families who need and want long-term care insurance. I commend the Chairman, Mr. Cummings, and Ms. Morella for tackling this issue and introducing legislation to provide long-term care insurance to federal employees. I look forward to hearing from our panelists about their ideas to provide long-term care insurance to government employees. And I look forward to working with all of you to discuss ways to bridge the differences between the bills so that we can pass a bill that we all agree helps federal employees access quality, affordable long-term care insurance.

Mr. Chairman, I appreciate this opportunity to learn more about long-term care insurance. Thank you.

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NYLIFE Administration Corp.
A New York Life Company
98 San Jacinto Blvd., Ste. 800
Austin, Texas 78701-4039

Kenneth A. Grubb
President
512-703-5525
Fax 512-703-5564

May 3, 1999

Honorable Joe Scarborough, Chairman
Subcommittee on Civil Service
B-371C Rayburn House Office Building
Washington, DC 20515

Re: Additional materials for the Hearing Record of March 18, 1999

Dear Mr. Chairman:

On behalf of New York Life Insurance Company, thank you very much for the opportunity to testify before your Subcommittee on the issue of long-term care insurance for federal employees. I trust the hearings have been as enlightening for you as for me and I look forward to seeing this important product offered to the federal workforce very soon.

For the hearing record, I wish to expand upon several issues that you and your Subcommittee colleagues raised during the question period. I also wish to reiterate the importance of assessing financial strength in choosing a long-term care insurance carrier, since these policies will be fulfilled many years in the future and are only as reliable as the insurer itself.

Guaranteed issue: It is not possible to offer guaranteed issue and simultaneously provide coverage at substantially lower cost than generally available in the group or individual marketplace. Because participation in this program will be voluntary, guaranteed issue would guarantee only one thing: that almost all of the uninsurable participants would purchase the insurance. Typically, a much smaller percentage [approximately 5%] of those who meet underwriting standards actually buy LTC insurance. Therefore, the 5% of insurable applicants will have to support the anticipated adverse experience of nearly all of the uninsurables. This will not result in attractive value of those who could pass underwriting. Also, it should be noted that the Federal Government employs people with disabilities at a far greater percentage than the average for the private employer marketplace.

An alternative to Guarantee Issue would be a simplified underwriting program for actively at work Federal employees. Under such a program a few questions would be asked on the application or telephonically which would identify those persons likely to need benefits immediately or in the near future. "Clean" applications would be issued immediately. Retirees and family members would be fully underwritten.

If underwriting is disallowed, premiums for the entire group would reflect the greatly increased risk to the insurer.

Individual/Group coverage: As I mentioned at the hearing, our long-term care products are tailored to individuals in order to anticipate needs that may not arise for many years. While the moniker of "group coverage" may hint at lower premiums, many of our individual products are *less* expensive than some group products. This reflects the absence of underwriting in some groups, as well as the disproportionate share of disabled workers that are present in certain employee groups.

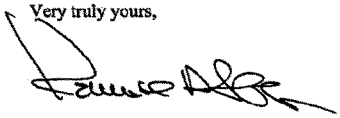
Portability: We strongly agree that federal workers who leave government employment should be able to continue their long-term care coverage simply by paying premiums directly to the insurer. In these cases, the premium will continue to reflect the individual's age on the date of the original purchase.

Dispute resolution: It is important to recognize the insurer's and, ultimately, the insured's interest in controlling the claims process. Because the average claim size for long-term care is relatively large, claims administration that allows only a small fraction on non-payable claims to slip into payment status can materially affect the emerging experience and cause rates to rise above those charged for similar coverage under which the claims are accurately administered.

Like many of our competitors, we have had very few complaints and disputes arising from our long-term care policies. While the industry's claims experience is relatively new, New York Life wishes to protect and enhance its 154-year-old reputation and makes every effort to accommodate its customers.

You and your colleagues are to be commended for bringing this issue to early hearings before the Congress and I hope you and your able staff will rely on us for additional information as you proceed. Please contact me on 512/703-5525 or through Ronald Lefrancois of our Office of Government Affairs in Washington on 202/783-4484.

Very truly yours,



Kenneth A. Grubb

KAG/ald
cc: All Subcommittee Members

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Kenneth A. Grubb
President
512-703-5525
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May 3, 1999

Mr. Frank D. Titus
Assistant Director for Insurance Programs
Office of Personnel Management
1900 E Street, NW, Suite 3400
Washington, DC 20415

Re: Followup to long-term care insurance meeting of March 17, 1999

Dear Mr. Titus:

On behalf of New York Life Insurance Company, thank you very much for the opportunity to participate in your March 17th meeting on the issue of long-term care insurance for federal employees. I trust the meeting was as useful to you as it was to me and I look forward to seeing this important product offered to the federal workforce very soon.

Pursuant to your generous offer, I wish to request a meeting with you and your colleagues to expand upon several issues that were raised in our meeting, not the least of which is actuarial assumptions. I am particularly interested in fostering communications between OPM experts and industry folks who are charged with pricing and issuing long-term care insurance on a regular basis.

In addition, I hope that we can explore the following issues in greater depth:

Financial strength: The importance of assessing financial strength in choosing long-term care insurance carriers cannot be overstated, since these policies will be fulfilled many years in the future and are only as reliable as the insurers themselves. Once the program is in place, we believe that federal employees will get the highest degree of protection only if the insurance carriers selected are carefully examined for reliability and financial strength.

Guaranteed issue: It is not possible to offer guaranteed issue and simultaneously provide coverage at substantially lower cost than generally available in the group or individual marketplace. Because participation in this program will be voluntary, guaranteed issue would guarantee only one thing: that almost all of the uninsurable participants would purchase the insurance. Typically, a much smaller percentage [approximately 5%] of those who meet underwriting standards actually buy LTC insurance. Therefore, the 5% of insurable applicants will have to support the anticipated adverse experience of nearly all of the uninsurables. This will not result in attractive value of those who could pass underwriting. Also, it should be noted that the Federal

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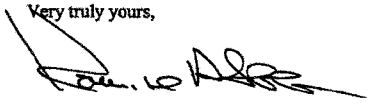
Portability: We strongly agree that federal workers who leave government employment should be able to continue their long-term care coverage simply by paying premiums directly to the insurer. In these cases, the premium will continue to reflect the individual's age on the date of the original purchase.

Dispute resolution: It is important to recognize the insurer's and, ultimately, the insured's interest in controlling the claims process. Because the average claim size for long-term care is relatively large, claims administration that allows only a small fraction on non-payable claims to slip into payment status can materially affect the emerging experience and cause rates to rise above those charged for similar coverage under which the claims are accurately administered.

Like many of our competitors, we have had very few complaints and disputes arising from our long-term care policies. While the industry's claims experience is relatively new, New York Life wishes to protect and enhance its 154-year-old reputation and makes every effort to accommodate its customers.

You and your colleagues are to be commended for pressing this issue and I look forward to hearing from your office about a mutually convenient meeting time. I may be reached on 512/703-5525.

Very truly yours,



Kenneth A. Grubb

KAG/ald
cc: OPM staff present at meeting

UNUM.

April 14, 199

The Honorable Joe Scarborough
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Scarborough:

Thank you for the opportunity to testify before the Civil Service Subcommittee of the Committee on Government Reform on Thursday, March 18. I recently received your additional questions and hope that this letter provides an adequate response.

Question #1 regarding marketing campaigns. Successful marketing efforts in private corporations utilize extensive marketing campaigns. Likewise, the success of a marketing campaign for federal employees will depend on the strength of the working relationship between carriers and the federal government, in its role as the employer. Enrollment and participation success of a group long-term care program is reliant upon the appropriate and on-going education of employees and annuitants. Eligible individuals should have information available on the need for long-term care insurance and type of long-term care insurance that is available. Educational materials also should include information about the level of coverage that public programs, such as Medicare and Medicaid, do and do not provide, as well as the risks of not having long-term care coverage. Employees look to their employers for this education. Therefore, employer endorsement and commitment to the program is essential, particularly in a voluntary program (like the one proposed by the legislation) where the federal government will not be contributing to the cost of premiums. Employees also will look to employers for "endorsement" of their decision to purchase insurance.

Providing education and enrollment materials for a large group would be extremely expensive. In order to keep rates affordable, we believe the costs of general information should be borne largely by the sponsoring entity—in this case, the government. Any marketing costs assumed by carriers will be reflected in the rates they charge for the coverage. Given the size and geographic distribution of the federal employee pool, the cost of marketing will be higher than those for a standard employer program.

Question #2 regarding flexibility in benefit design and long-term care insurance costs. It is nearly impossible to forecast the future rate increases or decreases for long-term care

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premiums for federal employees and annuitants. Rate reductions depend on carriers having good claims experience and having made sound decisions and forecasts regarding interest rate environments, product designs, and underwriting. Simply put, there are too many variables to make a comfortable prediction. In general, the higher the participation and the more thorough the underwriting by the carrier, the better the spread of risk will be and, therefore, the lower the rates.

One should keep in mind that this particular program is voluntary and that the federal government will not be contributing to offset the employee's cost. These features tend to increase the risk of selection. Because rate stability within a plan generally depends on attracting a broad array of health risks, it is even more important that excellent and ongoing education be provided to eligible individuals. On a final note, it is important that the program not require "rich" benefit packages. Options such as inflation protection, non-forfeiture, daily and life-time coverage, and elimination periods should all be choices for employees to make when purchasing coverage.

Question #3 regarding period of participation. A five year guarantee of program participation is very important to ensure that carriers participate in the program in the first place. The size of the potential market involved in this program will demand a significant monetary outlay on the part of insurers for the costs of enrollment and marketing materials, potential changes to administrative systems and potential increases in staffing to handle a group of this size, diversity, and complexity. Without a five year participation guarantee, and given these costs, it is my opinion that most insurers (even large insurers) would be reluctant to participate.

In terms of "cause" for termination, "cause" is generally something illegal or harmful and requires proof of such wrongdoing. Generally, agreements like this are written such that "cause" would be a reason for termination. Such agreements also would allow either party to a contract to terminate with a certain amount of notice (e.g., 120 days). The government also could construct such an agreement around service or performance standards. An agreement around service standards would have to flow both ways—that is, carriers would commit to a certain level of service while the Office of Personnel Management would also have to commit to service and response times on its end.

Question #4 regarding eligibility to participate in new program. Because of the diversity of the federal workforce, eligibility for the program should generally be consistent with the government's Medical/Life program's eligibility criteria. Temporary and intermittent employees are often not eligible for long-term care coverage. Part-time employees who work fewer than 17 to 20 hours often are excluded as well. Carriers will often cover any group of employees that an employer requests; however, premiums will reflect those administrative costs.

I hope this sufficiently addresses your questions. On behalf of UNUM and the Health Insurance Association of America, I greatly appreciate this opportunity to help you and the Committee as you work to ensure that federal workers and annuitants are eligible to

purchase private long-term care insurance coverage. If we can be of any assistance in the future, please do not hesitate to contact me at (202) 770-4311 or Sharon Cohen, HIAA's Senior Vice President of Federal Affairs, at (202) 824-1845 or scohen@hiaa.org.

Sincerely,

David Brenerman
Second Vice President, Government Relations

LONG-TERM CARE INSURANCE FOR FEDERAL EMPLOYEES, PART II

THURSDAY, APRIL 8, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM,
Jacksonville, FL.

The subcommittee met, pursuant to notice, at 10:04 a.m., in the Officers Club, Jacksonville Naval Air Station, Jacksonville, FL, Hon. Joe Scarborough (chairman of the subcommittee) presiding.

Present: Representatives Scarborough and Cummings.

Staff present: George Nesterczuk, staff director; and John Cardarelli, clerk.

Mr. SCARBOROUGH. I would like to call this meeting of the House Civil Service Subcommittee to order.

Ladies and gentlemen, this morning we are going to continue our deliberations over legislative proposals to establish a program under which both civilian and military personnel may purchase long-term care insurance. This is the third hearing that this subcommittee has held on long-term health care. The first hearing was held in March of last year and gave rise to a bill that was introduced by then-Chairman John Mica, also from Florida, to establish a long-term health care insurance program for Federal employees and their annuitants. Later in the fall of 1998, Senators Chuck Grassley and Bob Graham introduced a bipartisan companion bill in the Senate. Unfortunately, the 105th Congress adjourned without acting on either bill.

I am pleased that the President has now joined Congress in proposing to make private long-term care insurance available to Federal employees and annuitants. In addition to my own long-term health care bill, H.R. 602, our ranking member, the Honorable Mr. Cummings, and Representative Morella have also introduced long-term care bills. I certainly hope that by working together, we will also make this an important benefit and make it affordable and available to all Federal employees.

I want to emphasize too that I recognize that active duty service men and women and military retirees have performed valuable service to our Nation as employees of the Federal Government. In fact, they and their families have endured great sacrifices to perform the most valuable service that any government employee can provide—keeping our Nation strong and free. Neither I, nor I am sure my colleagues in the House and the Senate, will lose sight of the fact that even as we conduct today's hearing, American service men and women are putting their lives on the line to serve our

country in the Balkans and in other dangerous regions throughout this world.

Prior to the introduction of H.R. 602, my staff and I clearly stated my intent to include both active and retired members of the uniformed services in the long-term health care insurance program at the appropriate time. Being from the district in northwest Florida that I believe has more military retirees than any other district in the Nation, I do not think I would be very well served to exclude them. I have heard their needs and concerns and certainly I know that long-term health care is very, very important.

I continue to welcome the opportunity to work with organizations representing military retirees and military families to ensure their inclusion in a long-term care insurance program. In particular, I am interested in how this program might contribute to the recruitment, retention, and morale of military personnel. Inclusion of the uniformed services will require the coordination of the Department of Defense and the House Armed Services Committee, on which I serve. It is my hope that we can begin this process with the testimony received today from the Department of Defense.

With 1.4 million active duty and 1.6 million retired uniformed services personnel plus their families, the eligibility pool would grow significantly. When you combine the 1.8 million Federal civilian employees and the 2.3 million civilian annuitants and survivors, the expanded pool may also serve to lower premiums for all participants. I believe that is what would ultimately happen.

As one of the Nation's largest employers, we can encourage our Federal workers to assume personal responsibility for their future long-term care expenses through the purchase of this insurance product. Competition among carriers and the volume of sales should generate group discounts that would keep premiums affordable for all participants. And in making long-term care insurance available to individuals in their working years, the Federal Government can help encourage the purchase of this product at younger ages when premiums are lower and more affordable.

Appealing to people during their prime working years is a common sense approach to solving a growing problem in long-term care financing. The fact is that most Americans simply cannot afford to pay the $41,000 average annual cost of a nursing home stay or the $98 average per visit fee of a registered home care nurse. Most people mistakenly believe that Medicare will provide for all of their long-term health care needs. They quickly learn that it will not. For two out of three Americans today, that help will only come from the Medicaid program but only after the individual is impoverished. We have heard testimony in Washington, DC on this issue, and I know each one of us has a family member or relative or friend that we have seen their life savings completely diminished before they were eligible for any help. It is a heartbreaking procedure and one that I think we should do without. If we can create a program that will allow us to avoid that tragedy late in one's life, we need to do it. With a rapidly aging population, Medicaid will not be able to withstand the demand for long-term care services in the future, so we must do something about it today.

In crafting legislation to address this problem, we should build on our past successes and not repeat our past failures. Our meas-

ure of success for the long-term care insurance program will be the extent to which Federal employees will purchase this needed protection. In order to meet the varying needs of the diverse population, we have got to have competitive benefit plans at affordable prices.

I look forward to hearing from our witnesses to make the case for expanding the participant pool to include members of the uniformed services, and also to clarify some remaining issues concerning access to benefits.

I pledge that I will work in good faith with all Members of Congress, any organization of employees and retirees, insurance carriers, the administration, and any other interested party to make the promise of affordable long-term care insurance a reality for the Federal community.

I thank everybody for showing up today. I am looking forward to a very productive hearing. Right now, I would like to recognize the ranking member, the Honorable Mr. Cummings from Maryland.

[The prepared statement of Hon. Joe Scarborough follows:]

DAN BURTON, INDIANA,
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HELEN CHENOWETH, IDAHO

ONE HUNDRED SIXTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515–6143

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BERNARD SANDERS, VERMONT,
INDEPENDENT

Chairman Joe Scarborough
Subcommittee on Civil Service
"Long Term Care Insurance for Federal Employees, Part II"
April 8, 1999

Ladies and gentleman, this morning we will continue our deliberations over legislative proposals to establish a program under which both civilian and military personnel and annuitants may purchase long-term care insurance. This is the third hearing this subcommittee has held on long-term care. The first hearing held in March of last year gave rise to a bill introduced by Chairman John Mica to establish a long-term care insurance program for federal employees and annuitants. Later in the fall of 1998, Senators Chuck Grassley and Bob Graham introduced a bipartisan companion bill in the Senate. Unfortunately, the 105th Congress adjourned without acting on either bill.

I am pleased that the President has now joined Congress in proposing to make private long-term care insurance available to federal employees and annuitants. In addition to my own long-term care bill, H.R. 602, the Ranking Member, Mr. Cummings, and Representative Morella have also introduced long-term care bills. I hope that by working together we will also make this important benefit affordable and available to all federal employees.

I want to emphasize too that I recognize that active duty service men and women and military retirees have performed valuable service to our nation as employees of the federal government. In fact they and their families have endured great sacrifices to perform the most valuable service any government employee can provide: Keeping our nation strong and free. Neither I nor, I am sure, my colleagues in the House and Senate, will lose sight of the fact that even as we conduct today's hearing, American service men and women are putting their lives on the line to serve our country in the Balkans and in other dangerous areas of the world.

Prior to the introduction of H.R. 602, my staff and I clearly stated my intent to include both active and retired members of the uniformed services in the long-term care insurance program at the appropriate time. I continue to welcome the opportunity to work with organizations representing military retirees and military families to ensure their inclusion in a long-term care insurance program. In particular, I am interested in hearing how this program might contribute to the recruitment, retention and morale of military personnel. Inclusion of the uniformed services will require coordination with the Department of Defense and the House Armed Services Committee, on which I serve. It is my hope that we can begin this process with the testimony received today from the Department of Defense.

With 1.4 million active duty and 1.6 million retired uniformed services personnel, plus their families, the eligibility pool would grow significantly. Combined with the 1.8 million Federal civilian employees and 2.3 million civilian annuitants and survivors, the expanded pool may also serve to lower premiums for all participants.

As one of the nation's largest employers we can encourage federal workers to assume personal responsibility for their future long-term care expenses through the purchase of this insurance product. Competition among carriers and volume of sales should generate group discounts that will keep premiums affordable for participants. In making long-term care insurance available to individuals in their working years, the federal government can help encourage the purchase of this product at younger ages, when premiums are lower.

This approach, of appealing to people during their prime working years, is a common sense approach to solving a growing problem in long-term care financing. The fact is most Americans cannot afford to pay the $41,000 average annual cost of a nursing home stay or the $98 average per visit fee of a registered home care nurse. Most people mistakenly believe Medicare will provide for their long term care needs. They quickly learn that it will not. For two out of three Americans today, that help comes from the Medicaid program, but only after the individual is impoverished. Furthermore, with a rapidly aging population, Medicaid will not be able to withstand the demand for long term care services in the future.

In crafting legislation to address this problem we should build on past successes and not repeat our failures. Our measure of success for long-term care insurance will be the extent to which federal employees purchase this needed protection. In order to meet the varying needs of a diverse employee population we must have competitive benefit plans at affordable prices.

I look forward to hearing from our witnesses to make the case for expanding the participant pool to include members of the uniformed services, and to clarify some remaining issues concerning access to benefits.

I pledge that I will work in good faith with all Members of Congress, any organization of employees and retirees, insurance carriers, the Administration, and any other interested party to make the promise of affordable long-term care insurance a reality for the federal community.

Mr. CUMMINGS. Thank you very much. I want to thank you, Mr. Scarborough, for bringing us together today here in Jacksonville, and I think it is an appropriate place for us to be.

Long-term care is an important priority for me as ranking member of the Civil Service Subcommittee. A few weeks ago, the subcommittee held a hearing on three legislative proposals for long-term care for Federal employees. At the hearing, we discussed the merits of long-term care bills introduced by myself, Chairman Scarborough and Congresswoman Connie Morella of Maryland. Though the differences between the bills are significant, the subcommittee is committed to working in a bipartisan manner to reach agreement on a consensus bill.

On January 6, I introduced H.R. 110, the Federal Employees Group Long-Term Care Insurance Act of 1999. My bill is one of four elements of the comprehensive long-term care package proposed by President Clinton.

H.R. 110 would authorize the Office of Personnel Management to purchase a policy or policies from one or more qualified private-sector contractors to make long-term care insurance available to Federal employees, retirees and eligible family members at group rates. Coverage would be paid for entirely by those who elect it.

The Clinton administration and I support modifying H.R. 110 to extend long-term care coverage to active duty military personnel, military retirees and their families. And I want to thank Mr. Scarborough for being so sensitive to the issue of military personnel and retirees and their families. I believe that extending coverage to military personnel would make the risk pool larger and more diverse.

All participants other than active employees and active duty military personnel would be fully underwritten, as is standard practice with products of this kind. Coverage made available to individuals would be guaranteed renewable and could not be canceled except for non-payment of premiums. Though each participant would be responsible for paying the full amount of premiums based on age at time of enrollment, group rates will save an estimated 15 to 20 percent off the cost of individual long-term care policies.

OPM will be responsible for the administrative costs of the program which is estimated to be only $15 million over a 5-year period. This would include developing and implementing a program to educate employees about long-term care insurance. I am convinced that a lot of people do not even know it exists. Extending OPM's marketing efforts to active duty military personnel and retirees would further increase the costs.

I believe that H.R. 110 will help to raise the general public's awareness of the need for long-term care insurance and underscore the limitations associated with reliance on Medicaid for one's long-term care needs.

With an aging society, the need for good long-term care facilities is rising. Nursing homes, where most elderly Americans receive long-term care, are increasingly coming under fire for malnourishment of residents, inadequate treatment of bed sores, records falsification, and lack of qualified supervision.

Cuts in Federal Medicare payments and difficulty in finding satisfactory employees are contributing to an increase in nursing

home complaints. In addition to cracking down on nursing homes by stepping up inspections and imposing tougher sanctions, this problem can be addressed by more Americans investing in long-term care insurance.

Federal employees that enroll in the Government's long-term care program will be able to choose home and/or community based care to meet their long-term care needs. They will have a greater say in the type and quality of care that they and their family members receive, and they will not be dependent on government subsidies or affected by program cuts. No doubt, the non-federally employed who obtain long-term care insurance would realize the same advantages.

By 2025, the number of Americans over 65 will be over 60 million. Many families will find it impossible to afford nursing home care which will increase from $40,000 to an estimated $97,000 by the year 2030. Under current law, a family would deplete all of its financial resources to qualify for Medicaid which would only pay for a portion of needed long-term care services. By offering long-term care as a benefit option for its employees, the Federal Government, as the Nation's largest employer, can set the example for other employers.

Just a few days ago, I had an opportunity to meet with some representatives of the insurance industry and the nursing home industry in Baltimore, and one of the things that they echoed, and it was very clear, and I assured them that we were listening on both sides of the aisle in Congress, is they said you have got to do it, but make sure you do it right; make sure you do it right because you are setting the example for the entire country and for the civilian population.

So I am looking forward to hearing from today's witnesses. I want to thank all of our witnesses. Just in case we do not say it enough, we are going to say it over and over, and do not get upset with us, we really appreciate you taking up your time to be with us today. Because it is your testimony that will help to do it right. So we thank you.

And again, I thank you, Mr. Scarborough.

[The prepared statement of Hon. Elijah E. Cummings follows:]

STATEMENT OF CONGRESSMAN ELIJAH CUMMINGS AT THE CIVIL SERVICE SUBCOMMITTEE FIELD HEARING ON LONG-TERM CARE INSURANCE FOR FEDERAL EMPLOYEES

The Officers' Club, Naval Air Station
Jacksonville, Florida

April 8, 1999

Long-term care is an important priority for me as Ranking Member of the Civil Service Subcommittee. A few weeks ago, the Subcommittee held a hearing on three legislative proposals for long-term care for federal employees. At the hearing, we discussed the merits of long-term care bills introduced by myself, Chairman Scarborough and Congresswoman Connie Morella. Though the differences between the bills are significant, the Subcommittee is committed to working in a bipartisan manner to reach agreement on a consensus bill.

On January 6th, I introduced H.R. 110, the "Federal Employees Group Long-Term Care Insurance Act of 1999. My bill is one of four elements of the comprehensive long-term care package proposed by President

Clinton.

H.R. 110 would authorize the Office of Personnel Management (OPM) to purchase a policy or policies from one or more qualified private-sector contractors to make long-term care insurance available to federal employees, retirees, and eligible family members at group rates. Coverage would be paid for entirely by those who elect it.

The Clinton Administration and I support modifying H.R. 110 to extend long-term care coverage to active duty military personnel, military retirees, and their families. I believe that extending coverage to military personnel would make the risk pool larger and more diverse.

All participants other than active employees and active duty military personnel would be fully underwritten as is standard practice with products of this kind. Coverage made available to individuals would be guaranteed renewable and could not be canceled except for nonpayment of premiums. Though each participant would be responsible for paying the full amount of premiums, based on age at time of enrollment, group rates will save an estimated 15-20 percent off the

cost of individual long-term care policies.

OPM will be responsible for the administrative cost of the program, which is estimated to be only $15 million over a 5-year period. This would include developing and implementing a program to educate employees about long-term care insurance. Extending OPM's marketing efforts to active duty military personnel and retirees would further increase costs.

I believe that H.R. 110 will help to raise the general public's awareness of the need for long-term care insurance and underscore the limitations associated with reliance on Medicaid for one's long-term care needs.

With an aging society, the need for good long-term care facilities is rising. Nursing homes, where most elderly Americans receive long-term care, are increasingly coming under fire for malnourishment of residents, inadequate treatment of bed sores, records falsification, and lack of qualified supervision.

Cuts in federal Medicare payments and difficulty in finding satisfactory employees are contributing to an increase in nursing home complaints. In addition to cracking down on nursing homes by stepping up inspections and imposing tougher sanctions, this problem can be addressed by more Americans investing in long-term care insurance.

Federal employees that enroll in the government's long-term care program will be able to choose home and/or community based care to meet their long-term are needs. They will have a greater say in the type and quality of care that they and their family members receive, and they will not be dependent on government subsidies or affected by program cuts. No doubt, the non-federally employed who obtain long-term care insurance would realize the same advantages.

By 2025, the number of Americans over 65 will be over 60 million. Many families will find it impossible to afford nursing home care which will increase from $40,000 to an estimated $97,000 by the year 2030. Under current law, a family would deplete all of its financial resources to qualify for Medicaid which would only pay for a portion of needed long-

term care services. By offering long-term care as a benefit option for its employees, the federal government, as the nation's largest employer, can set the example for other employers.

I look forward to hearing from today's witnesses and the information they will bring to guide the work of this Subcommittee.

Mr. SCARBOROUGH. Thank you, Mr. Cummings. I just want to echo your sentiments of how important this is. A lot of times, we lose sight of it, but the Federal Government obviously is one of the largest employers in the country and what we are doing here today is not going to affect the Federal work force. What we want to do is implement a plan and a program that will be a good example to private employers across the country. With the aging population, with the baby boomers, the so-called baby boomers, moving toward retirement in the year 2010, we are going to be facing an aging crisis that this country is not going to be able to handle with just the Federal Government. It is going to require the Federal Government and private employers stepping in and standing in the gap and filling the holes.

That is why it is so absolutely essential that we put a program together that works for Federal employees, that will be a guide for hopefully private employers and so this long-term care crisis can be resolved before things get especially difficult in the year 2010.

Right now, I want to ask our distinguished panel if they could please rise; I want to swear you in.

[Witnesses sworn.]

Mr. SCARBOROUGH. Be seated. We have with us today Marilyn Cobb Croach, the area representative for the National Military Family Association; we have Senior Master Sergeant Larry Hyland, U.S. Air Force retired—I cannot believe they let you on the base, an Air Force man—national director of the Retired Enlisted Association, he is actually a constituent of mine. We also have Colonel Klyne Nowlin, he is also U.S. Air Force retired, State president of the Retired Officers Association. We are certainly honored by all of your presence.

Ms. Croach, if you could begin your testimony.

STATEMENTS OF MARILYN COBB CROACH, AREA REPRESENTATIVE, NATIONAL MILITARY FAMILY ASSOCIATION; SMSGT LARRY HYLAND, USAF RETIRED, NATIONAL DIRECTOR, THE RETIRED ENLISTED ASSOCIATION; AND COL KLYNE NOWLIN, USAF RETIRED, STATE PRESIDENT, THE RETIRED OFFICERS ASSOCIATION

Ms. CROACH. Thank you. Mr. Chairman and members of the subcommittee, my name is Marilyn Cobb Croach and I am here before you today in my role as a volunteer area representative for the National Military Family Association.

I appreciate this opportunity to express the views of the association and the uniformed service families we represent. Although the area I represent is Orlando, FL, the staff at NMFA headquarters asked if I would be able to travel to Jacksonville to represent military families on this very important issue. Ironically, on the day that headquarters called, I was chauffeuring my father-in-law to and from a hospital visit with my mother-in-law.

I am in Jacksonville today not only to represent the uniformed service families at this hearing, but to accompany my mother on a visit to the Mayo Clinic. Needless to say, the subject of long-term health care for my mother and the parents of my Air Force retiree husband are in the forefront of my mind.

At the same time, the situations with our parents has made both my husband and me realize that we too could become vulnerable. National statistics indicate that at some time in the future, we may be unable to provide the care needed for each other and one or both of us could be reliant on some form of long-term health care.

NMFA understands that current proposals for long-term care for Federal civilians do not include any subsidy by the Federal Government. We believe that including the relatively young, active duty military force in the eligible population can only serve to increase the buying power for the total community and thus reduce premiums. Since few military families have significant disposable income after the basics of housing, health care and food are purchased, they would be unable to afford a policy with high premiums, no matter how wise an investment they thought it would be. Mr. Chairman, military families need the ability to purchase such care at affordable group rates.

NMFA also firmly believes that service members and their families should not, once again, be left out of a program for all other Federal employees and retirees. My association has long supported an initiative that would allow military families to have access to the Federal Employees Health Benefits Program. We strongly believe that such an option is of particular importance to those unable to fully participate in the Tri-Care Program, the over 65 dual Medicare-military eligibles, and active duty members and retirees and their families who do not live near a military health care facility. With long-term health care a possibility for Federal civilian workers and retirees, we implore this subcommittee to remember that we too are part of the Federal family.

Mr. Chairman, NMFA is also aware that the proposals for Federal civilians would extend coverage to their parents and their parents-in-law. This coverage would be of particular importance to the active military force. The advent of the all-volunteer force has undoubtedly given us the brightest and the most well-educated armed force this country has ever seen. It has also brought us a force that is married. Service members are not just concerned about their own families, but the parents of both the member and the member's spouse. Department of Defense statistics reveal that over 8 percent of the total active force and 12.7 percent of senior career enlisted—E–7 through 9—and 14.3 percent of career officer—O–4 and above—have responsibility for elderly relatives.

Since thousands of miles and often an ocean separate military families from their parents, significant stress occurs when the parents can no longer care for themselves. How does the military family stationed in Japan care for an elderly parent in Florida? As difficult as caring for elderly parents may be for any family, such distances make a difficult situation an almost impossible one for a service family. The high operations tempo the armed forces are currently facing often puts the care for both sets of parents squarely on the shoulders of the military spouse—a spouse who is already trying to balance a needed job and being a single parent to the couple's children. When this spouse is living in Washington State, adding the care of an elderly parent or parent-in-law in Orlando may be a task the spouse just cannot adequately perform.

Unfortunately service families have few alternatives in these situations. They are unable to spend weeks and months away from their own children caring for an elderly parent located at a great distance from their duty station. They are hesitant to uproot such a parent and make them endure the nomadic military lifestyle, and they do not, in most cases, have the financial reserves to assist their elderly parents with the enormous costs of long-term care. The safety net of an affordable policy for such care would relieve the frequent nagging worry that often accompanies orders to remote areas. NMFA also believes these relatively young families who might ordinarily consider the expense of a long-term care policy would quickly realize its advantages for themselves.

NMFA represents the interests of all seven uniformed services and therefore requests that not only military families but the families of those in the uniformed corps of the U.S. Public Health Service and the National Oceanic and Atmospheric Administration be also included.

Thank you, Mr. Chairman, for this opportunity to express the strong desire of uniformed service families to be included in any long-term care proposal.

Mr. SCARBOROUGH. Thank you, Ms. Croach.

Mr. Hyland.

[The prepared statement of Ms. Croach follows:]

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Statement of

Marilyn Cobb Croach
Area Representative

The National Military Family Association

Before the

CIVIL SERVICE SUBCOMMITTEE
of the
COMMITTEE ON GOVERNMENT REFORM

of the

UNITED STATES HOUSE OF REPRESENTATIVES

Field Hearing
Naval Air Station, Jacksonville, Florida
April 8, 1999

**Not for Publication
Until Released by
the Committee**

The National Military Family Association (NMFA) is the only national organization whose sole focus is the military family and whose goal is to influence the development and implementation of policies which will improve the lives of those family members. Our mission is to serve the families of the Seven Uniformed Services through education, information and advocacy.

Founded in 1969 as the Military Wives Association, NMFA is a non-profit 501(c)(3) primarily volunteer organization. NMFA today represents the interests of family members and the active duty, reserve components and retired personnel of the seven uniformed services: Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service and the National Oceanic and Atmospheric Administration.

NMFA Representatives in military communities worldwide provide a direct link between military families and NMFA staff in the nation's capital. Representatives are the "eyes and ears" of NMFA, bringing shared local concerns to national attention.

NMFA receives no federal grants and has no federal contracts.

NMFA has been the recipient of the following awards:
Defense Commissary Agency Award for Outstanding Support as Customer Advocates (1993)
Department of the Army Commander Award for Public Service (1988)
Association of the United States Army Citation for Exceptional Service in Support of National Defense (1988)

Various members of NMFA's staff have also received personal awards for their support of military families.

NMFA's web site is located at http://www.nmfa.org.

MARILYN COBB CROACH
Volunteer Area Representative (Orlando, Florida) for National Military Family Association

Marilyn Cobb Croach, wife of a retired Air Force officer, has been an active member of the defense community for two decades. She served in the Pentagon as an appointee in the Reagan-Bush administration in the Office of the Secretary of Defense as Special Assistant for Legislative and Public Affairs, specializing in issues related to manpower & personnel (including military family issues), training & education, military installation management, reserve force structure, NATO programs and logistics management programs. During this time, the Office of Family Policy was established in the Office of the Secretary of Defense. The Secretary of Defense awarded Marilyn the Defense Meritorious Civilian Service Medal for her Pentagon service.

She holds a Baccalaureate degree from the University of Alabama and a Master's Degree from Central Michigan University.

Following her husband's transfer from Washington, DC to Orlando, Florida, Marilyn became Director of Operations for the State of Florida's Office of Defense Transition Services at the University of Central Florida where she developed and provided statewide training workshops for more than 4500 individuals in transition from active duty military service to civilian status. She has been active in strategic economic development planning in Florida, having received gubernatorial appointments to the Florida Task Force on Defense Reinvestment and the Florida Defense Conversion and Transition Commission, serving as Chair of the Committee on Community and Regional Impacts and as a member of the Defense Manufacturer and Supplier Issues Committee. During 1994, while on special assignment as Director of Defense Programs at Enterprise Florida, Inc., Florida's public-private economic development agency, she authored the state's winning proposal for federal Defense Economic Adjustment and co-authored the state's winning proposal for the federal technology extension program of the National Institute of Standards and Technology.

During 1995 - 1997, Marilyn worked in private industry for a multinational planning, engineering and development firm as a Government Relations, Economic Adjustment & Development Planning Associate. She developed for client states, market-driven economic development, economic adjustment and economic diversification strategies for regions impacted by the closure of military installations or by significant reductions in defense contract expenditures. She also provided Governmental Relations services and developed federal grant proposals. She served as Program Architect and Manager for the State of Texas Defense Economic Adjustment Program, which has been recognized as a national model.

Since March 1997, she has held the position of Director of Federal Relations for the University of Central Florida in Orlando, Florida.

Marilyn is active in numerous professional organizations and military-related organizations at the local and national levels. She has been associated with the National Military Family Association since 1983.

Mr. Chairman and members of the Subcommittee, my name is Marilyn Cobb Croach and I am here before you today in my role as a volunteer Area Representative for the National Military Family Association. I appreciate this opportunity to express the views of the Association and the uniformed service families we represent.

Although the area I represent is Orlando, Florida, the staff at NMFA Headquarters asked if I would be able to travel to Jacksonville to represent military families on this very important issue. Ironically on the day Headquarters called I was chauffeuring my father-in-law to and from a visit to my mother-in-law who was in the hospital. I am in Jacksonville today, not only to represent uniformed service families at this hearing, but to accompany my mother on a visit to the Mayo Clinic. Needless to say, the subject of long term health care for both my mother and the parents of my Air Force retiree husband are in the forefront of my mind!

At the same time, the situation with our parents has made both my husband and me realize that we too could be vulnerable. National statistics indicate that at some time in the future we may be unable to provide the care needed for each other and one or both of us could be reliant on some form of long term care.

NMFA understands that current proposals for long term care for federal civilians do not include any subsidy by the Federal Government. We believe that including the relatively young active duty military force in the eligible population can only serve to increase the buying power for the total community and thus reduce premiums. Since few military families have significant disposable income after the basics of housing, health care and food are purchased, they would be unable to afford a policy with high premiums no matter how wise an investment they thought it would be. Mister Chairman, military families need the ability to purchase such care at affordable group rates.

NMFA also firmly believes that servicemembers and their families should not once again be the ones left out of a program for all other federal employees and retirees. My association has long supported an initiative that would allow military families to have

access to the Federal Employees Health Benefits Program. We strongly believe that such an option is of particular importance to those unable to participate fully in the Tricare Program, the over 65 dual Medicare-military eligibles, and active duty members and retirees and their families who do not live near a military health care facility. With long term health care a possibility for federal civilian workers and retirees, we implore this Subcommittee to remember that we too are part of the federal family.

Mr. Chairman, NMFA is also aware that the proposals for federal civilians would extend coverage to their parents and parents-in-law. This coverage would be of particular importance to the active military force. The advent of the all-volunteer force has undoubtedly given us the brightest and most well educated Armed Force this Country has ever seen. It has also brought us a force that is married. Servicemembers are not just concerned about their own families but the parents of both the member and the member's spouse. Department of Defense statistics reveal that over 8% of the total active force, and 12.7% of senior career enlisted members (E 7-9) and 14.3% of career officers (O-4 and above) have responsibility for elderly relatives.

Since thousands of miles, and often an ocean, separate military families from their parents, significant stress occurs when the parents can no longer care for themselves. How does a military family stationed in Japan care for an elderly parent in Florida? As difficult as caring for elderly parents may be for any family, such distances make a difficult situation an almost impossible one for service families. The high operations tempo the Armed Forces are currently facing, often puts the care for both sets of parents squarely on the shoulders of the military spouse – a spouse who is already trying to balance a needed job, and being a single parent to the couple's children. When this spouse is living in Washington State adding the care of an elderly parent or parent-in-law in Orlando may be a task the spouse just cannot adequately perform.

Unfortunately, service families have few alternatives in these situations. They are unable to spend weeks and months away from their own children caring for an elderly parent

located at a great distance from their duty station. They are hesitant to uproot such a parent and make them endure the nomadic military lifestyle. And they do not, in most cases, have the financial reserves to assist their elderly parents with the enormous costs of long term care. The safety net of an affordable policy for such care would relieve the frequent nagging worry that often accompanies orders to remote areas. NMFA also believes these relatively young families, who might not ordinarily consider the expense of a long term care policy, would quickly realize its advantages for themselves.

NMFA represents the interests of all seven uniformed services, and therefore requests that not only military families but the families of those in the uniformed corps of the U.S. Public Health Service and the National Oceanic and Atmospheric Administration also be included.

Thank you Mister Chairman for this opportunity to express the strong desire of uniformed service families to be included in any long term care proposals.

SMSGT HYLAND. Good morning, Mr. Chairman and Mr. Cummings. My name is Larry Hyland and I sit before you today as both a national director of the Retired Enlisted Association and also as a constituent of the chairman, who resides in Crestview, FL.

On behalf of TREA, we thank you for the opportunity to address the issue of long-term care as it relates to the concerns of our members. TREA has over 100,000 members and an auxiliary representing all branches of the armed services, retired, active duty, guard and reserve. Their concern over the accessing of health care in the future stems from cost implications in medical care, not only for themselves but, also their families.

With base closures, military treatment facilities downsizing, demographics changing, the need to provide access to health care to our ever-growing number of aging retirees creates anxiety with those that were promised lifetime health care. The support from this subcommittee for the Federal Employees Health Benefit Plan for Medicare Eligible Military Retirees Test Program is very much appreciated. This expands an equitable benefit to the men and women who have patriotically served this country. As this committee is aware, this is only one part of the matrix for accessing health care for our aging war heroes and heroines, long-term care is becoming a particular topic of concern for both our members and also this Nation.

As this committee reviews the current legislation for long-term care insurance, I ask that you include the active duty, the guard, the reserve and retired members of the uniformed services in your final legislative proposal. The administration and Congress have proposed different legislative initiatives to providing long-term care insurance products to Federal employees, including your bill, Mr. Chairman, H.R. 602, and Mr. Cummings' bill, H.R. 110. As men and women who have served and continue to serve in the uniformed services, we feel we should be included under the same population as Federal employees and retirees for accessing long-term care insurance products. As you are already aware, Congresswoman Connie Morella's bill, H.R. 1111, long-term health care, includes members of the armed services, both active duty and retired. It includes as well their spouses, parents, parents-in-law and other annuitants.

Incentives to purchasing long-term care now at lower premium rates would ensure some financial security in the future for those of the uniformed services. Offering long-term care insurance at a group rate, which includes both Federal employees and uniformed service members, could further reduce the cost of private insurance products and lower premium rates.

As we know, one can never plan fully for the diagnosis of a deteriorating health condition or of an accident resulting in a lifetime disability to one's self or a family member. However, paying into an affordable long-term insurance product can reduce some of the financial burden associated with either of these.

Living here in the State of Florida, one cannot read a newspaper or turn on a TV without seeing something about planning for your senior years. Being able to have affordable access to long-term health care, if needed, is part of that planning.

I am no expert on this subject, but I come before this committee to help ensure that as a military retiree and a member of TREA that I have the same choices in long-term care as my civil service neighbor. I realize that potential risk to my wife's and my own health increases with age. This forces me to look for ways to reduce the financial destruction to not only our own life savings, but those of our children as well, due to costly medical bills out of long-term care. Also, I do not desire to exhaust all our assets in order to be left on Medicaid.

Planning now for the unexpected is as important as planning for our retirement—actually they go hand in hand. In my profession as a business owner, I have—and in order to ensure success, must plan for the future and assess all risk. This is true not just in business but in life as well.

Today, I speak to you as a military retiree, but let us not forget the active duty member stationed overseas. This member may be burdened with the additional responsibility of a parent or a parent-in-law, who requires skilled nursing care. He or she needs reassurance that a benefit exists to ensure the family's needs are met.

My wife and I both served on active duty with the Air Force. I am now retired and she continues to serve as a reservist. The benefit promised us upon our enlistment and re-enlistment ceases to exist as it pertains to the promise of lifetime health care. As military careerists, we both feel betrayed. Let us correct this wrong by not forgetting to offer a truly good benefit package to our young new recruits as well as our retirees, by providing a long-term care benefit equal to Federal employees.

In closing, we are requesting that the uniformed service men and women who are serving now or are retired have the choice to purchase long-term care at a group rate alongside Federal employees. This again is an equity issue. This committee has worked with us diligently to have 66,000 military retirees included in FEHBP and we appreciate the hard work associated with that. We now ask that we have access to the same long-term care benefits as other Federal employees.

Mr. Chairman, on behalf of the Retired Enlisted Association and all military retirees, I would like to offer my sincere appreciation to come before you today to request the inclusion of the uniformed services participation into the Federal employees long-term health care proposal.

Thank you.

Mr. SCARBOROUGH. Thank you, Senior Master Sergeant Hyland. I certainly appreciate your testimony. You talked about the sense of betrayal that many military retirees felt because they did not receive the health care promised, and I have got to tell you that is something that is very important to us on this panel and needs to be a message that we do take back with us to Washington, DC. I certainly know last year and the year before when we held TriCare hearings in my district, there was that recurring sense that the Federal Government had not kept their word to those men and

women that served so ably throughout the years and that is certainly something that we will remember as we agree on a final bill. I thank you for your testimony.

Colonel Nowlin.

[The prepared statement of Mr. Hyland follows:]

TESTIMONY OF

LARRY HYLAND
NATIONAL DIRECTOR

OF

THE RETIRED ENLISTED ASSOCIATION

BEFORE THE

HOUSE GOVERNMENT REFORM COMMITTEE

CIVIL SERVICE SUBCOMMITTEE

ON

APRIL 8, 1999

NAVAL AIR STATION JACKSONVILLE

Biography of SMSgt. Larry Hyland, USAF, Retired
The Retired Enlisted Association Chapter 85 President (Gonzalez, FL)
National Director—2 year (TREA National Board)

Born September 2, 1950 in New Hyde Park, N.Y. Enlisted in the United States Air Force on September 24, 1968 and career spanned twenty years. Various assignments both stateside and overseas including tours of duty (permanent and temporary) in the Philippines, Vietnam, Taiwan, Thailand and Guam. Served in various Aircraft Maintenance Units working, supervising and managing repair operations on cargo, tanker and bomber aircraft. Retired as a Senior Master Sergeant on October 1, 1988. Final active duty assignment Deputy Director of the Family Support Center, Andersen AFB, Guam. Many awards and decorations including the Meritorious Service Medal with two oak leafs, The Air Force Commendation Medal with two oak leafs, the Air Force Achievement Medal , Armed Forces Expeditionary Medal with bronze service star, Vietnam Service Medal with three bronze service stars, Air Force Outstanding Unit Award with Combat V and silver oak leaf, and the Republic of Vietnam Gallantry Cross with Palm.

Larry and his wife Paz met while both were assigned to Ellsworth AFB, South Dakota. They currently reside in Crestview, FL where Larry manages and operates their small business.

DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS

The Retired Enlisted Association does not currently receive, has not received during the current fiscal year or either of the two previous years any federal money for grants or contracts. All of the Association's activities and services are accomplished completely free of any federal funding.

The Retired Enlisted Association (TREA) would like to thank the chairman and distinguished members of the Civil Service Subcommittee for the opportunity to come before you to discuss the issue of long term care as it relates to our members needs. I would personally like to thank you Mr. Chairman, as I am not only a member of TREA but a constituent of yours residing in Crestview, FL. TREA has over 100, 000 members and auxillary representing all branches of the Uniformed Services, retired, active duty, guard and reserve whose continued concern over accessing health care in the future stems from the cost implications in medical care not only for themselves but their families too.

With base closures, military treatment facilities (MTFs) downsizing and demographics changing, the need to provide access to health care to our ever growing number of aging retirees creates anxiety with those that "were promised lifetime health care." The fact remains that Department of Defense (DoD) has a responsibility to those men and women who have served in the Uniformed Services to provide a medical benefit to nearly 50 percent of the current retired military beneficiaries that were promised health care. The demographics have changed from the 1950's when retirees were only 7 percent of the military health care beneficiary population, therefore Congress needs to create a plan to administer a health care benefit to retirees. The support from this subcommittee for the Federal Employees Health Benefit Plan (FEHBP) for Medicare Eligible Military Retirees Test program is very much appreciated, to expanding an equitable benefit to the men and women who have patriotically served this country. As this committee is aware, this is only one part of the matrix for accessing health care for our aging war heroes and heroines, long term care is becoming a particular topic of concern for our members and this nation.

The issue of long term care has been put on the national spotlight as people live longer due to medical advances, and the aging of baby boomers. People are looking into guaranteeing health care into their senior years, because Medicare does not cover most long term costs.

As this committee reviews the current legislation for long term care insurance, I ask that you include the active duty, military retirees, and Medicare eligible military retirees in your final legislative proposal. The Administration and Congress have proposed different legislative initiatives to providing long term care insurance products to Federal employees, including your bill Mr. Chairman, H.R 602, and Mr. Cummings bill, H.R. 110. As men and women who have served and continue to serve in the Uniformed services, we feel we should be included under the same population as Federal employees and retirees to access a long term care insurance product. As you are already aware, Congresswoman Connie Morella's bill (R-MD) H.R. 1111, long term health care bill, included members of the Armed services, both active duty and retired, as well as their spouses, parents, parents-in-law, and other annuitants.

Incentives to purchasing long term care now at lower premium rates or as older citizens under a Federal Employee long term insurance product would ensure some financial security in the future for the uniformed services. By offering long term care insurance at a group rate, including both Federal Employees and Uniformed Services members, could further reduce the cost of private insurance products and lower premium rates. Thus, encouraging younger people to purchase long term care insurance now at lower rates, while informing them of the frightening statistics that out of pocket cost for Medicaid and Long term care could rise to over 360% by the year 2030, would provide incentives to plan for health care in the future. By increasing the number of participants to purchase long term care, will reduce the cost of the benefit for both Federal Employees and Uniformed Services members.

Living in the state of Florida, you cannot read a newspaper or turn on the TV without seeing something about planning for your senior years. I am no expert on this subject, but I come before this committee to help ensure that as a military retiree and member of TREA, that I have the same choices in long term care as my neighbor that served in the civil service.

We can never plan emotionally if a tragic unexpected onset of a debilitating disease or an accident causing a lifetime disability happens to a family member or oneself, but paying into an affordable long term insurance product can reduce some of the financial risk. Long Term Care insurance will help with the payment of costly nursing home care that exceeds the payments from Medicare. This has become a concern for our active duty, retirees and Medicare eligible members.

Looking into the future, my senior years, I realize that potential medical risks to my wife and my own health increases with age forcing me to look for tangible options to help in reducing the financial destruction of my life savings and that of my children due to costly medical bills. Also, I do not want to plan to exhaust all of my assets in order to be left on Medicaid. In my profession as a business owner, I have to be accountable for myself, it takes great responsibility, in order to ensure success I must plan for the future, not just in business, but in life.

Planning now for the unexpected, is as is important as planning for my retirement, actually they go hand in hand. My responsibility to look after the medical needs of my wife and myself into our aging years is important to me, I need to look out for our best interests to ensure quality health care exists for the both of us. The active duty member stationed overseas, with the added responsibility to care for a parent or parent-n-law requiring skilled nursing care, needs reassurance that a benefit exists to insure his or her family's needs.

My wife and I both served on active duty with the Air Force. I am now retired and she continues as a reservist. The benefits promised to us upon our enlistment cease to exist as it pertains to "the promise of lifetime health care," as military careerist we both feel betrayed. Let us correct this wrong by not forgetting to truly offer a good benefit package to our young new recruits, as well as our retirees to have a long term care benefit equal to federal employees.

In closing, we are requesting that Uniformed Service men and women who are serving now or are retired to have the choice to purchase long term care at group rates alongside Federal employees. Just because my wife and myself served in uniform for this country, and not a suit in the Federal government, should not disallow us to an entitlement. This again is an equity issue, this committee has worked with us diligently to have 66,000 military retirees included in FEHBP and we appreciate the hard work and now we want to have access to the same Long Term Care benefits as Federal Employees.

Again, on behalf of TREA, I would like to offer my sincere appreciation to come before you today to request the inclusion of the Uniformed Services participation into the Federal Employees Long Term Health Care proposal.

COL NOWLIN. Mr. Chairman, distinguished members of the committee, on behalf of the Retired Officers Association, TROA, I am pleased to be here today to address the important issue of long-term care for our almost 400,000 active duty, retired, reserve officers of the seven uniformed services. Included in our membership are approximately 71,000 auxiliary members who are survivors of former members of our association. This subject is not only of great importance to our members, but to all uniformed service members everywhere, regardless of their status and their rank.

I want to thank you, Mr. Chairman, for allowing us to present our views on long-term care and its importance to military members and their families. I am most pleased that you decided to hold these hearings in Jacksonville Naval Air Station in Florida.

Mr. Chairman, the hearings today are important to the 44,600 TROAns living in Florida, of which 6,400 live in your district, and of the 173,200 military retirees in Florida, of which 30,600 military retirees live in your district. Worldwide, there are 1.8 million military retirees plus their dependents and family members who, if included, are potential participants in a government-sponsored long-term care proposal. Like many Floridians, uniformed service members, active, reserve, guard and retired are concerned about their health care and the potential need for long-term care in case of a debilitating illness or injury which can happen at any time.

Please allow me to digress a little now. I want to take this opportunity to state our sincere appreciation to you for supporting the congressional efforts to restore health care equity to uniformed service retirees who lose Tri-Care at age 65. Curtailment of military health care services because of legislative restrictions, staffing drawdowns, reduced operating budgets or base closure actions like that in Orlando and Homestead areas, is a breach of the promises made to retirees that health care would be there for them if they served a career in uniform.

Historically, Mr. Chairman, you have been a strong supporter of the military and for the people issues so important to all of us. So thank you for being a friend and a strong supporter of the military community.

Now I want to address the growing concern among our older Americans, and those who have to care for them, that long-term care insurance is also a health care imperative. Without such insurance, most Americans who are responsible for caring for a parent, a parent-in-law or a disabled spouse who is suffering from debilitating illness or injury will not have the resources to do so. Medicaid and Medicare are not the answers. The solution for many Americans is to promote enrollment in group long-term care insurance plans to make such coverage available to more senior citizens. Every incentive that Congress can give toward enrollments in group long-term care insurance will lessen the demands that may otherwise be placed on Medicaid, the government and the taxpayer.

There are different approaches in how a Government-sponsored long-term care plan could be structured and what role OPM should play. Which is the right one is for your committee to resolve? I do not or I am not an expert to address these matters. What concerns us is that until recently, each long-term care bill introduced in Congress has excluded the uniformed services community.

TROA greatly appreciates the lead of Representative Morella for developing a more expansive bill which includes members of the uniformed services.

Let me highlight an experience that I had, and it is one which is similar to many—to some of my friends who have run into the same situation. My particular case was with my mother, but some of the people that I know it has been with their spouses.

A few years after my father passed away, my mother, Kathleen M. Nowlin, age 77, suffered from acute myocardial infarction, diabetes, blindness and incontinence. Her physician determined that she required 24-hour skilled nursing care. She was placed in Medic-Home Health Center, a nursing home in Melbourne, FL on November 9, 1982.

At the time, the cost of nursing home care was about $2,000 a month, not including pharmacy, physician costs, personal needs such as laundry, clothes, et cetera. My father had been an automobile mechanic most of his life and my mother a homemaker or a housewife. They did not have much to live on after retirement except for Social Security and interest earned on their meager savings which, to the best of my knowledge, was around $50,000 to $60,000. With mother's medical problems, it did not take long for my mother's assets to be drawn down to a point where she had to apply for Medicaid to be able to stay in the nursing home. At that point, all of her valuable possessions were gone and she became property of the State. She remained property of the State until she died on January 12, 1988.

My mother was very fortunate, as was me and my family, to have Medicaid as an alternative when her assets were depleted. At the cost of about $30,000 to $35,000 a year at that time, which has grown now, we could not have afforded the huge cost of nursing home care without going into poverty ourselves. And this is true for many whose spouses have gone into nursing homes.

Most military retirees cannot afford current long-term insurance on our own. Thus, today we take the gamble that we will be one of the lucky ones who will not need long-term care. And if we do need it, I am afraid we will go down the same path that my mother experienced.

Mr. Chairman, your support of the military members has been very apparent over the years and I must say that we were heartened during hearings that you conducted last month when you gave your endorsement for including us in whatever legislation the committee reports out to the full House. Your endorsement is truly appreciated by all of us in Florida.

According to DOD—I'm not sure our figures match, but they are close—according to DOD, there are 3.4 million active and retired service members and survivors who could participate in a Government long-term care plan, if offered. Last week, I ran a survey of just my chapter in the Cape Canaveral area, and in that survey there were—of the 100 that I passed out, I received 78 responses, 88.5 percent said they want the option to have long-term care. Now that is a large number. Now if that is true across the State, or if only half, say 42 percent would want it, it tells you that our people are concerned about long-term care and they are concerned about their health coverage and they are willing to sign up for it.

According to OPM, there are about 4 million active and retired Federal civilian employees and survivors who would be eligible to participate in a government long-term care plan.

Based on these figures and using the national participation rate of 6 percent conservatively, we expect that the participation rate for military members could be around a little over 200,000, probably higher given favorable premiums available through a group plan. The participation for Federal civilian employees could be about 243,000 using the national rates. However, OPM projects the participation to be closer to 300,000 given the favorable premiums under the Government group plan.

If active and retired uniformed service members are included in the Government's long-term plan, it is likely that a more favorable group rate could be achieved and thus make long-term care coverage affordable for service members.

In closing, I want to reaffirm for you, Mr. Chairman, that uniformed service members want to be treated equally and fairly in programs developed for Federal employees. We want to have an opportunity to participate in the Government's long-term care program on the very same basis as other Federal civilian employees.

Uniform service members are proud people who, like Federal civilians, do not want to burden their sons, their daughters or their spouses with having to care for them when their health declines and they become too infirmed to care for themselves. For the defenders of this country—and I think you spelled that out—past and present, please reassure us again today that you will include us in the long-term care legislation this committee reports out to the full House this year.

Mr. Chairman, on behalf of TROA's members and all the military retirees here in Florida, I want to thank you for allowing me the opportunity to present the views of the Retired Officers Association on this very critical and important issue.

I thank you.

[The prepared statement of COL Nowlin follows:]

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STATEMENT OF

THE RETIRED OFFICERS ASSOCIATION

Before the

HOUSE COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON CIVIL SERVICE

Presented by

COLONEL KLYNE NOWLIN, USAF, Retired

PRESIDENT OF THE FLORIDA STATE COUNCIL OF CHAPTERS

OF THE RETIRED OFFICERS ASSOCIATION (TROA)

APRIL 8, 1999

Serving Those Who Serve America

Biography of Colonel Klyne D. Nowlin, USAF, Retired
President, Florida Council of Chapters, TROA

Colonel Klyne D. Nowlin is currently serving as President, Florida Council of Chapters, TROA. Previously he served two years as Council Vice President and as editor of the Council newsletter, *Council Communique*, from May 1996 to May 1998. From May 1994 to May 1996, he served as Council Area Vice President, East Central Florida. He has also served as 1st Vice President, 2nd Vice President, Legislative Chairman and Director on the Board of Directors, Cape Canaveral Chapter, TROA.

Colonel Nowlin graduated from Florida State University in May 1954 with a bachelor's degree in Marketing and received his MBA from University of Missouri in January 1968. During his 28-year career in the Air Force, Colonel Nowlin served in a variety of positions – most notably as a combat pilot, instructor and staff officer. As Wing Psychological Warfare Officer and Chief of Operations in Southeast Asia, he completed 131 combat/combat support missions in the U-10 aircraft. While assigned to the Office of Special Projects, Office of the Secretary of the Air Force, he managed the acquisition of classified space projects for the Department of the Air Force. His most recent assignments before retirement in November 1981 were as a director in support of the B-1 Bomber and C-17 Globemaster military transport research and development programs.

Following active duty service, he joined Harris Corporation, a Fortune 500 company, as a manager of major defense programs. He retired from Harris as a senior manager in February 1991.

Colonel Nowlin and his wife, Julie (who was an Air Force Nurse and is a current member of TROA and the Cape Canaveral Chapter) have four children and eight grandchildren.

MISTER CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE

On behalf of The Retired Officers Association (TROA), which has its national headquarters at 201 North Washington Street, Alexandria, Virginia, I am pleased to be here today to address the importance of Long-Term Care for our almost 400,000 active duty, retired, and reserve officers of the seven uniformed services. Included in our membership are approximately 71,000 auxiliary members who are survivors of former members of our association. This subject is not only of great importance to our members, but for all uniformed service members everywhere regardless of their status or rank.

First, I want to thank the Chairman and other distinguished members of the House Committee on Government Reform Subcommittee on Civil Service for allowing us to present our views on Long-Term Care and its importance to military members and their families. I am most pleased that you decided to hold these field hearings here at Naval Air Station Jacksonville, Florida.

Mr. Chairman, the hearings today are important to the 44,600 TROAns living in Florida of which 6,400 live in your district; and the 173,200 military retirees in Florida of which 30,600 military retirees live in your district. Worldwide, there are 1.8 million military retirees plus their dependents and family members who are potential participants in a government-sponsored long term care proposal. Like many Floridians, uniformed service members – active, reserve, guard or retired – are concerned about their health care and the potential need for long-term care in case of a debilitating illness or injury, which can happen at any time.

Let me digress a little now. I want to take this opportunity to state our sincere appreciation to you for supporting the Congressional efforts to restore health care equity to uniformed services retirees who lose TRICARE at age 65. Turned away from TRICARE, these very retirees - who are left to seek care on a "space available" basis at military treatment facilities (MTFs) - are increasingly unable to get health care from nearby MTFs at military treatment facilities (MTFs). Curtailment of military health care services - because of legislative restrictions, staffing drawdowns, reduced operating budgets or base closure actions, like that in the Orlando and Homestead areas - is a breach of the promises made to retirees that health care would be there for them if they served a career in uniform.

The cry to fix this inequity has been heard in Congress when it authorized, as part of the Balanced Budget Act of 1997, a Medicare subvention test, which DoD calls "TRICARE Senior Prime". As of January 1999, TRICARE Senior Prime is now operating in ten locations across the country. More importantly, Congress also authorized, as part of the FY 1999 Defense Authorization Act, a test that opens the Federal Employees Health Benefits Program (FEHBP) to Medicare-eligible uniformed service members beginning in January 2000. The test program, called "FEHBP-65", will be tested in eight locations

across the country and in Puerto Rico. What is important about this program is that it allows up to 66,000 uniformed services members to participate in FEHBP on the very same basis as other federal employees.

I mention these events because of your membership on the House Armed Services Committee and the insight you have for the military community. Historically, you have been a strong supporter of the military and "people issues" so important to us all. So, thank you for being a friend and strong supporter of the military community.

With that said, I now turn to the growing concern among older Americans, and those who have to care for them, that Long-Term Care (LTC) insurance is also a health care imperative. Without such insurance, most Americans, who are responsible for caring for a parent, a parent-in-law or a disabled spouse who is suffering from a debilitating illness or injury, would not have the resources to do so.

The cost of long-term care is astounding – averaging $40,000 per year for nursing home care, almost $100 per day for home health care services and an average of $25,000 per year for Adult Day Care services. Mr. Chairman, you know these costs better than I. While Medicaid can help those who are at or below the poverty level, it is not the answer for most Americans. And, Medicare – it's not the answer either. The answer for many Americans is to promote enrollment in **group** long-term care insurance plans to make such coverage available to more senior citizens. Every incentive that Congress can give toward enrollment in **group** long-term care insurance will lessen the demands that may otherwise be placed on Medicaid, the government and the taxpayer.

President Clinton proposed a Long-Term Care group insurance plan for federal civilian employees which would be self-financed by enrollees. The FY 2000 President's Budget proposed such a plan for federal civilian employees and retirees. Bills, patterned after the President's recommendations, have been introduced in the 106th Congress, and are now being addressed in your committee. While there are differences in how the plan should be structured, what role the Office of Personnel Management should play and how the program should be designed, that is for your committee to resolve. What concerned us is that until recently each bill was sadly lacking in one essential ingredient. The uniformed services community was excluded from the Long-Term Care legislative initiatives.

As a result, TROA greatly appreciates the lead of Representative Morella, a member of this subcommittee, for developing a more expansive and equitable bill (H.R. 1111) that included members of the uniformed services. We applaud her for remembering those who have served this great country, endured the hardships of service, frequently separated from their families, and now need comprehensive long term care coverage as they live out their twilight years.

Let me highlight some of the recent experiences a couple of my retiree friends and I have had that explain our interest in a group long-term care insurance plan envisioned for federal employees.

A few years after my father passed away, my mother, Kathleen M. Nowlin age 77, suffered from acute myocardial infarction, diabetes, blindness and incontinence. Her physician determined that she required 24-hour skilled nursing care. She was placed in Medic-Home Health Center, a nursing home in Melbourne, Florida, on November 9, 1982.

At the time the cost of nursing home care was about $2,000 a month, not including pharmacy, physician costs or personal needs, such as laundry, clothes etc. My father had been an automobile mechanic most of his life and my mother a housewife. They didn't have much to live on after retirement except for Social Security and interest earned on their meager saving, which to the best of my knowledge was about $50,000 to $60,000. With Mother's medical problems, it didn't take long for my mother's assets to be drawn down to the point where she had to apply for Medicaid to be able to stay in a nursing home. At that point, all of her valuable possessions were gone and she became property of the state. She remained property of the state until she died on January 12, 1988.

My mother was very fortunate to have Medicaid as an alternative when her assets were depleted. At the cost of about $30,000 to $35,000 at that time, we could not have afforded the huge cost of nursing home care without going into poverty ourselves.

My mother's situation was a rude awakening for my wife and me. If one of us, or both of us, were to be placed in a nursing home, our retirement and investment savings would be drawn down until one of us, or both, too would have to look to Medicaid and possibly become a property of the state. Most military retirees cannot afford current long-term insurance on their own. Thus, we will take the gamble that we will be one of the "lucky" ones who will not need long term care. If we do, I'm afraid we will go down the same path that my mother experienced.

Mr. Chairman, your support of military members has been very apparent over the years. We understood that it was your intent to include uniformed services members in the final legislation that the committee would fashion as it completed its business on long-term care. I must say that we were heartened during hearings that you conducted on March 18, 1999, when you gave your endorsement for including us in whatever legislation this committee reports out to the full House. Your endorsement is truly appreciated by all of us in Florida. I am glad that you didn't wait to show your support for us.

Such provisions, as included in Rep. Morella's bill, will give members, who are serving or who have served in uniform and earned retirement, an opportunity to participate in a government sponsored group plan on the very same basis as all other federal civilian

employees. At the same time, by broadening the base to include the military community, all participants could be the beneficiaries of reduced premiums or a better benefits package. For that insight, we are grateful to you and Representative Morella.

At this point, some demographic information may be useful to the committee. The table provided here shows the number of military members as compared to federal civilians who would be eligible to participate in the government's Long-Term Care insurance if given the opportunity to do so.

Comparison of Retired Military and Federal Civilian Populations

Age	Military(1)	Survivors(2)	Federal Civilians(3)	Survivors(3)
Under 60	744,841			
60+	927,430			
62+	824,850		1,407,880	517,961
65+	662,688		1,246,336	489,958
Total	1,672,271	223,386	1,718,898	582,360

(1) DoD Statistical Report on Military Retirement System, Fiscal 1997, Office of the Actuary, Department of Defense (RCS No. DD-P&R (PI) (1375), page 65.
(2) Ibid., page 220.
(3) Office of Personnel Management, FY 96 cases on the Retirement Roll CSRS/FERS Employee and Survivors Annuitants, October 10, 1996.

According to DoD's Statistical Report (page 219) (see footnote (1) above), there are also 1,491,144 active duty members of which 141,107 are 41 or older. Members who are 41 and older are likely to be interested in participating in a Federal group LTC plan to cover, not only their spouses who might become infirm due to disability, but more likely an aging parent or parent-in-law. In the aggregate, the military population that could participate in a government LTC plan would **total almost 3.4 million members**.

According to OPM, there are about 1.75 million Federal civilian employees. Additionally, there are 2.3 million annuitants and survivors which brings the **total eligible population to just over 4 million employees** who would be eligible to participate in a government long-term care plan.

Based on these figures and using the national participation rate of 6 percent, conservatively, we expect that the **participation for military members** (active, retired and survivors) could be **about 203,000** (probably higher given the favorable premiums available through a group plan). If the population were pared down to active duty members 41 and older, retirees 60 and older and survivors, the participation (based on the 6 percent standard) could be about 77,500 (probably higher given the favorable premiums available through a government sponsored group plan). **The participation for Federal**

civilian employees, annuitants and survivors would be **about 243,000** using the national rates – **OPM projects the participation to be closer to 300,000** given the favorable premiums under the government's group plan.

These participation projections should be attractive to the group insurance carriers who might want to participate in the government's LTC program. If active and retired uniformed servicemembers are included in group long-term care plans, a favorable group rate through board-base participation would make it affordable for servicemembers giving them choices at attractive premium rates. Without access to the government plan, I fear that most servicemembers will not be able to afford long-term care insurance on their own. Service members should not be left in a position that would make them go down the same road my mother did.

In closing, I want to reaffirm for you, Mr. Chairman, that uniformed service members want to be treated equally and fairly in programs developed for federal employees. We want to have an opportunity to participate in the government's long-term care program on the very same basis as all other federal civilian employees. Uniformed services members are proud people who, like federal civilians, do not want to burden their sons, daughters or spouses with having to care for them when their health declines and they become too infirm to care for themselves. For the defenders of this country, past and present, please reassure us again today that you will include us in the LTC legislation this committee reports out to the full House this year.

Mr. Chairman, on behalf of the 44,600 TROA members and the 173,200 military retirees here in Florida, I want to thank you for allowing me the opportunity to present the views of The Retired Officers Association on this very important matter. I will be pleased to respond to any questions you or other committee members may have or provide a response for the record.

Mr. SCARBOROUGH. Thank you, Colonel. We certainly appreciate your input and want you to know that we do wholeheartedly support military members and military retirees into this plan. Not only does it make good economic sense, it is what the Federal Government has to do to keep its word.

The numbers that you were kind enough to give regarding the number of military retirees that are in my district right now would suggest that I would be stupid not to include them and would have trouble actually driving back to my district if I did not include them.

But actually, when we were holding the Tri-Care hearings, I heard so many heartbreaking stories across northwest Florida about this breach of faith that I think the Federal Government really engaged in with those men and women that have done so much for this country in protecting our shores and the Constitution. You can see the heartache.

I want to assure you and everybody on this panel, it is very personal to me. My grandfather was on the Maryland on December 7, 1941 in Pearl Harbor, and survived the attack. He was an enlisted Naval officer throughout that war and also throughout the Korean War and served in the Navy until the early 1970's when he retired in China Lake. But as he was dying, he was very bitter toward this country and toward the government that he had fought for his whole life and given his whole life for. I remember asking my uncle out in California, I said, "What is it with grandad, he devotes his entire life to the Navy and to this country and now as he is dying, he is bitter toward it." And he said well, you know, Joey—and only my family can call me that—he said, Joey, you know, your grandad is a pretty simple guy, he is from Oklahoma and he believes that if a man gives him your hand and you shake on it and gives you his word, if he does not keep his word, he is no good. And that is what your grandfather thinks of the Federal Government right now. That is something that we carried throughout Tri-Care, that the Federal Government had broken its word on military health care.

We are here and I know all of us believe that this is the right thing to do and it makes sense for everybody involved. We are not going to let it happen again on this bill.

So we certainly appreciate your testimony.

Now let me ask you, and I open this up for the entire panel, does the military or does the VA right now, as far as any of you know, provide any type of long-term care coverage for any class of participant in the military or any military retirees?

COL NOWLIN. Well, the only thing I can answer is, I guess, if there is a person—a veteran who I think has 100 percent disability and there is room in a nursing home, I think they will be accepted, but that does not cover everybody. And as I understand in Florida, our facilities are overcrowded in many cases and there is not, particularly in nursing homes in the area, there is just not room for these people.

So I cannot speak any further than that.

Mr. SCARBOROUGH. Are you all aware of any?

SMSGT HYLAND. No, I am not.

Mr. SCARBOROUGH. Let me ask you, have your organizations ever offered a long-term care coverage policy, or group policy, to members of your organization, or have you ever considered it?

COL NOWLIN. Yes, TROA National has a long-term care policy. If you need some specifics, I would have to look into it. The only thing I have heard is it is kind of limited in coverage and it is very expensive.

Mr. SCARBOROUGH. OK. I am sure it is very expensive because the pool is not as expansive. If we bring in Federal employees, if we bring in—you were retirees and the National Guard, and also reservists then I think we all believe that expanding the pool, especially with some of the younger, more healthy, active duty members right now, that are obviously not going to need long-term care for 30 or 40 years, will drive down the price. So that inclusion makes a lot of sense.

COL NOWLIN. You know, it sounds like a win-win situation for the Federal employees and for the military, because they are both pooling together the resources to bring those prices down. It appears to me it would be a win-win situation.

Mr. SCARBOROUGH. Are you aware of anything in your long-term care policy—and I know again that there are other specialists and this is not your specialty—but have you heard of anything that could be helpful to us as we are trying to craft a plan for long-term health care about what has worked with your plan or what has not worked with your plan?

COL NOWLIN. I really cannot answer that specifically. I can get that information.

Mr. SCARBOROUGH. OK, if you could provide that for us and we will put it in the record.

COL NOWLIN. OK.

Mr. SCARBOROUGH. That way, when we have a record of the hearing, it will be included.

[The information referred to follows:]

The TROA staff and TROA's insurance broker, Kirke Van Orsdel, studied major long-term care policies (LTC) offered by various underwriters over an 18-month period of time. We looked at such things as: liberal benefit triggers, elimination periods, % of long term care benefit devoted to home care, bed reservation policy for short duration hospital stays, inflation protection options, length of time the underwriter had been selling LTC insurance, financial rating of the underwriter, premium, and important policy definitions. Important policy definitions included definition of mental incompetence, inclusion of an Alzheimer's clause, and clauses concerning what doctor certifies inability to perform the activities of daily living (the policyholders own doctor or the insurance company doctor).

We were also concerned about the complexity of this product and the need to explain it so that a prospective policyholder could understand what they were buying. In the end the AMEX Plan, now called the General Electric Capital Assurance Plan (GECA) was deemed to be the best choice. In addition to comparing favorably with other major plans, GECA has a dedicated agent force with sells only this product and thus allows the agents to become true experts on this very complex insurance product. In addition, this plan represents the largest book of business in the industry and is the pioneered LTC product. As a result, GECA now has a long-term claims payment history, which means that their product has been priced correctly. This is important since future rate increases for existing policyholders could be disastrous if the increases are not affordable by elderly, long-term policyholders. GECA also has a claims payment rate which exceeds 97.6%, and the company is very sound financially.

Mr. SCARBOROUGH. Let me ask you all a question about choice, and I think this is one of the differences right now between the competing bills and something that I am very confident that we are going to be able to work out. Right now, the question is whether we are going to provide more choice to our Federal employees and retirees in purchasing long-term care. Our approach is a bit more expansive and we want to open it up and allow more insurers to come in and I know that Mr. Cummings' bill, like the administration's, believes in narrowing that focus. Obviously—and he will certainly be able to talk on this more—obviously OPM and Mr. Cummings think it has more to do with quality control. Our belief is the more you open it up, the more expansive the choice, the more opportunities for members whether they are wealthy or whether they have a little more trouble paying.

Let me ask you, do you all have any feeling on whether your members would prefer to be able to choose from a variety of options offered by competing carriers or have the more limited choice that is among the benefit packages right now that is being dictated by OPM?

COL NOWLIN. Well, I think it would depend on cost, would be the big driver, whether by offering more opportunities, whether that is going to drive the cost up, I do not know. But I know in our organization, the people I have talked to, some would like nursing home care coverage, some want just to have home care coverage, things like that. So, you know, it has different options there.

But again, I think the main driver in this whole thing is what is the cost going to be. And if you have a lot of options which is going to make the cost drive up because you have got people that are—well, whatever the reason, just like most insurance, that would be the determining point. But I think there is a lot of interest in knowing what are the options. And that is something I find I think most of the people are not too familiar and they don't know too much about long-term care and what the program is going to be.

Mr. SCARBOROUGH. Right.

COL NOWLIN. What are those options going to be? We sort of went through this I guess with Medicare, who recently has opened a lot of options and a lot of people did not know what the options were and it took awhile for it to get out from Medicare itself, to get it published to the people.

Mr. SCARBOROUGH. Right.

COL NOWLIN. And I think this is the same situation. I think there needs to be an education program to educate the people as to what is going to be offered or what is being planned.

Mr. SCARBOROUGH. I think you are right, I think the education process is important. In fact, one of the concerns from OPM would be if you opened it up to a lot of different organizations, that it might be confusing to participants. Let me ask you all, for the organizations that you all are members of, is this the sort of thing that you would help provide education for, sort of like Tri-Care. When Tri-Care was implemented, I know everybody was scrambling to try to educate as quickly as possible. But if we were able to give your members a variety of choices and open it up and make it very

expansive, is this the sort of thing that you all would provide education for, to help guide your members through this process?

COL NOWLIN. Definitely. We did this with Tri-Care, we have done this with Medicare and we have done it with the FEHBP program. You bet our organization is going to publicize that highly.

Mr. SCARBOROUGH. Larry.

SMSGT HYLAND. I would like to piggyback on that, Mr. Chairman. Our organization would also, we would definitely get it out in our magazine and provide that information to our members because we know the benefit and the return on it.

Mr. SCARBOROUGH. Ms. Croach.

Ms. CROACH. Absolutely, NMFA would fully support, absolutely.

Mr. SCARBOROUGH. All right, at this point, Mr. Cummings, do you have any questions for the panel?

Mr. CUMMINGS. Oh, definitely.

First of all, let me again thank you all. Your testimony has been very meaningful. I agree with Mr. Scarborough, as I said a little bit earlier, I think that the military enlisted people, uniformed and retirees should be included in this proposal.

But I want to just piggyback on a few of the questions that Mr. Scarborough asked, particularly with regard to education. One of the things that has become real clear from your testimony and just from my experience in studying this legislation is that that education piece is so important, it really is, because as I think all of you have pointed out, if you are expanding the group of people who can benefit, then that is important, but it is also important that they take advantage of it. And so I am glad to hear you all say that and you are absolutely right, Mr. Hyland, when you said that it would inure to your benefit by doing this extensive education piece.

One of the things that—we had some testimony before at an earlier hearing where the insurance industry came forward and basically said that because of the nature of this insurance, that it would probably be only between five and six companies at most that would even be willing to offer it, be in a position to do it, in the country, which, you know, kind of surprised me, but after I began to look at it, I could kind of understand that. But I wanted to go to you, Ms. Croach, and just ask you, you were talking about your mother-in-law, I think it was.

Ms. CROACH. Both my mother-in-law and my mother, over the last 3 weeks I have taken leave to take care of.

Mr. CUMMINGS. When you see what is going on in your life, I mean what kind of things would you like to see in a long-term care policy? In other words, what are the things that are foremost in your mind, the things that you would like to see. I mean Mr. Nowlin—I do not have my glasses on—Mr. Nowlin spoke about there are a lot of questions as to what the terms are. You are absolutely right, when you talk to people even in the industry, sometimes they have some questions, to be frank with you. We want to make sure that whatever we do, we do it right and try to make sure that the things that you are concerned about, that we see how we take those and then make sure that we have some type of benefit package that fits that, but at the same time taking into consideration what you have all talked about and that is cost. Because if it is too costly, we still have a problem.

So I was wondering, you know, in light of what you see yourself—I do not know whether you are just beginning this process of problems or whether it has been ongoing for a good while, but what are the kind of things that stand out most in your mind that you would like to see?

Ms. CROACH. From a personal standpoint, my mother is a NASA retiree, after 30 years, so she would be the Federal employee that you are talking about, retiree, civil service. I am a product of an Army father, an Air Force husband and an Air Force father-in-law. As I spoke with my mother last night about—she wanted to be here today but she has very important tests at Mayo this morning—I told her, I said you know, it just seems that if we were to go from this hearing on a tour, and I think we will, that if we go into the Naval facilities around here, we will see civil servants sitting shoulder-to-shoulder with a person in uniform. We have spent our lives working together as part of the Defense family in support of the national security of the United States, and therefore, anything that would be afforded to one should be afforded to all.

I think if we need due diligence on policy providers, to make sure that whoever comes to the table offering, that it be clear that as Members of Congress, what are the kinds of things that you would look for in your own policy? What you would take home to your kitchen table and sit with your spouse and your families? What would you select as important things for a plan that you would subscribe to? These are the kinds of things that we also would like to have. What works in this zip code does not work in another zip code. Many of us are—as military retirees, we migrate to the three most popular States of former military personnel, which would be California, Texas and Florida. So clearly, a provider, in my personal opinion, would be asked to come to the table and say that in collaboration with the Department of Defense, with the Veterans' Administration, with the Office of Personnel Management, how do we develop a program so that collaboratively, particularly with the military coalition because we represent 23 associations I believe, that we basically are in touch with those who have served. If we collaboratively work to help educate, to bring that information to every person who has served, through retiree pay stubs, through direct deposit announcements that come with our retired pay—whatever it is to be able to touch the life of every person who has raised their right hand and sworn to protect our country, or their family members, or family members that are left behind, I think that if we show the cost/benefit in real terms, speaking to them in language that they can understand so that you give examples of what it would be like. When you tell me that the cost by the year 2030 will be almost at the $100,000 level, I will be 44 years old in June, and in the year 2030, you can put the numbers together. I would, depending on how well I take care of myself and what God has bestowed upon me inside my genes and what I have propensities to grow to be ill perhaps, much of which I have learned in the last few days at Mayo because of my mother, I can tell you that I would perhaps be a candidate for this program and I just believe that clearly if we are embarking on—I remember I worked at the Pentagon when we put together the family policy office. Mr. Weinberger wanted very desperately to make sure that as we looked at

recruitment and retention—and you mentioned that earlier about quality of life issues, recruitment and retention—it was clear that we could recruit a member, but we had to retain a family.

We talk a lot about quality issues for families but at that point, and this was posed to ABF in 1976 when we went from conscription to an all volunteer force, we looked very carefully at what kinds of things, in terms of childcare and other things that make it very difficult for military families to serve when they are deployed and many of them are single parents and there are children involved. I can tell you that in putting together the family policy office, it was very clear to those of us working on staff at the time that we had to be able to help a military family understand that it was really worth their while to be deployed to places where they could not go home for holidays, where it was a long distance phone call to talk to any family member back home, where these kinds of things where—it was more important for us to serve than it was to have our personal lives put first.

But now, in order to equalize that difference for that service, I think that a policy—the opportunity to participate in a policy that takes into account the differences in geographic location, the differences in services that can be provided in every zip code, I think that we can all come together. We all have bright minds and I think that we can put together a program that makes really good sense, make providers sit at the table and work together to provide something for this unique population, that it be something that a retiree's family can benefit from. They are no different than other Americans, we are just like everyone else. I always said, we—and not to endorse any products, but we put air in the tires of our cars just like anyone else does, we use Pepto-Bismol, we do the whole thing just like everyone else, we are just like everyone else. We just happen to be persons who decided to give a lot to our country as a member of the services and as spouses of those who also fell in harm's way.

Mr. CUMMINGS. Well stated.

One of the things, as you were talking, I was just—and this is opened up to all of you all—it is true that if we—I guess like health insurance, the more you expand your pool, the more—you know, the younger people that you have in, the more you are likely to—and healthy people—the more you are likely to reduce premiums in the end. And I think it may have been you, Ms. Croach, or one of you all mentioned the fact that when you are talking about military people, they have a limited amount of income and when you think about say a young family, a young military person thinking about maybe two or three children, trying to support them and do all the things that go along with raising a young family, how do you all see educating someone to say well, look, it may not really be upon them, maybe their parent has not gotten but so old and they are saying well, wait a minute, I have got a choice, do I put money in a long-term care policy or, you know—in other words, how do you get that message through when you have got all these other competing forces? I mean you touched on it a little bit just a moment ago, but I guess that is one of the things that I wonder about, how do you get that message through that, look, this is something you really need to do and you should not wait until it

is right at your doorstep, because if you wait until it is right at your doorstep, we do not even know exactly how all of this—the premiums will work out, but it is probably going to be pretty high. The other thing is that you—certainly if people are waiting until it is at their doorstep, then the premium, the thing that all of you are concerned about, that is that the cost be reasonable, sort of goes out the window.

So I was just wondering, when all of you said that you would be willing to do what you have done in the past, educating your constituencies with regard to this product, I was just wondering how do you see getting that kind of message through, because like you said, MSGT Hyland, that inures to your benefit, you know.

Ms. CROACH. Could I make a statement?

Mr. CUMMINGS. Sure.

Ms. CROACH. I read at one point in time that often when we are active duty, if we are transferred from one duty station to another, young enlisted families ask a very different question than a family that is more established, perhaps an officer's family, in the military. A young enlisted family will say I wonder if the car will make it. I understand your point about the fact that there is always not enough money to go around for housing and basic expenses.

But how will we educate? One of the things that has always fascinated me is in the Department of Defense, about the time that the Gulf war began, there were stop loss gates engaged so that there would not be a massive drawdown of strength. During that time, the services, excluding the Army, developed transition assistance programs to help transitioning military families, the member and family, to transition from civilian life to active service. These programs—the Army contracts its out to the private sector, but the other services provided theirs in-house. And what that program consisted of is an opportunity to help a person package themselves to be competitive in the marketplace. It might also consist of looking at educational credentialing or other training and those kinds of things that a person might need to re-engage in the private sector.

These programs are very successful and it appears that oftentimes we might require that as part of a training program, that a member and their family be afforded an opportunity to come to a training session, which is part of a family's opportunity to learn what this could mean for them, real scenarios where we show over time the purchasing power of your dollar and what that means for you.

It cannot be a lot different than our discussions that we have with young enlisted members to say to them, you know, if you participate in the new Montgomery GI Bill, the good news is you will have an opportunity to go to college after your years of service; the bad news is we are probably going to have to take about 25 percent of your pay once a month, about $100 a month, for 1 year. And when you tell a young person that has just been sworn in that 25 percent of their pay will go to the GI Bill for their portion, that sometimes can be difficult. But I can tell you as a person who is Director of Federal Relations for a university here in Florida, that we have no problem—you know, we have lots of people who are interested in going to college and they are going on their GI Bill, our

Veterans' Affairs office is teeming with people who are using that which they co-invested with the Government to be able to provide educational opportunities for them post-service.

This can be done. It is not something that we cannot do for ourselves and collaboratively with the Federal Government and with the private sector, the associations, particularly the Military Coalition which represents all of us. Clearly you have to somehow have an interest in what is going on, you have to read the Service Times or you have to read the local newspapers or you have to read association information, and most of them are membership-based. But for those of us who do volunteer work, we see people throughout the community that are interested in getting the word out.

I think there is no question that we will not try to do that, but trying to reach everyone, I think it is an opportunity for the services to engage and to talk about the kinds of things that give comfort to a person while they serve. If these things are taken care of, even though we understand compartmentalization in thought, clearly if we know that we have an opportunity to participate in a program that others have and that is something, one less worry, I can assure you that those kinds of things will pay off in our day-to-day work and those who are particularly in harm's way that it is also in the back of their minds wondering whether or not their aging parent—if Meals on Wheels made it before it was time for them to take their medicine or whatever. It needs to be brought down to the level of two fingers right here, bump, bump, bump over your heart—the real world. It needs to be provided by people who are credible—the educational process I am speaking of—needs to be provided by people that we can count on and depend on to be telling us the truth.

Mr. CUMMINGS. Thank you.

Mr. SCARBOROUGH. Thank you.

We want to finish up this panel and get to the next because I know there is one member of the next panel that needs to catch an airplane and we certainly do not want to be responsible for making him miss that plane. Before we do that, I want to ask a couple of very quick questions, just for the record, to help us as we prepare this bill and prepare the inclusion of military retirees.

First of all, regarding demographics, one of the complaints that we might hear is that the inclusion of military retirees would actually might not help the cost of the programs. Do you all believe that there is anything about the health or age of your groups that would complicate the long-term care program if they are added?

COL NOWLIN. I can answer that from a military standpoint I guess, retirees. We are normally considered pretty healthy for the organization, when we look—I should say, across the age groups. We are going to need that care though, but I do not understand why that would have any effect on it. I think adding us, our organizations, into it I think are going to help in the cost area and I do not think it is going to be detrimental in the health area.

Mr. SCARBOROUGH. OK.

SMSGT HYLAND. I would also like to say the same, Mr. Chairman. I believe if we open it up to the military retirees, I do not think we are any different than the "Federal employees" that it is

going to be offered to. And again, across the full spectrum, I think probably our health care is probably a little bit better.

Mr. SCARBOROUGH. Great.

Ms. CROACH. I think that if you have a job where you have to be able to be mobilized and show up to have an annual physical every year, that is probably—you are getting persons who are drug free, their entire career they have had physical training, physical fitness. I am not saying that we are 100 percent healthy and all of that, some of us are more than others, but we still reflect that cross section of the world that I mentioned earlier.

Mr. SCARBOROUGH. OK, great.

And one final thing regarding recruitment and retention. And again this has been touched on before, but just for the record, do you all feel that adding long-term care as a benefit will help us with recruitment and retention of those in the military?

SMSGT HYLAND. Mr. Chairman, I would like to address that, speaking as a former enlisted, I definitely believe that would help. Because currently, as we all well know, one of the problems or one of the creations of the exodus that we are seeing in the armed services, especially in the junior ranks, is that there is a feeling, a compelling feeling, that there is no support out there, mainly in military retirement benefits. By instituting something like this and bringing it forward and having it on the table, I think that would convey back to the people who are considering to go to the career status or those who are debating whether to even join the military, I think it would definitely help us in that area.

Mr. SCARBOROUGH. Thank you, I appreciate——

Mr. CUMMINGS. Just one thing.

Mr. SCARBOROUGH. Oh, sure.

Mr. CUMMINGS. I just wanted to take a quick 30 seconds to thank you all again as volunteers for your organizations. You know, I often say that there are a lot of people who stand on the sidelines of life and they are high on opinion and low on information, and they never do anything to make a difference. But the fact that you all took your time to come here today to help us make some very crucial decisions, and all of you spoke so well for your organizations and your organizations are truly blessed to have you. And I just wanted to take a moment to thank you, and compliment you also.

COL NOWLIN. Thank you also.

Mr. SCARBOROUGH. Thank you very much, we appreciate it.

Why don't we call up our second panel now. We will let the audience try to guess who has the plane they have to catch by how quickly the members read their testimony. And we will not reveal that until the end.

Mr. GRUBB. I plead guilty.

Mr. SCARBOROUGH. You plead guilty already?

Mr. GRUBB. But this is more important than an airplane.

Mr. SCARBOROUGH. Oh, thank you, correct answer.

We have—while they are being seated—we have Mr. Bill Carr, who is Deputy Director, Force Management Policy for the Department of Defense. We are certainly honored by your presence. We have Pat Freeman, associate executive director of the John Knox Village Medical Center, American Health Care Association, we certainly appreciate you being here, thank you so much. And we have

Kenneth A. Grubb, president, NYLife Administration Corp., Health Insurance Association of America, who has already testified and been very helpful in Washington, DC.

We thank all of you for being here today, and because Government Reform is an investigative committee, we do require that you stand and take an oath.

[Witnesses sworn.]

Mr. SCARBOROUGH. Director Carr.

STATEMENTS OF WILLIAM J. CARR, DEPUTY DIRECTOR, FORCE MANAGEMENT POLICY, DEPARTMENT OF DEFENSE; PAT FREEMAN, ASSOCIATE EXECUTIVE DIRECTOR, JOHN KNOX VILLAGE MEDICAL CENTER, AMERICAN HEALTH CARE ASSOCIATION; AND KENNETH A. GRUBB, PRESIDENT, NYLIFE ADMINISTRATION CORP., HEALTH INSURANCE ASSOCIATION OF AMERICA

Mr. CARR. Thank you, Mr. Chairman, Mr. Cummings, in deference to my colleague to my left who has to make a flight, I will be brief.

In behalf of the Department, I welcome the opportunity to be with you today to discuss the proposed extension of long-term care insurance to people in the uniformed services. The Department appreciates the subcommittee's interest in the possibility of including active and retired uniformed service personnel and their families in the population of individuals that would be eligible to purchase long-term care insurance.

We are prepared to study and work on how to pursue the inclusion of the uniformed service people in long-term care proposals that might contribute to the recruitment, to the retention and to the morale of those who serve the Nation. There is no comparable program in place today that could serve as a model for the program to really know how it could operate, so we need to work with OPM in helping to shape those requirements. The DOD requirements are nonetheless unique, as the demographics of the active and retired uniformed service populations are different from the population at large, as the previous panel pointed out.

We do believe that it is important to consider whether to include uniformed service personnel should a program for Federal employees, such as H.R. 110, be enacted. And we look forward to working with the appropriate committees in the development of these issues and in the pursuit of this very valuable addition to the benefits package.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you, Mr. Carr.

Ms. Freeman.

[The prepared statement of Mr. Carr follows:]

STATEMENT OF

WILLIAM J. CARR

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

(FORCE MANAGEMENT POLICY)

Before the

Civil Service Subcommittee

House Committee on Government Reform

ON

Long Term Care Insurance for Federal Employees,

Part II

Thursday, April 8, 1999

NOT FOR PUBLIC RELEASE UNTIL
RELEASED BY THE SUBCOMMITTEE

Biography

Office of the Assistant Secretary of Defense
Force Management Policy
Washington, D.C. 20301-4000

WILLIAM J. CARR
Deputy Director, Officer & Enlisted Personnel Management
(Military Personnel Policy)

Mr. William Carr is assigned to the Office of the Secretary of Defense, serving as principal manager for integrating Defense personnel programs with the Department's Planning, Programming, and Budgeting System; and for development of the Department's annual legislative program relating to personnel and support programs. He exercises oversight of Defense policies relating to military personnel management, including retention and separation programs.

A graduate of the United States Military Academy, Mr. Carr holds a Master of Science in Systems Management from the University of Southern California, and has completed postgraduate work (Senior Officials in National Security) at the Kennedy School of Government, Harvard University.

Mr. Carr's 20-year military career was performed in the field of military personnel management, including service as Chief of Enlisted Management for Army forces in Korea; he also served with the U.S. Army Military Personnel Center as enlisted strength and readiness manager for the Pacific -- Korea, Panama, Hawaii -- and as officer accession manager with policy oversight of the Officer Candidate School program. Mr. Carr worked with Armed Forces recruiting as commander of the Defense activity managing recruit-eligibility screening for Hawaii and the Pacific region; in that capacity, he worked with local governors to open recruiting in the former U.S. Trust Territories in Micronesia and the Marshall Islands, as stipulated in their Compact with the United States.

Mr. Carr authored the January 1990 report of the Secretary of Defense to Congress defining the Department's goals and strategies for accomplishing then-forthcoming military manpower reductions, along with the legislation needed to execute those reductions. He also led the Department's review of aviator management, and authored the 1988 report to Congress outlining program deficiencies and legislation -- subsequently enacted -- to correct (pre-drawdown) pilot shortages. Mr. Carr also authored the Department's comprehensive 1994 review of Armed Forces Quality of Life -- compensation, housing, and support -- culminating in Secretary Perry's November 1994 announcement of broad reforms, and Defense reprogramming ($2.7 billion; six years) to accomplish the reforms outlined in that review.

Accomplishments include award of the Defense Superior Service Medal, the Defense Civilian Career Service Award, and selection as one of the Outstanding Young Men of America. Mr. Carr was appointed as a member of the career civil service in January 1992. He and his wife, Christine, reside in Alexandria, Virginia; their son Darren attends the University of Florida.

Mr. Chairman and members of the subcommittee, I welcome the opportunity to be with you today to discuss the proposed extension of the proposed long-term care insurance benefit to personnel in the uniformed services. The Department appreciates the subcommittee interest in the possibility of including active and retired uniformed service personnel and their families in the population of individuals that would be eligible to purchase long-term care insurance.

We are prepared to study how the inclusion of uniformed service personnel in long-term care proposals might contribute to recruitment or to the retention or morale of those in active service. While there is no comparable program in place today that could serve as a model for program administration, we will work as needed with OPM to determine the requirements. DoD requirements are somewhat unique, as the demographics of the active and retired uniformed service populations are quite different from the population at large or of civil servants and annuitants.

We do believe that it is important to consider whether to include uniformed service personnel should a program for Federal employees, such as H.R. 110, be enacted. We look forward to working with the appropriate committees on these issues.

Ms. FREEMAN. My name is Pat Freeman and I am associate executive director at John Knox Village in Orange City, FL, which offers both nursing and assisted living services for approximately 160 residents. I would like to thank you on behalf of the those residents for continuing to address the very important issue of long-term care insurance. On behalf of the American Health Care Association, I applaud you, Congressman Scarborough and Congressman Cummings, along with your colleague Congresswoman Morella, for giving such time and effort in your proposed legislation to fix a very big problem.

I am testifying today on behalf of the American Health Care Association, a federation of 50 affiliate associations representing 11,000 non-profit and for-profit nursing facilities, assisted living residences and subacute providers nationally. My organization, much like your legislation, is working to educate Americans and policymakers about the urgent need to reform the way long-term care is financed in this country.

The plan that is decided upon by this subcommittee can be used as the model for private employers who want to help baby boomers protect their retirement savings. Without the opportunity to purchase long-term care insurance through an employer, three out of five baby boomers who fall ill could see their retirement savings strained by the cost of long-term care.

On March 18, this committee began debate on a key aspect of President Clinton's long-term care initiative—providing Federal employees long-term care insurance as a part of their benefits package. This field hearing today in Jacksonville continues debate on three important pieces of legislation; H.R. 602 and H.R. 110 are designed to make long-term care insurance available to Federal employees, while H.R. 1111 would provide members of our Nation's military access to long-term care insurance as well.

Offering long-term care insurance to Federal employees, including extending this benefit to members of our Nation's armed forces, will set an important precedent and will encourage private businesses to offer this benefit to their employees.

Holding this hearing at the Naval Air Station here in Jacksonville is particularly fitting. Many of our Nation's veterans, who risked their very lives to keep this country free, face impoverishment should they need long-term care as they age. Giving military personnel the ability to purchase long-term care insurance at group rates is an important step in helping them protect their and their families' life savings and assets.

Long-term care insurance is a very important employee benefit that we hope will signal the private sector employers across the country. Long-term care insurance provides tremendous security for individuals and their families. In fact, later this afternoon, during your tour of the Heartland Healthcare Center, you will meet several individuals who have benefited from owning long-term care insurance. Juanita Russell and her husband William have personally benefited from owning such a policy. After Juanita was admitted to the Heartland Center in February 1998 for a fractured hip, Medicare covered the first 100 days of her stay. Past that, she, along with her husband, would have had to pay out of pocket were it not for long-term care insurance. You will have the opportunity

to ask Mr. and Mrs. Russell yourselves about the excellent care Juanita has received and how long-term care insurance has made that all possible.

My own father, who just passed away 6 years ago, was a retired Naval officer and was cared for by my mother and myself in the latter stages of his fight with lung cancer. I truly believe if he knew the option existed, he would have invested in long-term care insurance, to both assure a consistent, high level of care for himself, and to alleviate some of the burden of his care from my mother and myself.

This field hearing is particularly timely, given a new survey released in New York and Washington this week that finds baby boomers—particularly boomer women—are headed for financial ruin in their old age. The survey found that while boomers are concerned about their retirement security, they are not saving adequately for potentially devastating long-term care costs that nearly three of five of them will encounter as they grow old.

Let me give you a little background on the survey. The American Health Care Association commissioned the Republican polling firm Fabrizio, McLaughlin & Associates and the Democratic polling firm Penn Schoen & Berland to conduct a national telephone survey last fall of 800 adult Americans between the ages of 34 and 52 years—the baby boomers. Fabrizio then conducted a followup national survey of 800 baby boomers to gauge their reaction to the administration's long-term care initiative outlined in President Clinton's State of the Union address.

The overall conclusion from this survey is an alarming reality gap in how baby boomers view their retirements needs. Retirement is not all travel and golf—in fact, three of five baby boomers will become ill enough to require long-term care, but almost none of them are taking steps to address this threat to their retirement savings. Only now are baby boomers just beginning to realize the sheer size we will have on the Medicaid and the Medicare systems. In fact, over 80 percent of baby boomers applaud the President's plan for a national public education program about long-term care services and financing.

The survey found that boomers get a flunking grade in retirement planning. In addition, four out of five boomers interviewed are totally confused about how health care and long-term care are paid for in their retirement. While 91 percent of boomers are covered by health insurance, many boomers incorrectly think their health insurance policies will pay for long-term care or they believe that Medicare will pay for their long-term care costs as they grow older. They are wrong, absolutely wrong.

Just 15 percent know the principal source of long-term care funding assistance is Medicaid—the Government program for the poor—not Medicare. Only one in four Americans can afford private nursing facility care and two out of three nursing home residents must rely on Medicaid for their care.

Failure to provide for the cost of a nursing facility stay or other long-term care needs is the primary cause of impoverishment among the elderly. In fact, two out of every three nursing home residents must rely on Medicaid to pay their bills. To qualify for Medicaid, individuals must spend down their total assets to the

poverty level of $2,000. They then need to give up control over where and how they are going to live.

The survey also uncovered a number of startling findings that do not bode well for boomer women.

As women, we live longer than our male counterparts. We still typically earn less than men, and therefore save less for retirement. We receive lower Social Security payments but we are the primary caregivers when a loved one becomes ill. We are emotionally and financially torn between the demands of a busy career, raising our children, taking care of our households and providing care—either directly or indirectly—to our aging parents.

Perhaps the most troubling finding from the survey is that 41 percent of boomer women who have provided care for a family member or friend were forced to quit their jobs or take a leave of absence to provide that care. The financial drain of having to provide care to aging relatives and spouses is only a part of the burden boomer women face. Once they have cared for their parents and spouses, who will take care of them? Who will pay for that care?

By our sheer numbers, baby boomers have dramatically impacted society and increased the demand for services at every stage of our lives.

By 2030, when the last of our generation reaches retirement, our generation will virtually double the current nursing home population to 5.3 million individuals. And because 70 percent of nursing home residents rely on Medicaid to pay for their long-term care costs, our generation threatens to bankrupt the Medicaid system. In fact, by 2030, Medicaid expenditures for nursing home costs are expected to increase 360 percent. This massive cost will require either significant cuts in the program or a major overhaul of our system for funding.

The legislation being debated today stems from the long-term care initiative announced by President Clinton in January. The survey found that boomers are very receptive to the administration's proposal to address long-term care financing. In particular, boomers favor proposals for a tax credit for caregivers, a national program to educate Medicare beneficiaries about the program's limited long-term care coverage, as well as long-term care insurance for Federal employees, to help set an example for American businesses. They also favor the administration's proposal to create a national family caregiver support program that would allow States to establish centers for one-stop shopping for information and support on long-term care concerns.

While the administration's initiative and your legislation are a good start, more must be done to assure baby boomers will be able to afford long-term care when they need it. To accomplish this, major changes must be made in how we finance long-term care.

A Federal commission, similar to the Medicare Commission, should be convened to develop additional meaningful solutions to the current long-term care financing system. The long-term care industry welcomes the opportunity to work with the administration

and Congress to develop meaningful solutions to the long-term care financing crisis.

Thank you.

Mr. SCARBOROUGH. Thank you, Ms. Freeman.

Mr. Grubb.

[The prepared statement of Ms. Freeman follows:]

Testimony
House Civil Service Subcommittee Field Hearing
on Long Term Care Insurance for Federal Employees
Pat Freeman, Associate Executive Director
John Knox Village Medical Center

My name is Pat Freeman and I am associate executive director at the John Knox Village Medical Center in Orange City, Fla., which offers both nursing and assisted living care for approximately 160 residents. I'd like to thank you, on behalf of those residents, for continuing to address the very important issue of long term care insurance. On behalf of the American Health Care Association, I applaud you, Congressman Scarborough and Congressman Cummings, along with your colleague Congresswoman Morella, for giving such time and effort in your proposed legislation to fix such a large problem.

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The plan that is decided upon by this subcommittee can be used as the model for private employers who want to help Baby Boomers protect their retirement savings. Without the opportunity to purchase long term care insurance through an employer, three out of five Baby Boomers who fall ill could see their retirement savings drained by the costs of long term care.

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Long term care insurance is a very important employee benefit that we hope will be a signal to private sector employers across this country. Long term care insurance provides tremendous security for individuals and their families.

My own father, who passed away just 6 years ago, was a retired Naval Officer and was cared for by my Mother and myself in the latter stages of his fight with lung cancer. I truly believe, if he knew the option existed, he would have invested in long term care insurance to both assure our financial security and to alleviate the burden of his care from my Mother and me.

Today's field hearing is particularly timely, given a new survey released in New York and Washington this week that finds Baby Boomers—particularly Boomer women—are headed for financial ruin in their old age. The survey found that while Boomers are concerned about their retirement security, they aren't saving adequately for potentially devastating long term care costs that nearly three of five of them will encounter as they grow older.

Let me give you a little background on this survey. The American Health Care Association commissioned the Republican polling firm Fabrizio, McLaughlin & Associates, and the Democratic polling firm Penn Schoen & Berland, to conduct a national telephone survey last fall of 800 adult Americans between the ages of 34 and 52 years—Baby Boomers. Fabrizio then conducted a follow-up national telephone survey of 800 Baby Boomers to gauge their reaction to the Administration's long term care initiative outlined in the President's State of the Union address.

The overall conclusion from this survey is an alarming reality gap in how Baby Boomers view their retirement needs. Retirement is not all travel and golf, as three of five Baby Boomers will become ill enough to require long term care. But almost none of them are taking steps to address this threat to their retirement savings. Only now are Baby Boomers just beginning to realize the impact our sheer size will have on the Medicaid and Medicare systems. In fact, over 80 percent of Baby Boomers applaud the President's plan for a national public education program about long term care services and financing.

The survey found that Boomers get a flunking grade in retirement planning. In addition, four out of five Boomers interviewed are totally confused about how health care and long term care are paid for in retirement. While 91 percent of Boomers are covered by health insurance, many Boomers incorrectly think their health insurance policies will pay for long term care or they believe Medicare will pay for their long term care costs as they grow older. They're wrong.

Just 15 percent know the principle source of long term care funding assistance is Medicaid – the government program for the poor – not Medicare. Only one in four Americans can afford private nursing facility care and two out of three nursing home residents must rely on Medicaid to pay for their care.

Failure to prepare for the cost of a nursing facility stay or other long term care needs is the primary cause of impoverishment among the elderly. In fact, two out of every three nursing home residents must rely on Medicaid to pay their bills. To qualify for Medicaid, individuals must spend down their total assets to the poverty level of $2,000. They then give up control over where and how they live.

Women Are Particularly Vulnerable to Emotional and Financial Devastation

The survey also uncovered a number of startling findings that do not bode well for Boomer women.

As women, we live longer than our male counterparts. We still typically earn less than men and therefore save less for our retirement. We receive lower Social Security payments, but we are the primary caregivers when a loved one becomes ill. We are emotionally and financially torn between the demands of a busy career, raising our children, taking care of our households and providing care—either directly or indirectly—for our aging parents.

Perhaps the most troubling finding from the survey is that 41 percent of Boomer women who have provided care for a family member or a friend were forced to quit their jobs or take a leave of absence to provide this care.

The financial drain of having to provide care to aging relatives and spouses is only a part of the burden boomer women face. Once they've cared for their parents and spouses, who will take care of them? Who will pay for their care?

Boomers Threaten to Bring Medicaid to the Breaking Point

By our shear numbers, Baby Boomers have dramatically impacted society and increased demand for services at every stage of our lives.

By 2030, when the last of our generation reaches retirement, our generation will virtually double the current nursing home population to 5.3 million individuals. And because 41 percent of nursing home residents rely on Medicaid to pay for their long term care costs, our generation threatens to bankrupt the Medicaid system. In fact, by 2030, Medicaid expenditures for nursing home costs are expected to increase 360 percent. This massive cost will require either significant cuts in the program or a major overhaul of our system for funding.

The legislation being debated today stems from the long term care initiative, announced by President Clinton in January. The survey found that Boomers are very receptive to the Administration's proposals to address long term care financing. In particular, Boomers favor proposals for a tax credit for caregivers, a national program to educate Medicare beneficiaries about the program's limited long term care coverage, as well as long term care insurance for federal employees to help set an example for America businesses. They also favor the Administration's proposal to create a National Family Caregiver Support Program that would allow states to establish centers for "one-stop-shopping" for information and support on long term care concerns.

While the Administration's initiative and your legislation are a good start, more must be dome to assure Baby Boomers will be able to afford long term care when they need it. To accomplish this, major changes must be made in how we finance long term care.

A federal commission—similar to the Medicare Commission—should be convened to develop additional meaningful solutions to the current long term care financing system. The long term care industry welcomes the opportunity to work with the Administration and Congress to develop meaningful solutions to the long term care financing crisis.

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BIOGRAPHY

Patricia Taylor Freeman

Ms. Freeman is an RN graduate of Lynchburg General-Marshall Lodge Hospital School of Nursing. She obtained training at the University of Virginia as a Nurse Epidemiologist and subsequently implemented a hospital-based and skilled facility Infection Control Program to meet the standards of the Joint Commission.

In 1984 she became the Director of Nursing for a large non-proprietary CCRC and expanded the continuum of care to include personal care and out-patient services. Ms. Freeman obtained her license as a nursing home administrator in Virginia in 1986 and was promoted to the position of Director of Health Services.

In 1989 she received her bachelor's degree from St. Joseph's College in Maine with a major in Health Care Administration.

Ms. Freeman has worked in the field of retirement and long term care for more than 15 years primarily with continuing care retirement communities as well as free-standing assisted living and skilled nursing facilities in Virginia and Florida.

She has played an integral role in the development of assisted living, home health care and wellness programs to expand the continuum of services offered to seniors within the communities.

Ms. Freeman is actively involved in the Florida Health Care Association (FHCA), the trade organization representing more than 700 properties and non-proprietary nursing, assisted living and retirement communities. She is a past President of District XIV, has served in a leadership role on the legislative and professional development committees, and was elected Secretary of FHCA in 1997. Ms. Freeman was elected to the office of Treasurer of FHCA in 1998. She is also a member of the American College of Health Care Administrators and serves on the board of the Alzheimer's Association.

Ms. Freeman has conducted workshops or made presentation on topics related to long term care management and quality improvement.

Ms. Freeman and her husband Rob live in Port Orange.

Mr. GRUBB. Thank you. First of all, let me apologize for my voice. Everything is blooming back home and it is allergy season. So if I cough a little, please excuse me.

Good morning, Mr. Chairman and Mr. Cummings. I am Ken Grubb, president of New York Life's long-term care subsidiary. Today I am testifying on behalf of the Health Insurance Association of America, the Nation's leading health insurance trade association representing members providing coverage to more than 115 million Americans. Today, more than 100 companies provide long-term care insurance to over 6 million people, with over 1,800 employers sponsoring this type of insurance program.

I purchased long-term care insurance for myself, my wife and our three children, who are all in their 20's, through our company's sponsored plan. It is very easy to understand why my wife and I have coverage, but why did we buy it for our children? As I said to you in Washington, DC, it is really important to note that long-term care insurance is not just for the elderly—40 percent of the people in nursing homes are under the age of 65.

I am keenly aware of the problems families face because of long-term care. My parents both needed long-term care and had no insurance coverage. They had saved about $100,000 during their working years and had only Social Security as a source of income. I paid for their care to allow them the dignity they deserved and to avoid the painful choices they would have had to make to apply for Medicaid.

In addition to being associated with the insurance industry—and I kind of hesitate to mention the word Air Force at the Jacksonville Naval Air Station—but I am also a retired Air Force Reserve Colonel. As such, I am pleased that consideration is being given to offering the Federal long-term care insurance program to military personnel and their families. No pun intended, I salute offering these fine people an affordable option for protecting themselves and their families from the financial ravages of long-term illnesses.

Long-term care related expenses cost employers $29 billion a year in lost time and productivity. Many believe that long-term care insurance can have its greatest impact in the employer-sponsored market. As the Nation's largest employer, the Federal Government would magnify this impact tremendously through its program.

HIAA would like to make the following points with respect to the bills under consideration.

No. 1, the key to a successful Federal long-term care insurance program is an effective education and marketing campaign. And you have spoken very eloquently to that this morning. Successful employer plans invest in multi-faceted education and marketing programs. This would be critical to the success of the Federal program.

No. 2, it is essential that market competition determine the carriers that will offer plans under the Federal program. Interested companies should be allowed to freely compete in a fair selection process that will determine eligible participating carriers.

No. 3, this point I think is very important. Using artificially low premiums as a major determinant of good long-term care products is very dangerous. A policy with rich benefits, low premiums and

minimal underwriting is a sure sign of potential disaster. This could lead to a program with unstable premiums and would likely discourage responsible companies from participating. Only companies looking for quick market penetration with the intention of raising premiums over time would be attracted.

No. 4, OPM should not be responsible for adjudicating disputed claims. There is no precedent for this in public or private long-term care plans. Given the exposure that insurers face in paying potentially enormous amounts of long-term care benefits, it is unwise and unfair public policy for the employer to make claims decisions. Instead, the HIAA supports a fair appeals process within the insurance company for contested claims.

No. 5, program funds should not be maintained separately from the carrier's other contracts or lines of business. This requirement is really unnecessary. The financial stability of a company's long-term care business is enhanced because of the diversity provided by the entire company's portfolio. It would be appropriate to require that the program's claims experience be available for reporting, separate and apart from the carrier's other businesses.

Long-term care is the largest unfunded liability facing Americans today. HIAA applauds long-term care programs that encourage personal responsibility and increase educational efforts. The administration's and congressional proposals have an important common factor—recognition that private long-term care insurance plays a vital role in helping people pay for their future long-term care costs.

I commend Congress for passing long-term care tax clarifications under HIPAA. Examples of other tax incentives that would make this insurance more affordable are included in our written testimony.

HIAA fully believes private long-term care insurance will give millions of people the opportunity to remain financially independent through their retirement years. This hearing is a solid step in that direction.

Thank you, Mr. Chairman and Mr. Cummings. We certainly look forward to working with you on this very important issue.

[The prepared statement of Mr. Grubb follows:]

Statement

Of the

Heath Insurance Association of America

On

Offering Long-Term Care Insurance
To All Federal Employees, Annuitants and their Families
And the Role of Private Long-Term Care Insurance in
Financing Long-Term Care

Presented by

Kenneth A. Grubb
President, NYLife Administration Corporation
New York Life Insurance Company

Before the

Subcommittee on Civil Service
Of the
House Committee on Government Reform and Oversight

UNITED STATES CONGRESS

April 8, 1999

As a personal aside, I purchased long-term care insurance for my wife, myself and our three children (all in their 20's) through our company sponsored program. I did so because I believe strongly in the need for families to protect themselves from the burden of potentially enormous expense should a loved-one need this care. Long-term care insurance is not just for the elderly. Forty percent of people in nursing homes today are under the age of 65. Coverage is far more affordable when you are young and the need is still there.

My parents both needed long-term care and had no insurance coverage. They had saved about $100,000 during their working years and had only social security as a source of income. I paid for their care to allow them the dignity they deserved and to avoid the painful choices that would qualify them for medicaid coverage.

In addition to being associated with the insurance industry, I am a retired Air Force Reserve Colonel. As such, I am quite pleased that consideration is being given to offering the Federal long-term program to military personnel and their families. Our military protects our freedom every day. No pun intended, I salute offering these fine people an affordable option for protecting themselves from the financial ravages of a long term illness.

New York Life Insurance Company is the fifth largest U.S. insurance company, based on most traditional measures of size (i.e., assets, revenues). Founded in 1845, and headquartered in New York City, New York Life maintains operations in all 50 states through a network of over 7,400 employees and 6,500 active agents. New York Life's product line includes insurance products, such as life, annuities and long-term care, and asset accumulation products, such as mutual funds and institutional money management. NYLife Administration Corporation, is a wholly owned New York Life Insurance

Company subsidiary, based in Austin, Texas, and is responsible for the company's long-term care insurance business.

On behalf of HIAA, I appreciate the opportunity to talk to you today about H.R. 602, H.R. 110, and H.R. 1111, which deal with offering long-term care insurance to federal employees, annuitants, and their families and the critical role of long-term care insurance in financing our nation's critical long-term care needs. I would like to commend the Subcommittee and the Clinton Administration for realizing the potential of the long-term care insurance market. The bills being considered today encourage federal workers to assume personal responsibility for their future long-term care expenses through the purchase of long-term care insurance.

Today, more than 100 companies provide long-term care insurance to over 6 million people. In addition, over 1,800 employers have now sponsored a long-term care insurance plan for their employees. High-quality private insurance coverage is offered through a variety of mechanisms, including individual, group association and employer-sponsored arrangements, and riders to life insurance plans.

Let me begin by summarizing the most important points of my testimony:

- HIAA supports the offering of long-term care insurance to all federal employees, including members of the United States uniformed services, and members of their families. However, it is imperative that the structure of a Federal Employee Long-Term Care Insurance Plan allow for market competition and design flexibility. This would assure that the long-term care insurance policies that would be offered to federal employees through this program would be affordable and encourage innovation in the coverage of long-term care services.
- Our nation faces a long-term care crisis. Long-term care is the largest unfunded liability facing Americans today. Despite the tremendous need for long-term care protection, there is a clear lack of adequate planning for it.

- The long-term care insurance market is growing, and the policies that are available today are affordable and of high quality. There is a critical role for private insurance to provide a better means of financing long-term care for the vast majority of Americans who can afford to protect themselves. Continued growth of the market will alleviate reliance on scarce public dollars, enhance choice of long-term care services for those who may need them in the future, and promote quality among providers of long-term care.

- There is a continued role that the government can play in financing long-term care for those without adequate resources to protect themselves. The government also plays a critical role in enhancing the growth of the private long-term care insurance market. Government initiatives which show support of the private long-term care insurance market emphasize to the public the importance of assuming personal responsibility and less reliance on public support for their own long-term care.

To address these concerns, HIAA believes the following steps must be taken:

1. When implementing the Federal Long-Term Care Insurance Program, it is essential that market competition determine availability, quality and affordability of long-term care plans that will be offered.

2. The government must continue to encourage personal responsibility for financing long-term care through the expansion of the private long-term care insurance market. Initiatives to stimulate the private insurance market through enhancement of the tax status of long-term care insurance must be encouraged as well.

3. The public and private sectors must continue to educate the public about the risks and costs of long-term care. Without understanding the problem, the public cannot be expected to understand the appropriate solutions. It is critically important for the public and private sectors to do more in this area.

4. The government's ability to target assistance to those most in need must be improved. The government must take full responsibility for providing care to those without the resources to do so.

5. Support for research and demonstrations related to the need for long-term care services and private and public sector partnerships in paying for long-term care must be encouraged.

This hearing is a very positive step in accomplishing these objectives. The public and private sectors must take the time to make the necessary investment now in designing a financing arrangement that our elderly can live with today, our future retirees can live with tomorrow, and our children can depend on in the next generation. We commend the

Subcommittee for bringing this issue to the forefront and recognizing the important role that the private long-term care insurance market can play in solving our nation's long-term care dilemma.

Introduction

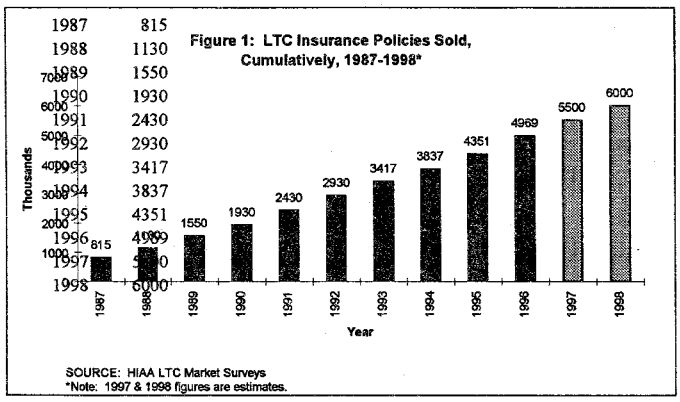
Long-term care is the major catastrophic health care expense faced by the elderly today and will definitely remain so for our retiring baby boomers. For the elderly who have out-of-pocket health care expenses of over $2,000 a year, an average of 80 percent is spent on nursing home care. With annual nursing home costs averaging $41,000 (increasing to about $100,000 in 1996 dollars by 2030), and easily double that amount in high cost areas, such expenses can indeed cause financial ruin. Instead of pooling risks, the current system places each household on its own, and when household resources have been depleted, Medicaid becomes the payer of last resort. This approach combining out-of-pocket outlays and welfare focuses upon remediation and relief, when prevention and planning should be the preferable approaches.

Today's situation, a population of approximately 8 million people, increasing to about 13 million in 2030, needing long-term care services and lacking preparation for this catastrophic event, calls for a thoughtful and deliberate approach. HIAA supports a comprehensive approach to financing long-term care that utilizes the inherent strengths of both the private and public sectors in a more efficient and equitable manner than the essentially unintended system created today.

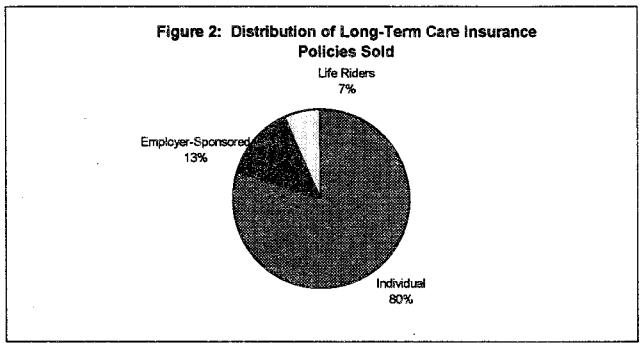
The Private Long-Term Care Insurance Market Today

The insurance industry is justifiably proud of the role it has played in the evolution of the largest private insurance system in the world. Now, we are entering the next logical phase of this evolution. Advances in medical technology and general health are increasing the life span of the elderly, but they are also increasing the number of people who will need treatment for chronic illness. At the same time, rising income, particularly among the current elderly and future baby boomer retirees, makes insurance against the costs of long-term care more affordable.

The market is developing rapidly, as evidenced by the number of companies developing long-term care insurance products, the number of individuals covered, and the variety of products available to the public today. HIAA estimates reveal that today over 100 companies have sold over 6 million long-term care insurance policies. The market has grown an average of about 20 percent annually. These insurance policies include individual, group association, employer-sponsored, and riders to life insurance policies that accelerate the death benefit for long-term care. (See Figure 1 below.)

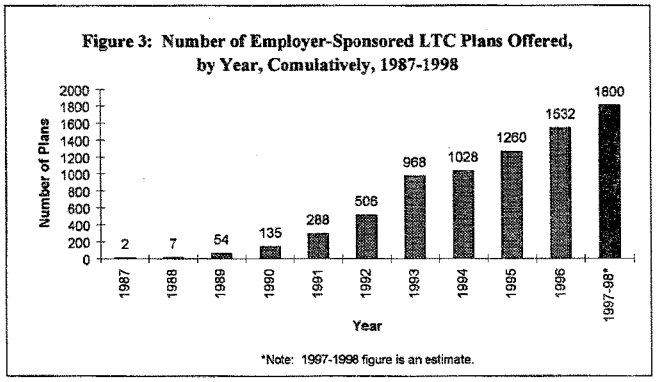


Approximately 80 percent of the 6 million long-term care insurance policies are sold through the individual and group association markets. The employer-sponsored and life insurance rider markets comprise about 13 percent and 7 percent, respectively, of the entire market. These two markets are growing faster than the individual market. In 1988, both markets comprised less than 3 percent of the entire market. (See Figure 2 on the next page.)



The majority of long-term care insurers continue to sell policies in the individual market. About one-third of the long-term care insurance carriers sold policies in either the employer-sponsored or life insurance markets, up from 14 percent in 1988.

Although all three markets have experienced significant growth through the past decade, most of the policies are still sold in the individual and group association markets. HIAA findings show that the total premium volume for the individual and group association policies sold in 1996 alone was about $750 million. The employer-sponsored market enhanced this growth by contributing close to 20 percent of the sales in 1996. HIAA estimates that over 800,000 certificates have been sold through about 1,800 employers. (See Figure 3 on the next page.) Although the growth in the long-term care life insurance rider market has been minimal in recent years, it continues to account for about 7 percent of the entire long-term care insurance market, with over 350,000 policies sold cumulatively as of the end of 1997. In addition, many carriers have recently expressed a renewed interest in this market.



As in previous years, the long-term care insurance market remained highly concentrated among a relatively small number of sellers. Twelve sellers represent approximately 80 percent of all individual and group association policies sold in 1996. HIAA conducted an in-depth look at the top sellers' latest policies and found that insurers offer policies with a wide range of benefit options and design flexibility at moderately priced premiums.[1]

In addition to examining each top seller's policy provisions and marketing materials, we also reviewed the premiums they offered for their most recent policy. Premiums for long-term care insurance policies varied widely depending on multiple factors, including entry-age of the policyholder and benefit designs chosen. (See Table 1 on the next page.)

[1] A summary of the benefit options offered by the leading sellers of long-term care insurance may be found in HIAA's publication, *LTC Insurance in 1996*.

Table 1: Average Annual Premiums for Long-Term Care Insurance

AGE	Base	With 5% Compounded Inflation Protection (IP)
40	$209	$503
50	$328	$665
65	$964	$1761
79	$3803	$5276

(NOTE: These are based on 1997 premiums of 12 individual carriers and two employer-sponsored plans. Such premiums do not necessarily exist for any one insurer or specific plan. Premiums are generally for a $100/$50nursing home/home health coverage, 4 years coverage, and 20-day elimination period.)

SOURCE: HIAA LTC Market Surveys

HIAA studies have shown that average premiums among leading sellers of long-term care insurance have been decreasing over time. For example, 1996 premiums decreased an average of 5 percent when compared to the average premiums for the leading sellers in 1995. This is a strong indication that market competition and insurers' increasing confidence with their pricing and anticipated claims experience have kept premiums stable, if not more affordable. In addition, given the tremendous changes in long-term care insurance policy design (i.e., elimination of prior hospitalization requirements, expansion of available benefits, coverage of additional sites and levels of long-term care), buyers are now clearly receiving more benefits for their premium dollar.

The Employer-Sponsored Long-Term Care Insurance Market

The growth in employer-sponsored plans is particularly promising. Employer plans offer the opportunity to reach a large number of people efficiently during their working years when premiums are more affordable. Coverage in the workplace offers the additional advantage of employers selecting the best plan at the best price for their employees. Enrollment experience shows that the average age of the employee electing this coverage is 43. This is strong evidence that with education and availability, younger people can and will purchase long-term care protection. Most of these plans offer coverage to the elderly as well, by including retired employees and their spouses and parents of the employee or employee's spouse.

Currently, over 1,800 employers are offering a long-term care insurance plan to their employees and retirees. There were over 800 employer-sponsored plans introduced between 1995 and 1998 alone. Most of these plans were employee pay-all plans. However, at least 432 of these employers paid part or the entire employee premium for long-term care insurance. Many of these employers were very small firms (under 100 employees) and were insured by one insurance company. Among the employee pay-all plans, employee participation rates varied widely by insurer and employer.

For employer-sponsored plans without any employer premium contribution, the average percent of active employees participating in this coverage per employer group is about 6 percent. The highest participation rate reported in the 1997 HIAA LTC Market Survey was 46 percent. The lowest was less than 1 percent. As data shows, participation rates among employers vary widely. Many factors impact participation: employee age; salary level; job classification; corporate environment; and most importantly, the degree to which a sponsoring employer encourages participation and educates employees about the

program. Communication is the key to success in employer-sponsored LTC plans. The higher the input of the employer, the more likely that better participation rates will occur. Examples of employer and insurer activities that have enhanced participation are: holding frequent "benefit fairs" in different locations for all eligible employees; facilitating face to face meetings with insurers where potential insureds can ask questions they may have regarding their plan; offering toll-free numbers for both the employer and insurer so insureds and potential enrollees may inquire about the plan; developing integrated response systems for enrollment; and using technology (e.g., Internet Access), if available, for quick responses to plan inquiries and enrollments. Experience has shown that a mere announcement of the availability of a plan and distribution of plan materials are not sufficient to experience good participation rates. Follow-up communication is essential and has proven to be extremely effective in increasing participation rates.

Offering Long-Term Care Insurance to Federal Government Employees

Long-term care related expenses cost employers $29 billion a year in lost time, lost employees, and lost productivity. Many believe, therefore, that private long-term care insurance coverage can have its greatest impact in the employer-sponsored market. With the federal government, the nation's largest employer, offering this benefit to its employees, this impact would be magnified tremendously.

A Federal Employee Long-Term Care Insurance Program is particularly encouraging because of two main factors. First, such a program would be the clearest signal of government support for encouraging personal responsibility and planning for long-term care through avenues such as long-term care insurance. Second, the sheer size of the

federal government as an employer would assure an immediate and heightened awareness of long-term care financing issues among working adults.

HIAA supports the offering of long-term care insurance to all federal employees. However, it is imperative that the structure of a Federal Employee Long-Term Care Insurance Program allow for market competition and design flexibility. This would assure that the long-term care insurance policies offered to federal employees through this program would be affordable and allow for future product innovation. In this regard, below are some HIAA recommendations regarding the structure of such a program.

➢ ***Important Roles of the Office of Personnel Management (the "Office"):***

1. Authorization: The Office shall establish the program under which eligible group and individual long-term care insurance contracts are made available to federal employees, annuitants; and eligible family members.

2. Determination of Eligible Population: The Office shall determine the population of federal employees and annuitants eligible for this program. Such a population may also include eligible family members (i.e., an employee's or annuitant's spouse, children, parents, and grandparents) and such other individuals as the Office may specify.

3. Withholding: The Office will be responsible for withholding (either from the employee's salary or retiree's annuity) from each enrollee the premiums for eligible long-term care insurance contracts. Such withheld amounts shall be paid in a timely manner by the government to the carrier for each such contract.

4. Determination of Qualified Carriers: The Office will determine carriers that would be appropriate for the provision of long-term care insurance, taking into account the financial soundness of the carrier and its administrative capability to serve covered insureds.

5. Enrollment Season and Communications: The Office shall provide initially a period of not less than 4 weeks during which any employee or annuitant shall be permitted to apply for coverage with a carrier. In addition, employees may apply for coverage any time during a calendar year. The Office shall, after consultation with the carrier, make available to each such employee and annuitant information as

may be necessary to enable the individual to exercise an informed choice in selecting between eligible contracts.

6. Reports and Audits: As a condition of participation in the program, carriers must agree to furnish such reasonable reports as the Office determines to be necessary to enable it to carry out its functions under this program, and permit the Office and representatives of the General Accounting Office to examine records of the carriers as may be necessary to carry out the purposes of this program. In addition, each government agency shall keep such records and furnish the Office with such information and reports as may be necessary to enable the Office to carry out its functions under this program.

7. Review of Federal Long-Term Care Insurance Program: The Office shall determine appropriate time (i.e., 3 or 5 years) to review and evaluate successes and shortcomings of the program and recommend to Congress changes that could facilitate the program's success and remedy the program's shortcomings.

8. Regulations: The Office may prescribe appropriate regulations necessary to carry out this program.

- ***Standards for Eligible Long-Term Care Insurance Contract:*** Any group or individual long-term care insurance contract (including reimbursement and per diem type policies) must:

  1. Be a qualified long-term care insurance contract (as defined in Section 7702B of the Internal Revenue Code),

  2. Be a product that complies with the mandatory provisions of the July 1998 NAIC Long-Term Care Insurance Model Act and Regulations,

  3. Be issued by a carrier that is licensed by the state or other jurisdiction in which the insured resides to issue insurance contracts,

  4. Provide benefits and coverage that cannot be unilaterally changed by the carrier (except for nonpayment of premiums, and in the case of misrepresentation, that would permit a carrier to contest a qualified long-term care insurance contract), and provides premiums that are determined on a noncancellable or guaranteed renewable basis.

  5. Be fully insured by the carrier or reinsured in all or part with other carriers.

- ***Continuation of Coverage:*** If an individual (whether or not an employee or annuitant) is covered under an eligible contract and withholding ceases to be available or sufficient (such as after a divorce), such individual shall be entitled to pay premiums directly to the carrier to continue the insurance in force.

- ***Jurisdiction of Courts:*** The district courts of the United States have original jurisdiction, concurrent with the United States Court of Federal Claims, of a civil action or claim against the United States founded under this program.

- ***Coordination with State Laws:*** Any requirements or standards relating to the Federal Long Term Care Insurance Program shall supersede and preempt any state or local law or regulation which relate to long-term care services or insurance contracts. This rule shall not be construed to alter the requirement that an eligible contract must otherwise constitute a qualified long-term insurance contract.

- ***Authorization of Monies:*** There should be sufficient funds appropriated to carry out this program, including amounts to cover administrative costs that may be incurred. In addition, there should be an authorization of future government contribution for a portion of the cost of any eligible contract covering an employee or annuitant or the spouse of any such persons as may be necessary to encourage the purchase of long-term care insurance coverage.

Concerns with Specific Provisions/Requirements in H.R. 602, H.R. 110, and H.R. 1111 For Future Federal Long-Term Care Insurance Program:

HIAA has reviewed H.R. 602, H.R. 110, and H.R. 1111 that have been introduced to try to implement this program. HIAA strongly feels that the intent of these legislative proposals is to provide quality and affordable long-term care insurance to as many federal employees, annuitants and their families as possible. The success, therefore, of such a program is not in initially being able to provide "lower cost policies" to a few of the eligible individuals from a handful of carriers. Rather, the true measure of the program's success is offering high-quality products at affordable premiums and eventually experiencing high penetration rates. In this regard, it is important that the following points/concerns be raised to assure a viable and thriving Federal Long-Term Care Insurance Program.

- ***The key to a successful Federal Long-Term Care Insurance Program is an effective education and marketing campaign.***

Successful employer plans that have experienced high participation rates are those that have invested in multi-faceted education and marketing campaigns. The federal government's involvement, in partnership with the participating carriers, is critical to the success of this program. Without substantial employer participation and commitment in educating employees about the importance of a long-term care insurance policy, this program will not be successful.

- ***It is essential that market competition determine availability, quality and affordability of long-term care plans that will be offered under the Federal Long-Term Care Insurance Program.***

The current long-term care insurance market has grown and developed into a strong viable industry that offers quality products at affordable premiums. This has come about because companies have been allowed to freely compete with each other in the marketplace and not because of the imposition of federal or state requirements that would regulate premiums, hinder product development, and stifle market competition. HIAA studies have shown that for carriers to remain in this market, they continually need to design innovative products and keep their premiums competitive. Those who do not, have seen their market share minimized or have been forced out of the market. As a result, we now see many reputable and financially sound companies offering long-term care products that offer a wide array of benefits at premiums that have remained stable, if not decreased, through the years.

To be fully viable and continually offer quality products, the federal program must learn from the successes of the current marketplace and follow this lead. Companies should be allowed to freely compete in a fair bidding process that is based on a level playing field. In implementing this program, HIAA would like to caution the federal government that the combination of limiting qualified carriers to only a handful, mandating "rich" benefit packages and requiring discounted premiums could have an opposite result from what we have witnessed in the current marketplace. Instead of having quality LTC coverage, Federal workers may need to look outside the program for coverage that is more affordable and of better quality.

- ***Using premiums as a major determinant of "good" LTC products is a dangerous route to take. "Low" or "discounted" premiums coupled with "rich" benefits and limited underwriting is a sure sign of disaster or failure for any LTC plan.***

The main factors that determine premiums for long-term care insurance are the insured's age and benefit designs or options selected (i.e., type of coverage and daily benefit amounts, elimination or deductible periods, addition of policy features such as inflation protection and nonforfeiture benefits). As age increases and benefits selected increase, so do premiums for long-term care insurance.

In today's marketplace, a policy with "rich" benefits at lower than usual premiums offered with minimal underwriting does not mean a better product and is a sure sign of

disaster. Integrating such concepts within the Federal Long-Term Care Insurance Program signals a program with products that have very unstable premiums and a market that cannot be sustained. In addition, such a scenario would likely discourage responsible companies from participating in the program and attract companies that are willing to participate only to gain quick market penetration and with the intention of increasing premiums or reducing benefits in the near future.

- ***Mandating specific benefit provisions in Federal LTC products that conflict with current HIPAA standards may prove to be a disservice to Federal workers.***

  HIPAA contains specific requirements for tax-qualified long-term care insurance policies. The generalization that tax-qualified policies are more restrictive than non-qualified policies has no basis. For example, the absence of a medical necessity trigger does not indicate a more restrictive policy. Tax-qualified policies will pay benefits through triggers such as the inability to perform ADLS and cognitive impairment, viewed by many as the more objective and appropriate measures for the need for LTC. The tax status of the particular policy one has chosen dictates how premiums and benefits are treated for these policies and is not the benchmark for how restrictive a policy is.

  Policies that comply with HIPAA's requirements enjoy tax incentives such as tax-deductibility of premiums and non-taxability of benefits. The Internal Revenue Service has not ruled on the tax status of policies that do not comply or conflict with these requirements. Purchasers of non-qualified policies may face very serious consequences if the IRS determines that benefits from such policies would be considered income and therefore be taxable to the insured. Subjecting potential purchasers of Federal LTC insurance policies to possible unexpected tax liabilities will be viewed as a disservice, which is clearly not the intent of the proposed bills.

- ***Only carriers that are licensed to sell in all states can participate in this program.***

  Given that the vast majority of companies are not licensed in all states, HIAA is concerned about the requirement that all carriers participating the program be licensed to sell long-term care insurance in all states. HIAA suggests that companies must be licensed by the state or other jurisdictions in which the insured resides to issue insurance contracts. Mandating a license in all 50 states may drive carriers from the program, reducing competition and consumer choice.

- ***The regulatory or administrative body (i.e., Office of Personnel Management) of this Program should not be responsible for management and adjudication of claims for benefits.***

  HIAA opposes any type of independent third party involvement in claims management, determination and adjudication. HIAA is not aware of any private or public employer that adjudicates disputed long-term care insurance claims. HIAA supports the

establishment of a fair appeals process for contested claims. HIAA also supports product requirements that assist consumers in understanding their coverage and policy requirements and that prevent carriers from unfairly denying claims payments such as: uniform terms and definitions; clear articulation of benefit triggers; disclosure of policy benefits and limitations; preexisting conditions limits of six months; prohibitions against prior level of care requirements or higher level of care requirements as condition of covering lower level; and prohibitions against post-claims underwriting.

HIAA also opposes the requirement that filing of claims would be available for extended periods of time (i.e., up to four years). Extending the time for filing claims invites fraud and abuse and exposes carriers to unexpected claim liabilities. For individuals that may be cognitively impaired (i.e., unable to file due to forgetfulness), HIAA supports the application of current NAIC Model provisions on Unintentional Lapse, where upon proof of cognitive impairment, the insured may request benefits or reinstatement of coverage within 5 months of claim or lapse. It is imperative that participating carriers be allowed to maintain their right to administer and manage claims to assure premium stability within the program.

Furthermore, there is no proof of abuse in this area in the long-term care insurance market. Leading long-term care insurance sellers have claims paying experience in excess of 97% of claims filed. Benefit eligibility disputes more often result from consumers' misunderstanding of policy benefits than disagreements regarding their functional status. In addition, transferring the claims adjudication function to an outside party exposes the insurer to unpredictable claims liabilities. This is inconsistent with and would jeopardize rate stability in the marketplace. Such a requirement would also drive carriers from the program, reducing competition and consumer choice.

- ***Program funds should not be maintained separate and apart from a carrier's other contracts or lines of business.***

The requirement that program funds be maintained separate and apart from a carrier's other contracts and lines of business is unnecessary and may prove disadvantageous to the program. In general, insurance companies have diverse insurance lines and businesses. The financial stability of a company's individual products (i.e., long-term care business) is enhanced because of the stability and diversity provided by the entire company's business portfolio. Supporting funds with the carrier's other business lines is especially important for the federal program during its initial stage, when its viability is still not proven. A more appropriate requirement would be that reporting of the program's experience be available and that this report be separate and apart from carriers' other long-term care or insurance businesses.

Challenges to the Long-Term Care Insurance Market

HIAA applauds the Administration's and this Congress' call for programs to encourage personal responsibility for long-term care, help people currently in need of long-term care, and increase educational efforts on long-term care. It is a welcome boost for what most consider to be the most pressing financial problem facing the baby boom generation. Administration and Congressional proposals all have an important common factor, the recognition that private long-term care insurance plays a vital role in helping the elderly and disabled, as well as baby boomers, pay for their future long-term care costs.

The heightened public awareness brought about by these proposals coupled with the passage of incentives for the purchase of long-term care insurance that were included in the Health Insurance Portability and Accountability Act of 1996 (HIPAA) have been essential first steps in solving our nation's long-term care crisis. These recent developments have improved the political climate for long-term care insurance. Nevertheless, they are not panaceas and will not, by themselves, achieve the optimum public-private partnership for long-term care financing. HIAA believes that several factors could hasten the development of private long-term care insurance and strengthen its ability to respond to the baby boomers' demand and need for long-term care protection.

Educating the Public is Essential -- The need for better consumer education is the responsibility of both the private and public sectors. It is virtually impossible to sell a product to someone who already believes they have it or they will never need it. However, this is where we often find ourselves with long-term care insurance. Education should begin early, so that working age people understand their risks for long-term care and can plan for their potential long-term care needs while they have the income to do so.

HIAA commends the Administration for including a proposal to launching a $10 million National LTC Information Campaign to educate Medicare beneficiaries about the program's limited coverage of LTC and how best to evaluate their options. This educational effort would provide many people with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home- and community-based care services that best fit their needs.

Public Expenditures Should be Targeted – HIAA also recognizes that the private sector alone cannot realistically meet society's entire need. There will always be a significant need for public sector involvement. For those unable to finance their own long-term care services, a "safety net" program of public assistance must continue to be provided. This is true especially for the current generation of elderly and disabled individuals, who have not had the time, product availability, or financial resources to provide effectively for themselves. In this regard, HIAA supports initiatives to improve the current long-term care public assistance programs and research and demonstrations on innovative needs-based public long-term care programs.

Expansion of Long-Term Care Insurance Coverage Should be Encouraged through Tax Incentives - Federal and state governments have an important role in encouraging the growth of the private long-term care insurance market. This could be achieved by enhancing tax provisions for long-term care insurance. Encouraging additional tax provisions for these products would reduce the cost of long-term care insurance for many Americans, would increase their appeal to employees and employers, and would increase public confidence in this relatively new private insurance coverage. Further, enhancement of tax incentives for the purchase of long-term care insurance would demonstrate the

government's support for and its commitment to the private long-term care insurance industry as a major means of helping Americans fund future long-term care needs. It also reinforces the message to the public about individual responsibility.

These efforts will lead to an increase in the portion of the population who seeks to protect themselves against catastrophic long-term care expenses. Some examples of specific actions that could be taken are to:

- Enhance the deduction for long-term care insurance premiums, such that premium dollars are not subject to a percentage of income;
- Permit the tax-free use of IRA and 401(k) funds for purchases of long-term care insurance;
- Permit premiums to be paid through cafeteria plans and flexible spending accounts;
- Provide a tax subsidy for the purchase of long-term care insurance; and
- Encourage state tax incentives for the purchase of long-term care insurance.

These tax incentives would largely benefit two groups: those who did not have the opportunity to purchase such coverage when they were younger and the premiums were lower, and as a result, now face the greatest affordability problems because of their age; and those younger adults, our current baby boomers, who need incentives or mechanisms to fit long-term care protection into their current multiple priorities (e.g., mortgage and children's college tuition) and financial and retirement planning. Further, the educational effects of such tax incentives could far outweigh its monetary value by educating consumers about an important issue and, as a result, would help to change attitudes as well.

Encouragement of Delivering Quality Long-Term Care Services and Focus on Research Affecting Long-Term Care Use and Costs is Critical – Rather than spending tax dollars to provide long-term care to those who can afford to protect themselves, HIAA believes it is a higher priority to devote public expenditures toward encouraging the delivery of quality long-term care services. Reimbursement policy under public programs must be adequate to ensure high quality patient care and deter cost shifting to private-paying patients. Public expenditures should also focus on research affecting long-term care use and costs and support of budget-neutral demonstrations involving public-private financing partnerships. In addition, more resources are needed in basic and applied biomedical aging research to facilitate the management of chronic disease and disability. Treatments that ameliorate or control conditions such as Alzheimer's disease, incontinence, and osteoporosis will greatly enhance the quality of an older person's life and significantly reduce or delay the need for costly long-term care services.

Summary and Conclusions

We all agree that solving the nation's long-term care problem is vitally important. The flexibility and versatility that private long-term care insurance could offer federal employees and their families make it the preferred approach to pre-funding catastrophic long-term care costs. In addition, private insurance also provides maximum flexibility to present and future informal caregivers. Many of us have experienced or will soon experience, either needing or providing long-term care for our loved ones. Over time, HIAA fully believes that private long-term care insurance will give millions of people an opportunity to be financially independent throughout their retirement years. Recognition of the private long-term care insurance market in this hearing is a solid step in this direction.

The public and private sectors must combine their efforts and knowledge to create a solution that will benefit most Americans today and in the future. This Subcommittee's consideration of offering long-term care insurance to all federal employees is an investment that will pay off many times over as our population ages and will help our nation avoid placing an insupportable tax burden on our children.

Thank you Mr. Chairman and Members of the Subcommittee. We look forward to working with you to provide further assistance in this area.

Mr. SCARBOROUGH. And thank you, Mr. Grubb.

I want to start with you. No. 3—you do not mind us starting with you, right?

Mr. GRUBB. Good.

Mr. SCARBOROUGH. Mr. Cummings actually said he is going to save yours to the end and talk very slowly.

Mr. GRUBB. I like that you said, "I am going to start with you."

Mr. SCARBOROUGH. On your third point, you talked about we should not go after the companies that just talk about providing artificially low premiums with rich benefits and basically no underwriting.

Mr. GRUBB. Yes.

Mr. SCARBOROUGH. Or very little underwriting. That brings up the guarantee issue that we talked about at the last hearing. And I want to clarify an important issue from our last hearing concerning the automatic coverage of any participant in the long-term care insurance program.

OPM's testimony at our last hearing suggested that the administration is giving serious thought to providing this guaranteed issue by any carrier in our program. Whether OPM is contemplating guaranteed issue for annuitants or just active employees is still unclear, but OPM did seem to imply that the question of guaranteed issue is a relatively minor benefit design question and basically one with which Congress should not concern itself. I wanted to ask if you agreed with OPM's assessment that Congress need not be concerned with the guaranteed issue, or if they should. Just how important is this issue in determining whether this program basically sinks or swims?

Mr. GRUBB. With all due respect, I think I would disagree that it is a minor issue. The guaranteed issue is a big issue. Basically what you are doing is opening the entire population to acceptance under a program that is generally medically underwritten, and it does have, it would have a major impact on the cost.

Guaranteed issue means that you accept anyone who applies. I am not aware of any program in the long-term care industry that guarantee issues policies to people who are retired. We have guaranteed issue programs in our company as do some of my colleagues, but none of them offer guaranteed issue to retirees, because in essence, you would be offering people who already need nursing home care or home health care the opportunity. It is like winning the lottery. With your application, you could submit an application to go into a facility.

Guaranteed issue also, if you have multiple carriers, would get very difficult. If you are going to have a guarantee issue program, it almost mandates the selection of a single carrier because I am sure—I think in our last testimony, my colleagues agreed with this—that if you have five or six carriers, how would any of us know that we were not being anti-selected against. Ultimately the people who are paying the premiums pay the price. So, if a company got all the bad experience, they would be forced to raise their premiums.

I think guaranteed issue is not something to be taken lightly. Typically the way guaranteed issue works is you will—if the employer funds the entire premium themselves, which you are not

contemplating, then you get everybody and you get a broader spread of risk. On the other hand, if it is a voluntary basis, then there are participation levels that are required. And the way we do it in our company depends on ages, lower participation levels for lower ages. But typically over 50, the participation level will go up. So it makes the administration of the program somewhat more complicated.

I think in a multi-carrier environment, you would have a very difficult time convincing insurance carriers that guaranteed issue is viable.

Mr. SCARBOROUGH. Do you think there are any particular groups in the Federal marketplace that should undergo full underwriting? For example, should we provide the same underwriting criteria to everybody or should some be fully underwritten and some be less?

Mr. GRUBB. Well, again, I will go into my experience in the employer marketplace. Typically what we will do is if it is not a guaranteed issue program, you can have simplified underwriting for people that are actively at work. Simplified underwriting basically means you complete your application, you answer some basic medical questions, somebody will call—a lot of times it is a nurse—and just go over the questions on the application. If there are no apparent major health problems, then the policy is issued. Only if the application reveals or the interview reveals that there are significant medical problems do you do complete medical underwriting.

Then for people who are over age 65 typically or retirees, you do medically underwrite those. That is really for the protection of the entire plan. Everybody has talked today about how important affordable premiums are. Excluding people initially who already need care will have a positive impact on that. The good news is that as people buy it in their active years, it never goes away because it is guaranteed renewable. So, over time, you would have everybody in the program.

Mr. SCARBOROUGH. Should each carrier be free, in your opinion—and again, we are talking about what is in the best interest of the entire population, to use its own underwriting standards, or do you believe that all carriers are going to need to follow the same standards?

Mr. GRUBB. I would think in a program of this kind that if there is oversight provided by OPM or the legislation, that there should be similar rules that are followed by all of the carriers in terms of how the underwriting is done.

Mr. SCARBOROUGH. Who do you think should provide that oversight—Congress, OPM, OPM and the carriers?

Mr. GRUBB. I would think OPM and the carriers.

Mr. SCARBOROUGH. Jointly?

Mr. GRUBB. Yes.

Mr. SCARBOROUGH. Let me ask you, Ms. Freeman, your testimony referenced the boomer survey and you highlighted how baby boomers are confused—what a surprise. [Laughter.]

Baby boomers are confused or just beginning to realize the impact the sheer size of the demographics will have on the Medicaid and Medicare systems and the incorrect belief that their health care insurance policies are going to be paying for their long-term health care costs.

You also brought up some important points about how women typically earn less than their male counterparts, therefore are not able to set aside as much money for savings and retirement. I know I have seen my mother in a crunch that all women seem to be in where they go from raising their children, getting them in college and getting them out of college, then immediately having to move on and most likely caring for their parents, being the primary caregiver. Somewhere in the middle they get torn between children and parents and it is just an awful situation.

Some of us have been concerned about the possible limitations on the variety of benefits in the plans that would be offered. In your opinion, what effect would a limited choice have on the number of lower income Federal employees and annuitants that would benefit from this program? And I want you to emphasize women in particular—if we limited the choices.

Ms. FREEMAN. Well, I think you heard earlier from the earlier testimony, you know, premiums are a big concern of everyone, as well as the coverage issues. And I think now that we know, you know, from the survey and the studies that have been done, that women do earn less, obviously they have to set priorities in terms of where their money goes and they would end up looking possibly for a cheaper premium. It may not necessarily be the best quality plan for them in terms of having had some choices, but at least they would end up with some coverage.

Mr. SCARBOROUGH. Let me ask you, from your experience, you have had the opportunity to see this first-hand probably I think as well as anybody here—let me ask you, could you just provide us, provide the committee and all those in attendance today your experiences on comparing the difference. Give us a contrast, a real life contrast between somebody or a family that has been fortunate enough to plan ahead and invest in long-term care, compared to the horror stories that we hear all the time about those that have to spend down their life savings and basically become broke and poor and have to depend on Medicaid. What is the difference in just sheer quality of life, especially in those last final years?

Ms. FREEMAN. Let me share a little bit about my background with you. I am a registered nurse and I have worked in the field of long-term care for about 15 years on both for-profit and the non-proprietary side.

Prior to rejoining John Knox Village just 6 weeks ago, which is a continuing care retirement community, which essentially was the forerunner of long-term care insurance—those of you who know anything about CCRCs. Approximately 47 percent of the premium, the monthly service fees and the endowments that residents pay go toward future care or long-term care because we take care of them for the rest of their life, regardless of their financial situation.

So people who can afford to come to that kind of setting such as John Knox Village have the financial resources and have already thought about what their long-term care needs will be. Obviously they come to a setting like that for a very active retirement, but the services are there should they ever need them—there by the grace of God go I.

Many of them are living away from their families. Children, as you well know our children and our families are separated, not just

sometimes across town, but States and even around the world, and they do not want to be a burden. So many of the same issues that we talk about people who have financial resources or those who do not, they are many of the same issues, of wanting to pay their own way, not be a burden to their children and be well taken care of.

For the past 6 years, I have worked for Genesis Eldercare, which is a national nursing home, eldercare company. They have nursing homes and assisted living facilities. Most our—30 of our facilities are here in Florida, and approximately 70 percent of the residents in our facilities are—their care is paid for by Medicaid.

As an administrator, as a nurse, as a caregiver, I have had to counsel many residents and families through this very difficult process of spending their life savings and now having to essentially become impoverished, go on what they deem to be welfare, to take care of them in their later years. They really thought all the years that they worked, they saved their money, that they would have enough income to take care of their needs. And it is just overly devastating.

I guess the biggest issue for most of our residents is one of maintaining dignity. As we grow older—and being a baby boomer and working in the field, I am very sensitive I think to many of these issues—trying to maintain one's dignity after you have had to give up so much is very, very difficult, regardless of your financial circumstance, but especially for those who are having to become impoverished.

Mr. SCARBOROUGH. It really is heartbreaking. We had testimony from Ms. Judy Kramer at our first hearing on long-term care in Washington. She told the story of her parents, I think they went through about $145,000 in a year or so until they became impoverished and were eligible for Medicaid. It is just heartbreaking, and I was saying to her you talk about losing your dignity—as a parent, I have got an 11 year old boy and an 8-year old boy and you are thinking all the time, OK, how do I care for them to get them through college, how do I care for them through their entire life, and these parents of Ms. Kramer had set aside $140,000–$145,000 to pass on to their children, only to see in their last 2 years of life this entire amount of money going away and then as a witness on the last panel said, basically becoming property of the State in the final months of their life. It is heartbreaking, it is something we have to take care of.

Ms. FREEMAN. You lose the right to make choices about where you want to live, how you want to live your last days, and to know that you are dependent now on the State to take care of you and to provide for your care has got to be devastating.

Mr. SCARBOROUGH. It has got to be devastating, and because of demographics, this is not just a Florida problem. Florida is the future. How Florida looks today, the rest of the country is going to look 15–20 years from now. You are right, the State—obviously everybody is grateful that Medicaid has been there for them. Ms. Kramer was grateful, but Medicaid is not going to be there for everybody 20 or 30 years from now if we have the entire baby boomer population retiring and nobody planning for their retirement and their future and for their long-term care. So that is why this is so absolutely critical.

I thank you for your testimony because it highlights that.

Let me ask you, Mr. Carr, one of the issues that really has been highlighted in Washington over the past 4 or 5 years since I have been on the Armed Services Committee, has dealt with quality of life issues. We have been talking about recruiting and retention. Numbers for recruitment have gone down. In fact, I believe two services right now are below their recruiting levels for the first time in a long time.

Mr. CARR. That is true.

Mr. SCARBOROUGH. What two are those, do you know offhand?

Mr. CARR. The Army and the Air Force are off on their numbers.

Mr. SCARBOROUGH. Army and Air Force, and——

Mr. CARR. And it is unusual for the Air Force to be off on its numbers, as they are this year.

Mr. SCARBOROUGH. Yeah, very unusual.

Let me ask you this question, do you see the possibility of long-term care as something that would actually help recruitment and also help in retaining the top quality personnel that we need to get us into the 21st century?

Mr. CARR. Probably more on the retention side. I was struck by a comment Ms. Croach made, and it is accurate, we hear it often and it is that you recruit a member and you retain a family.

Mr. SCARBOROUGH. Right.

Mr. CARR. Now I would suspect that most recruits consider themselves relatively invincible and so this may not be at the forefront of their thinking, but with respect to retention discussions taking place at the kitchen table, recall that when one's family believes that the organization that their partner is a member of has a real interest in their long-term welfare, then they identify more easily with that institution and that could do nothing but help retention. So I am not confident that it would produce a hike in recruitment, but with respect to retention, there it would have the more pronounced effect I believe.

Mr. SCARBOROUGH. That is a great point that you make, talking about the conversations around the dinner table and what sort of attitude family members and friends have toward a service or toward the armed services in general. As you know, I told this story before of my grandfather. I cannot tell you how many grandfathers and how many fathers in northwest Florida have been complaining bitterly at the kitchen table about Tri-Care, complaining about health care problems, complaining about how the military is not keeping their word.

Now I can tell you, as a college student hearing my grandfather talk about how the military let him down and how they broke their word, if we are getting that on one side of it and then on the other side, you have, let us say somebody's older brother or sister saying well, you know, I am not getting paid as well as my friends are getting paid and I am gone 8 or 9 months straight and then I come home for 2 months and then I am gone again—I think you are right, I think that may be why we have the problems, but while those 18 or 19 year olds who feel invincible and do not think they will ever need long-term care, while it may not hit them immediately, I think they will pick it up, like you said, from the conversations at the dinner table and it will sort of help with loyalty.

Let me turn it over to Mr. Cummings for any questions he has.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Grubb, you said something that kind of struck me. You said in your No. 3 of your things that you said you wanted to make sure we were careful about, that there are no artificial premiums. Is that what you said?

Mr. GRUBB. Let us see exactly what I said.

Mr. CUMMINGS. OK.

Mr. GRUBB. A policy with rich benefits, low premiums and minimal underwriting is a sure sign of potential disaster.

Mr. CUMMINGS. Right.

Mr. GRUBB. This could lead to a program with unstable premiums.

Mr. CUMMINGS. OK.

Mr. GRUBB. And would likely discourage responsible companies from participating.

Mr. CUMMINGS. I am concerned about that too and I am sure Mr. Scarborough is too. You heard the testimony of the previous panel with regard to the military.

Mr. GRUBB. Yes.

Mr. CUMMINGS. Can you just give us an opinion on that, on your feelings about making sure the military is included? I am just curious, do you have any opinion on that?

Mr. GRUBB. I would support what the panel said in that probably the entire military population on average would be more healthy because of the kind of lifestyle they have led. They are also a true cross section of the rest of the American population. So I think including the military would certainly have no negative impact on the program and potentially a marginally positive impact.

Long-term care insurance is age-rated, so whatever age you buy the policy at is what determines the premium that you are going to pay, hopefully for the rest of your life, or for as long as you pay the premiums. The healthier you are when you get the policy, the lower your premiums are likely to be.

I see no detriment whatsoever to including the military, from either an insurance perspective or from a public policy perspective.

Mr. CUMMINGS. Help me make sure I understand this, connected with what you just said.

Mr. GRUBB. Yes.

Mr. CUMMINGS. Let us say Ms. Croach, I think she said she is 44.

Ms. CROACH. I said 43. [Laughter.]

Mr. GRUBB. I had to admit on national television my wife just turned 50, so if I can do that, I guess we are safe.

Mr. CUMMINGS. I must admit I was surprised when she said that, I thought she was a lot younger than that, but 44.

Mr. SCARBOROUGH. He is good. [Laughter.]

Mr. CUMMINGS. Let us say her mother, I do not know the age, but let us say her mother is 64. Now if she went to get this type of insurance, you have got to look at the fact that her mother is 64.

Mr. GRUBB. Absolutely.

Mr. CUMMINGS. And so—and I guess what I am trying to go to is it is not just her age, but it is her mother's age. Am I right?

Mr. GRUBB. Each person would be rated individually, so she would be rated based on the fact that she is 44.

Mr. CUMMINGS. That is for her own.

Mr. GRUBB. For her own.

Mr. CUMMINGS. And her mother would be rated——

Mr. GRUBB. At 64.

Mr. CUMMINGS. All right. Now you said something very interesting about you do not know of any policies that would insure—these kind of policies that would insure retired people—was that correct?

Mr. GRUBB. What I said was I am not aware of any company that guarantee issues——

Mr. CUMMINGS. Guarantee issues, all right.

Mr. GRUBB [continuing]. People who are retired. We issue up to age 85.

Mr. CUMMINGS. OK.

Mr. GRUBB. So we will issue people in reasonable health up to age 85.

Mr. CUMMINGS. So that means that if her mother is 64, she is in reasonable health, then she is OK.

Mr. GRUBB. Absolutely.

Mr. CUMMINGS. But let us say her mother had a chronic disease, then that throws her into a whole other category, is that correct?

Mr. GRUBB. That is true. In our company, for example, we have four tiers of rating. We have preferred, which are people who are very healthy; standard, which is most of us; and then we have tiers three and four for people who have some illnesses but are still insurable. We do everything that we can do to bring in as many people to the program as we possibly can. And depending on what the chronic disease would be, they may or may not be accepted.

Mr. CUMMINGS. So then I guess that goes back to what you said about the military and it was an interesting point that the previous panel made, that the military—our military folks, because of the lifestyles that they have to lead because of what Ms. Croach said about making sure they have physicals and things of that nature, then it is quite possible that they could bring premiums down.

Mr. GRUBB. Could be. When we look at this, we will look at the demographics of the total population and make some determinations based on the size of the group and also what we know about them demographically.

Mr. CUMMINGS. Now you know, I think when we look at the carriers, I want you to talk just briefly about the factors that—you have testified to this before—the things that you—factors that you think are important in keeping the premiums low. In other words, trying—not low, but as low as we can get them. What are the things that we have to look at to do it right? Because it seems like if you really listen to the testimony at this hearing and the last hearing, there becomes a question of affordability.

Mr. GRUBB. Yes.

Mr. CUMMINGS. If you cannot afford it, it seems like it is not going to do us too much good anyway, so what are the things that you see as those key things that we need to look at when we are talking about trying to keep this insurance at some type of affordable rate so that when, as everybody talked about, sitting at the kitchen table, you can say well, we can do this.

Mr. GRUBB. Let me speak to a couple of different issues. I would like to talk about the affordability because I think it is a huge issue and could not have been more eloquently presented, but I think there is a lot of misconceptions about affordability.

First of all, the thing that you ought to consider, to do it right—I said this before and I will reiterate it again—the financial stability of the company or companies that you deal with is critical to that, because—and that is why I made the statement that you are asking about. Financial stability of the company, because these are benefits that you are buying that hopefully you will maybe not ever use, but will use 20, 30, 40 years from now. So you want to make sure that the company is stable enough and has done its work right, so that those premiums remain level throughout that entire period. So I think the do it right part is the financial stability and strength of the company and its ability to stay the course with you.

In terms of affordability, let me just give you some examples, because I hope this will be, hopefully eye-opening to some degree and these are generalizations, but I can speak specifically for my family and for policies that we issue. My wife and I have a $300 a day unlimited benefit policy, that is the best you can buy in the industry.

Mr. CUMMINGS. How long have you had it so we can put it all in context.

Mr. GRUBB. About 3 years.

Mr. CUMMINGS. OK.

Mr. GRUBB. My wife pays about $450 a year for that, and I am sure my colleagues here would agree that this is a pretty rich benefit. Since I am significantly older than she, my premium is about $1,100.

Our kids have $100 a day with inflation protection, so by the time they are 50, 60, 70 years old, that will be a $700, $800, $900, $1,000 a day benefit. They pay $207 a year.

Now there are very few families who cannot afford $207 a year, that is less than they spend at McDonald's. One of the marketing pitches that we make to people, when you are talking to a grandparent, the 64 year old to 75 year old, who has just bought a policy and is paying $2-, or $3-, or $4-, or $5,000, when you tell them that they can buy the same coverage for their 25 year old grandson or granddaughter for $200. It really opens their eyes. It is something that is very affordable at an early age. It only becomes unaffordable if you wait.

In my last testimony, I talked about the cost of waiting. So I think one of the benefits of your proposal is to encourage, to educate people to buy this at a young age when it really is affordable, so that you are not looking at the $100,000, $150,000, there are other forecasts out there that go up to $300,000 a year—there are not many people who can write checks for that.

So affordability is a very critical issue. But it is affordable.

Mr. CUMMINGS. For the benefit of the wonderful people who have come out here today, can you kind of—you told us before what pretty much the standard kind of benefits package looks like. Now could you kind of share that with us so that they might have the benefit of that?

Mr. GRUBB. Let me tell you another little aside, which hopefully will help. We actually have somebody who is a client of ours who has bought a nursing home only policy and it costs him $5.07 a month. Now that is affordable.

The standard policy right now, what most people buy, is a $100 a day benefit, because in most parts of the country, New York, Alaska and some other places excluded, the average nursing home cost is about $100 a day. So the thing that most people buy is a $100 a day, a 5-year plan, 90 day elimination period, which is like a deductible, so you pay yourself for the first 90 days that you are in the nursing home, with 50 to 80 percent home health care benefits. What that means is your maximum daily limit of $100 a day, if you have home health care, it would be 80 percent of that. So your bucket of money is $100 a day times 365 times 5. So if you only spend $80 a day in the nursing home, your bucket of money really is extended beyond 5 years. That just sets the limit of your bucket. Or in my case, I bought an unlimited plan and I certainly recommend it for younger people. My dad's roommate in John Knox Village nursing home was a 41 year old man who had been there for 18 years because of a car accident. People cannot afford to pay that kind of expenses for that period of time. So for a young person, unlimited makes all the sense in the world.

Mr. CUMMINGS. Do prescriptions come in there at all?

Mr. GRUBB. No, no. That is covered by your health plan.

Mr. CUMMINGS. OK. That is all I have.

Mr. SCARBOROUGH. Thank you, Mr. Cummings.

I want to end with a question, and Mr. Grubb, if you would like to sprint out now, you are certainly welcome to do that.

Mr. GRUBB. This is entirely too much fun.

Mr. SCARBOROUGH. Too much fun. [Laughter.]

Well then we are going to do a couple more rounds.

Mr. GRUBB. I would be happy to participate.

Mr. SCARBOROUGH. You know, as we are envisioning this program for Federal employees, obviously one of the questions that we have in Washington has to do with the cost, and we have been very conscious trying to make sure that the costs of our program, the administrative costs, are low. We believe that our program is less expensive than the administration's right now, but let me ask you, what sort of impact does the cost of the program have on the decision on whether DOD would support implementing it or not?

Mr. CARR. I think the support is probably contingent on the popularity with and the availability of the members—is it something that they would use and that would advantage them? I think for the cost, if we are talking officers versus enlisted, the enlisted obviously as a community are going to be more challenged by cost. Probably the pattern you would see among the enlisted force is initially with discretionary money—well, the first thing you would see is investment in education, in Montgomery GI Bill, along with a concern for life insurance. When those are taken care of, there would be interest in other types of security, of which this would be one, but the pay that the enlisted—the military generally, but the enlisted particularly feel is so tight that we could easily price them out of this, and despite the best education program and the noblest of intentions, they would look and compare that with other uses

and near term risks and threats to their family and the ability to have a car that runs, and we could easily lose that population. And so for that reason, out of our concern for the soldiers and sailors would be a concern for the price because they could be excluded if we are not careful.

Mr. SCARBOROUGH. Thank you, Mr. Carr and Ms. Freeman and Mr. Grubb for your testimony, it certainly has been helpful. I am going to have some followup questions that I will submit in writing.

Mr. CUMMINGS. I have some too.

Mr. SCARBOROUGH. OK, Mr. Cummings will also have some, and if you all could answer that, we will make that part of the record.

I would certainly like to thank everybody for coming out today and thank the fine people at Jacksonville, and certainly want to thank NAS Jacksonville for allowing us the opportunity to hold this hearing today. In particular I want to thank Captain Smith and Captain Dudley for their warm welcome as well as Lieutenant Tim Weber for his assistance in preparing for this hearing.

It is always exciting for me, I have participated in a few of these outside of Washington, DC, and even though the cherry blossoms are in full bloom in Washington, DC, I would rather be in Florida any day of the week. So I thank you all. It is so critical, because like I have said before, if you look at the demographics, Florida is the future, we need to figure out how to make it work and figure out how to make it work for Florida in 1999 because that is how the rest of the country is going to look 10, 15, 20 years from now.

Thanks again for coming out, we appreciate it, and we are adjourned.

[Whereupon, at 12:12 p.m., the subcommittee was adjourned.]

LONG-TERM CARE INSURANCE FOR FEDERAL EMPLOYEES, PART III

MONDAY, JUNE 14, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM,
Baltimore, MD.

The subcommittee met, pursuant to notice, at 1 p.m., at the War Memorial Building, 101 North Gay Street, Baltimore, MD, Hon. Joe Scarborough (chairman of the subcommittee) presiding.

Present: Representatives Scarborough and Cummings.

Staff present: Garry Ewing, counsel; John Cardarelli, clerk; and Jennifer Hemingway, policy director.

Mr. SCARBOROUGH. We will call to order this meeting of the Civil Service Subcommittee. Ladies and gentleman, it is great to be in Baltimore and I certainly am grateful that Congressman Cummings suggested this and has worked tirelessly with his staff to see to it that this hearing in Baltimore happened. I think his commitment to this hearing is an extension of his commitment to the people of Baltimore, the people of the 7th Congressional District and to the people of Maryland. He has been a tireless advocate not only for people in this area but especially on this issue for those who are going to be affected by this long-term care legislation.

It's extremely important, whether you're talking about residents that are suffering from this humidity in Baltimore today or residents that suffer from humidity in northwest Florida just about every day, that this legislation pass.

This is our third hearing now that this subcommittee has held on long-term care, and I'm pleased with the level of importance that Members, not only of this subcommittee, but across the entire span of Congress have put toward making this long-term care pass into law.

In addition to my proposal, of course, H.R. 602, the ranking member, Mr. Cummings and Representative Morella have also introduced long-term care legislation. While we have some issues that are still out there that need clarification, and while we need to bring our two bills together, in the spirit of compromise, I continue to believe that we can work together and make this bill a reality.

It's an employment benefit that needs to come to pass now. Employees' needs for long-term care insurance are as diverse as their occupations, their duty stations and their family status. The decision to buy long-term care insurance is a very personal one. Achiev-

ing maximum participation is going to require that the premiums are affordable, and that we have a benefit structure of sufficient variety to satisfy the diverse needs of our Federal population.

I can't emphasize enough the need to let beneficiaries and not just government officials make their own long-term care decisions. By offering beneficiaries choices among competitive plans I believe we can best offer the range of options employees might seek for themselves and their families. The long-term care benefit we're discussing can safeguard Federal employees from having to deplete their assets through the painful Medicare spend-down process.

To be fully viable, the Federal program must learn from the successes of the current marketplace and follow this lead. Above all, long-term care insurance must remain flexible. The insurance industry continues to innovate as it develops products and this marketplace evolves and matures.

Today we hear about policies that offer the benefits of long-term care insurance and life insurance combined in a single policy. Long-term care insurance exists in a very rapidly changing environment and I think we all want to ensure that legislation we put forth will allow that creativity to flourish.

I look forward to hearing from our witnesses as we discuss the current proposals to provide long-term care insurance to our work force. Again I thank Congressman Cummings for his fight in this battle. I thank our witnesses and certainly thank everybody that's come to attend this very important hearing.

And now I would like to turn it over to the ranking member of the Subcommittee on the Civil Service, Congressman Elijah Cummings.

[The prepared statement of Hon. Joe Scarborough follows:]

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BERNARD SANDERS, VERMONT
INDEPENDENT

Chairman Joe Scarborough
Civil Service Subcommittee
"Long Term Care For Federal Employees, Part III"
June 14, 1999

Ladies and gentleman, this morning we will continue our deliberations over legislative proposals to establish a program under which both civilian and uniformed services personnel as well as annuitants may purchase long-term care insurance. This is the fourth hearing this Subcommittee has held on long-term care.

I am pleased with the level of importance members of the Subcommittee have placed on making long-term care insurance available to federal employees. In addition to my proposal, H.R. 602, the Ranking Member, Mr. Cummings, and Representative Morella have also introduced long-term care legislation. While there are some remaining issues that need clarification, I continue to believe we can work together to make this employment benefit a reality.

Employees' needs for long-term care insurance are as diverse as their occupations, duty stations, and family status. The decision to buy long-term care insurance is a very personal one. Achieving maximum participation will require both affordable premiums and benefit structures of sufficient variety to satisfy the diverse needs of our federal population. I cannot emphasize enough the need to let beneficiaries, not government officials, make their own long-term care decisions. By offering beneficiaries choices among competitive plans we can best offer the range of options employees and annuitants might seek for themselves and their families.

The long-term care benefit we are discussing can safeguard federal employees and annuitants from having to deplete their assets through the painful Medicaid spend-down process. To be fully viable, the federal program must learn from the successes of the current marketplace and follow this lead. Above all, long-term care insurance must remain flexible. The insurance industry continues to innovate in its development of products as this market evolves and matures. Today we will hear about policies that offer the benefits of long-term care insurance and life insurance combined in a single policy. Long-term care insurance exists in a changing environment, and I want to ensure the legislation we put forth allows for creativity.

I look forward to hearing from our witnesses as we discuss the current proposals to provide long-term care insurance to our workforce.

Mr. CUMMINGS. I want to thank you, Mr. Scarborough, for making it possible for this to happen today. It did not have to happen, our subcommittee, which probably sets an example that I wish the entire Congress would follow of bipartisanship. We are probably the epitome, we display the epitome of bipartisanship in our subcommittee, and I think that says a lot for you, and the fact that we are here says a lot for our spirit of bipartisanship.

And the legislation that we are here talking about today is one that deserves a bipartisan effort. Helping Federal employees and all Americans afford the cost of caring for elderly family members without losing their life savings, their family homes or their dignity is a bipartisan objective. President Clinton, Chairman Scarborough, and I, along with other Members of Congress, are determined to achieve that objective.

My bill, H.R. 110, the Federal Employees Group Long-Term Care Insurance Act of 1999, is the Federal employee portion of the administration's four-prong initiative to help all American families afford the cost of long-term care. H.R. 110 would authorize the Office of Personnel Management to purchase group insurance policies for Federal employees, retirees, and family members from qualified private sector insurers at the more affordable group insurance rates.

Senator Barbara Mikulski has introduced the Senate's companion bill to H.R. 110. I look forward to working with her, Chairman Scarborough and the other members of this subcommittee to move long-term care legislation through the Congress this session.

Affordable long-term care insurance and the other components of President Clinton's long-term care initiative, including President Clinton's proposed $1,000 tax credit to help with the cost of caring for ourselves or our family members, reflect the financial burden which long-term care costs will present to an aging America as we find ourselves or our relatives unable to perform daily living activities without assistance.

Addressing the problem of paying for long-term care requires accurate factual information; therefore, I asked the staff of our House Government Reform Committee to prepare a report, estimating the future long-term care needs of the Baltimore area residents.

With the assistance of Mike Nolan and Virginia Thomas of the University of Maryland in Baltimore County Center for Health Program Development and Management, and Dr. Joshua Wiener of the Urban Institute, committee staff was able to prepare an eye opening and enlightening analysis entitled, "Future Long-Term Care Needs in Maryland's 7th Congressional District," which I am releasing to the public and the media today. On behalf of the citizens of Baltimore, I thank everyone whose hard work contributed to the report.

Based on the demographics of Baltimore City and County and using estimates of life-span and projected nursing home use, we now know that 420,000 current residents, nearly one-third of us, will spend time in a Baltimore area nursing home. While many of us will stay in the nursing home for only a short period of time, our analysis predicts that over 200,000 Baltimoreans will spend over 1 year in a nursing home, and approximately 70,000 of us will spend over 5 years in long-term nursing home care.

We also believe that the costs of long-term nursing home care will continue to increase faster than the inflation rate. In 1996, the median cost for 1 year in a Maryland nursing home was approximately $37,000. Even when adjusted for inflation, moreover, the costs of a 1-year stay in a nursing home could increase by approximately 40 percent by the year of 2020, and more than double by the year of 2050.

Based on these projections, by the year 2020, when many of today's 50-year-old Baltimore residents will require long-term care, a 1-year stay in a nursing home could cost approximately $108,000. By the year 2050, when many of today's 20 to 30-year-olds will require long-term care, the costs of a 1-year stay in a nursing home could be as high as $400,000, and so it's clear that this legislation is needed.

I've had an opportunity to review the testimony of our witnesses, and I want to thank all of you in advance for the tremendous effort that you put in to preparing the documents that have become and will become a part of this record.

By taking the time to prepare your testimony and to be with us today, you give us the basis for making sound decisions. When we were in Florida, someone came up and gave some testimony, I think a lady who had some problems similar to those of Ms. Pika, who is here today, where she was not able to get long-term care insurance at one point in her life and she managed some very difficult problems when her husband became ill, but she said one thing that I will never forget, and it sticks in my mind and she looked us in the eye and she says, when you do it, make sure you do it right, do it right. And that's what it's all about, we just want to do it right.

Because we realize that what we do with this Federal legislation will probably impact the private sector also. So we want to have this legislation that is an example of what it should be, what long-term group insurance efforts should be about and policies should be about.

And so we want to thank you again, Mr. Chairman, and I look forward to hearing from our witnesses.

[The prepared statement of Hon. Elijah E. Cummings follows:]

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STATEMENT OF CONGRESSMAN ELIJAH CUMMINGS
THE CIVIL SERVICE SUBCOMMITTEE FIELD HEARING ON
LONG-TERM CARE INSURANCE FOR FEDERAL EMPLOYEES

The War Memorial Building
Baltimore, Maryland

June 14, 1999

Chairman Scarborough, committee staff, invited guests and friends - Welcome to my home town of Baltimore.

Many of you have enjoyed Baltimore's scenic Inner Harbor. Foremost, however, Baltimore is a city of neighborhoods, a place where we who call Baltimore home share a strong sense of community.

Baltimore is world renowned for our health-care facilities - such as The Johns Hopkins and University of Maryland Medical Centers and The Kennedy Krieger Institute -and we are very proud of our historically Black Colleges and Universities like Morgan State University and Coppin State College.

The Social Security Administration's headquarters is located in Woodlawn, a few miles from where we meet today. Overall, more than 32,000 federal employees and retirees live and work here in Baltimore.

It is appropriate, therefore, that we are in Baltimore today to discuss legislation before this Subcommittee which would provide long-term care insurance at lower group insurance rates as a benefit option for federal employees, retirees and their families.

Helping federal employees - and all Americans - afford the cost of caring for elderly family members without losing their life savings, their family homes or their dignity is a bipartisan objective. President Clinton, Chairman Scarborough and I, along with other Members of Congress, are determined to achieve that objective.

My bill, H.R. 110, the "Federal Employees Group Long-Term Care Insurance Act of 1999," is the federal employee portion of the Administration's four-prong initiative to help all American families afford the cost of long-term care. H.R. 110 would authorize the Office of Personnel Management to purchase group insurance policies for federal employees, retirees and family members from qualified private-sector insurers at the more-affordable group insurance rates.

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Affordable long-term care insurance and the other components of President Clinton's long-term care initiative - including the President's proposed $1,000 tax credit to help with the cost of caring for ourselves or family members - reflect the financial burden which long-term care costs will present to an aging America as we find ourselves or our relatives unable to perform daily living activities without assistance.

Addressing the problem of paying for long-term care requires accurate factual information. Therefore, I directed the minority staff of the House Government Reform Committee to prepare a report estimating the future long-term care needs of Baltimore-area residents.

With the assistance of Mike Nolan and Virginia Thomas of the University of Maryland - Baltimore County Center for Health Program Development and Management; and Joshua Wiener of The Urban Institute, committee staff was able to prepare an eye-opening and enlightening analysis, entitled **"Future Long-Term Care Needs in Maryland's 7th Congressional District,"** which I am releasing to the public and media today.

On behalf of the citizens of Baltimore, I thank everyone whose hard work contributed to this report.

Based on the demographics of Baltimore City and County, and using estimates of life-span and projected nursing home use, we now know that **420,000 current residents - nearly one-third us - will spend time in a Baltimore-area nursing home.**

While many of us will stay in a nursing home for only a short period of time, our analysis predicts that **over 200,000 Baltimoreans will spend over one year in a nursing home, and approximately 70,000 of us will spend over five years in long-term nursing home care.**

We also believe that the cost of a long-term nursing home care will continue to increase faster than the inflation rate.

In 1996, the median cost for one year in a Maryland nursing home was approximately $37,000. Even when adjusted for inflation, moreover, the cost of a one-year stay in a nursing home could increase by approximately 40% by the year 2020, and more than double by the year 2050.

Based on these projections, by the year 2020 - when many of today's 50-60 year old Baltimore residents will require long-term care - a one-year stay in a nursing home could cost approximately $108,000.

By the year 2050, when many of today's 20-30 year olds will require long-term care, the cost of a one-year stay in a nursing home could be as high as $400,000.

Because of the high cost of long-term care and the widespread lack of family resources to pay for this care, many senior citizens who face extended time in nursing homes must spend all of their assets and enter the State's Medicaid program.

Presently, 53% of Baltimore-area senior citizens must rely on Medicaid to pay for long-term care. As a result, Medicaid now pays for 70% of long-term costs in the Baltimore area.

If this Medicaid pattern continues, more than 220,000 current residents of Baltimore City and Baltimore County will be forced to rely on Medicaid to pay for their long-term care.

In an era of shrinking Medicaid funds and increasing, catastrophic costs associated with paying for long-term care needed by a loved one or ourselves, **we all have a personal interest in affordable long-term care insurance.**

Chairman Scarborough, as we listen to our witnesses today and learn how best to implement affordable long-term care, the statistics and projections must not obscure the fact that **preserving human lives, homes and dignity is our shared objective.**

Real people are relying upon us to do what is necessary and required.

Real people like Mr. Charles Yocum will tell us today what it is like to confront the cost of care for an aging family member.

The lives of real people like Mrs. Sandy Pika <pronounced - Peeka>, **who also is here with us today, despite a broken ankle, are the true force behind these hearings.**

Sandy Pika, who lives in the Catonsville section of Maryland's 7th Congressional District, and her husband, Daniel, served this country well at Social Security Administration Headquarters during their entire working lives. They looked forward to a well-deserved retirement together in their Catonsville home.

I have not asked Mrs. Pika to re-live the pain and desperation she experienced when Daniel's illness made it impossible for her to take care of him at home.

I have not asked Sandy Pika to tell us how she broke down and cried when told that the hospice care required by Daniel's illness would cost $550 a day - $400 more than her insurance would pay.

I will not put Mrs. Pica through that ordeal today, just as no working American should be forced to choose between caring for a loved one or impoverishment.

So, let us learn from the statistics, projections and analysis, but let us also remember that we are working to preserve families, homes and basic human dignity.

By offering long-term care insurance as a benefit option for its employees, the federal government - as the nation's largest employer - can become the example for other employers whose workers face the same long-term care needs.

Under President Clinton, the federal government has become an example for private employers when it comes to quality-of-life and benefits issues for its employees.

An example is the proposed change in regulations which would expand from 13 days to 12 weeks the sick leave an employee could take for family medical care.

For the growing number of middle-aged federal workers who have aging parents, this expanded leave program can not be implemented soon enough.

Breakthroughs in medical technology are extending our lives, but each of us has but one life to live - this is no dress rehearsal.

All of us must take responsibility now and plan for our gentler years.

Long-term care insurance at affordable group insurance rates can help, just as expanded family-friendly programs can help.

Working together, citizens and government can make the cost of quality long-term care affordable.

Together, we can preserve our dignity, our family homes and the family relationships we worked our entire lives to build.

I look forward to the enlightening testimony we will hear today.

Thank you.

Mr. SCARBOROUGH. Thank you, Congressman Cummings.

I would like to ask our first panel if they could rise to be sworn in. But before you do, let me introduce you. We have Charles Yocum, a resident of Maryland who, along with his wife, has a responsibility of being caretaker for their parents and other elderly relatives. Currently he serves as senior group patent counsel for Black & Decker.

We also have Dr. Georges Benjamin. Dr. Benjamin currently serves as secretary of the Maryland Department of Health and Mental Hygiene. Maryland is planning and implementing a series of initiatives to control the growth of public long-term care spending.

And finally we have Frank Atwater. Mr. Atwater serves as president and CEO of the National Association of Retired Federal Employees. He's a life member of that organization and is a member of Chapter 583 in New Port Richey, FL.

And now, gentlemen, if you would, please rise to take your oath. Because we are an oversight committee, we're required by the rules to swear you in. If you could raise your right hands.

[Witnesses sworn.]

Mr. SCARBOROUGH. Please have a seat. Thanks.

Mr. Yocum, if you could, go ahead and begin your testimony. We ask everybody if they can limit their testimony to 5 minutes, because we're going to have a long, hot hearing. You can submit any additional statements to the record, and, obviously, any questions that we have or anything you want to amplify in the questioning and answer session, you can.

So, Mr. Yocum, please begin.

STATEMENTS OF CHARLES E. YOCUM, SENIOR GROUP PATENT COUNSEL, BLACK & DECKER, RESIDENT OF HOWARD COUNTY, MD; GEORGES C. BENJAMIN, SECRETARY, MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE; AND FRANK G. ATWATER, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. YOCUM. Good afternoon, my name is Charles Yocum. Congressman Cummings, Chairman Scarborough, thank you for giving me the opportunity to testify today on my experiences with long-term care, with Medicaid and on the need for affordable, portable long-term care insurance.

Although I'm speaking as a citizen employed in the private sector, my hope is that the Congress will enact legislation enabling Federal employees to acquire long-term care insurance, and that this example will encourage insurance carriers, employers, and employees to participate as well.

My wife and I are members of the sandwich generation; that means that although our children are not yet fully on their own, we have the added responsibility for seeing to it that our parents and other elderly relatives are cared for. We now have plenty of practice, in locating and dealing with hospitals, hospice care, short- and long-term custodial care and assisted living facilities as well as helping our relatives find independent living apartments.

And I also would like to say that the last 3 years, especially 1998 and 1999, have been the most demanding and the most emotionally

wrenching that we can remember. I'm 55, my wife Kathy is in her early 50's, we have two sons, 20 and 23. I'm an active member of the Maryland Bar and am registered to practice before the U.S. Patent and Trademark Office. My wife is a media assistant in the Howard County Public School system.

But this testimony is primarily about my father-in-law Otts Denchler. Otts is an 87-year-old gentleman, strong as a bull. Physically fit, great appetite, who has worked practically his entire life as a refrigerator mechanic and all around fix-it genius. Just a few years ago, he was diagnosed with Alzheimer's disease. Up until the middle of August 1998, he was living with his wife, Liz, in Baltimore City. His dementia caused him constantly to want to go home to his childhood house in Baltimore on Ridgely Street. That house no longer exists. Nevertheless, because he was constantly wandering off, we installed deadbolt locks on all the outside doors in his house in Baltimore.

He also would get quite agitated if he was restrained in any way. At this point, including their home, their total assets amounted to $63,200. In late August 1998, my wife had to rush to Baltimore to be with her mother who was bleeding internally. Because Otts could not be left alone, my sister-in-law took him in. We always worried that if he did wander off, he would forget what red or green meant and be hit by an automobile.

The hospital diagnosed my mother-in-law with advanced liver cancer and her heart would not permit surgery. She was moved to a nursing home in Catonsville, MD, which was less than satisfactory, but we were fortunate to get her into a more satisfactory nursing home, St. Elizabeth's Rehab and Nursing Center. She had hospice care there and she died the end of September.

Now, while her mom was dying, my wife was faced with another crisis, her sister had to return to work to support her own family, what to do with Otts. None of us could stay with him around the clock, so the VA placed him in a contract nursing home in Catonsville. He escaped from there twice. The second time they didn't even know he had left. He had gotten easily a mile away before a good samaritan family took him in, called the police and he was returned.

My wife at this point was frantic. We had to find a safe place for Otts. By the grace of God, an opening occurred in St. Elizabeth's Alzheimer's unit and we were able to move Otts into the same nursing home in which his wife, Liz, was staying. A few days later, she died.

Now even though I'm an attorney, it took several consults with an elder law specialist to help navigate the medical assistance process, starting with cashing in Otts' assets, then filling out the applications, then going to my in-take interviews on North Avenue in Baltimore City. Here's where life got even tougher. Otts isn't going back to his home in Baltimore City; that means his house has to be counted as an asset that must either be drawn down or liquidated to pay back the State for medical assistance in the event medical assistance is awarded.

That has meant that my wife and I and occasionally some other relatives have had to empty the house and do a lot of fix-up to prepare it for going on the market, and it's still not ready. Inasmuch

as the medical assistance office has given me notice that they may place a lien on Otts' house, I'm faced with yet another dilemma, it will be some time before the house actually sells. It's very likely that the back balance at the nursing home will exceed the net proceeds from the sale. But to whom do I send the check?

Assuming the State grants medical assistance to Otts, if I send it to the nursing home, the State can come after me for the money, because they have a lien for reimbursement of any funds they've expended on his behalf. If I send it to the State, the nursing home could argue that the sale of proceeds should go to pay Otts' bills incurred prior to the month that Medicaid had set in.

So not knowing which way to go, I called the nursing home. They were most understanding. They said if the State grants medical assistance and then enforces a lien on the proceeds, so be it. As far as the application process goes, the biggest hurdle was getting the reams of documentation together. I had most of it in time for my interview on March 19th at Broadway and North Avenue; however, the intake person correctly pointed out that I still needed to get about 6 more months of back bank records of the 36 months that the rules require, plus some other records.

I finally got those and I sent them in. I'm now awaiting a decision from the Department of Social Services. At this point, I would like to mention to Congressman Cummings that all of the people with whom I have worked at the North Avenue location were most helpful, very friendly, and patient with me.

So here I am. My wife feels that because we believe Alzheimer's has a genetic link, she may contract the disease. Her family lives well into their 80's and 90's. It certainly is conceivable that she would need long-term care for a long, long time. That's why, ladies and gentlemen, I ask the Congress to enact legislation to enable Federal employees to obtain portable, affordable long-term care insurance.

Ideally the insurance should not have a cap on the maximum benefits paid for the reasons I've just stated; at $50,000 to $60,000 a year, a cap is exhausted pretty quickly. Also, it should cover the care, whether provided as medical or custodial care, and whether it is in a nursing home, in assisted living or at home.

This is not the first time I have had to exhaust a family member's entire resources. With your help, perhaps it will be the last. Thank you for listening.

Mr. SCARBOROUGH. Thank you, Mr. Yocum. Dr. Benjamin.

Mr. BENJAMIN. Chairman Scarborough, Congressman Cummings, let me just tell you that certainly this bill and this concept is very important. It is appropriate, and it's absolutely necessary. The State of Maryland strongly supports all efforts to encourage individuals to prepare for their long-term care future, and that certainly includes the purchase of long-term care insurance.

This proposal to offer private and long-term care insurance for Federal employees would benefit at least 128,000 Federal employees here in the State of Maryland and, of course, you may want to add their beneficiaries that are appropriate to that number.

Now currently back in 1993, the Maryland General Assembly authorized the State to look at a proposal under the Robert Wood Johnson Foundation to develop incentives to support long-term

care insurance in Maryland, but that program we were not able to participate in, because the Omnibus Budget Reconciliation Act of 1993 limited that program demonstration to the four original States, which were California, Connecticut, Indiana, and New York.

However, we pressed on, and the State of Maryland is currently soliciting bids for companies to provide group long-term care insurance for our State employees to purchase insurance very similar to what is being offered here or proposed for Federal employees.

We certainly agree that if more people assume responsibility for their current and future long-term care expenditures, public spending on long-term care would certainly be able to be reduced, and we believe this will become extremely important as many of us, and I'm a baby boomer, about to enter seniorhood. So we're very much concerned about that.

Now during the fiscal year of 1997, Maryland's Medicaid program spent close to $557 million on long-term care for recipients 21 years of age or older. That represents about 22 percent of our total Medicaid budget. We spent $503 million on nursing facilities for about 24,000 adult recipients. Almost $31 million was spent on medical day care for about 3,300 adults and another $22 million was spent on personal care for almost 5,000 adults.

Now, what we're beginning to look at are new and creative ways to deliver long-term care in Maryland. We think that the potential of expanding insurance coverage would allow us certainly to do that. So that when you look at long-term care coverage, you have to make sure that we expand the capacity of that coverage to allow for, not only institutional care, but community-based care. In many ways, as you know, community-based care can be cost effective, to be very, very creative we can provide wraparound services for seniors in their homes. We all believe it's a terrible, terrible tragedy for someone to have to exhaust all of their resources to do that.

As Congressman Cummings knows, I also run the Developmental Disabilities Administration in Maryland, and we have committed millions of dollars recently through our Governor for implementing his initiative to provide services for individuals with developmental disabilities in the community. We have found this program over the last year to be terribly cost efficient, to provide adequate services, wraparound services, and significant support services for individuals with developmental disabilities. I believe our seniors in Maryland deserve the same kind of compassionate, aggressive and assertive care.

I thank you very much for allowing me to speak today, and we absolutely support you in your efforts.

[The prepared statement of Mr. Benjamin follows:]

"LONG TERM CARE INSURANCE FOR FEDERAL EMPLOYEES"
FIELD HEARING OF THE CIVIL SERVICE SUBCOMMITTEE
OF THE CONGRESSIONAL COMMITTEE
ON GOVERNMENT REFORM

- The State of Maryland strongly supports all efforts that encourage individuals to prepare for their future long-term care needs, including the purchase of long-term care insurance. This proposal to offer private long-term care insurance for federal employees would benefit the 128,000 federal employees in Maryland.

- The State of Maryland is soliciting bids for companies to provide group term long-term care insurance for State employees to purchase, similar to what is being offered to federal employees.

- In 1993, the Maryland General Assembly authorized the State to apply for participation in the Partnership for Long-Term Care. This demonstration program, spearheaded by the Robert Wood Johnson Foundation, provides incentives to people who purchase long-term care insurance. However, Omnibus Budget Reconciliation Act of 1993 effectively limited the demonstration to the four original states of California, Connecticut, Indiana, and New York.

- If more people assumed responsibility for their current and future long-term care expenditures, public spending on long-term care would be reduced. This becomes especially important as we face growth in the population of senior citizens and other individuals needing long-term care.

- During fiscal year 1997, Maryland's Medicaid program spent close to $557 million on long-term care for recipients aged 21 or over, representing 22 percent of the total Medicaid budget.

    - $503,291,831 was spent on nursing facility services for 24,118 adult recipients.
    - $30,790,593 was spent on medical day care for 3,334 adults.
    - $22,642,122 was spent on personal care for 4,804 adults.

Maryland is planning and implementing a series of initiatives to control the growth of public long-term care spending and to encourage home and community-based services as alternatives to more costly institutional services. In partnership with public and private stakeholders, the State is implementing the Outreach Empowerment Campaign for Individual Long-term Care Planning. Various Medicaid waivers and programs have been proposed or are under development to manage public long-term care spending and provide home-and community-based services as alternatives to institutionalization.

Mr. SCARBOROUGH. Thank you, Dr. Benjamin.

Mr. Atwater.

Mr. ATWATER. Mr. Chairman and Congressman Cummings, I'm Frank G. Atwater, president and chief executive officer of the National Association of Retired Federal Employees. I represent some 430,000 active members in my association and perhaps 2.4 million in Federal employees and retirees. I appreciate the opportunity to participate in today's hearing, and I commend you, Mr. Chairman, and you, Mr. Cummings, for your interest in making long-term care insurance available as a Federal employment benefit.

Absent a national response to long-term care needs, many private and public sector employers have begun offering group long-term care insurance to their employees. In fact, half of the current Fortune 500 companies make private long-term care insurance available to their workers. Many employers realize that they have to provide a competitive benefits package to attract the best and the brightest, and many corporate leaders have come to understand that more employees are faced with the challenge of caring for a disabled family member.

Employer provider long-term care insurance helps some employees shoulder that burden by providing a full range of long-term care options, including community and home-based care. Although employees usually pay the full amount of long-term care insurance premiums, the premiums they pay are less expensive and the benefits they receive are better than similar products available to individuals in the private market, because of the economy of scale achieved through purchasing long-term care insurance on a group basis.

The availability of group long-term care insurance is consistent with NARFE's goal of ensuring financial stability in retirement for government employees. The knowledge that retirement benefits and hard earned assets will be protected while long-term care services are guaranteed cannot be overstated for NARFE members. NARFE commends Representatives Mica, Cummings, Morella and you, Mr. Chairman, for introducing long-term care bills in the House. Without your leadership, we would not be having this conversation today.

Although everyone agrees that long-term care insurance should be offered, NARFE has concerns regarding how the program will be managed. NARFE strongly believes that OPM will have no leverage to secure group discounts on minimal benefits without the authority to negotiate with long-term care insurance carriers.

Most, if not all firms that sponsor long-term care insurance appreciate their role as plan purchaser and administrator. If benefits specialists at IBM have the authority to negotiate group discounts, benefit design and medical underwriting of long-term care insurance, then there is no reason why the equivalent professional OPM staff should not be given the same authority.

We are pleased that such negotiation authority has been included in the bills introduced by Mr. Cummings and Mrs. Morella. There has also been significant discussion on the number of carriers that would be allowed to participate in this program. Representatives from carriers that primarily sell long-term care insurance in the individual market argue that encouraging several car-

riers to participate would ensure a full range of choices for participants and encourage competition just like the Federal Employees Health Benefits Program.

Although Federal workers and annuitants enjoy the benefits of competition in the FEHB Program, using several carriers in a long-term care program could fragment the risks of providing this insurance. When long-term care insurance is offered to employees in the private sector, only about 6 percent of those eligible buy policies. Alternatively, 82 percent of the Federal employees and annuitants participate in the Federal Employees Health Benefits Program.

The reason for this difference is simple. Nearly everyone needs health care, but not everyone is sold on the notion that long-term care insurance should be part of their financial planning. Given a smaller community of coverage, splitting the risk of providing long-term care insurance between many carriers could reduce a group's plan economy of scale and not produce lower premiums.

NARFE supports the concept of limiting the number of carriers that would participate in the Federal long-term care insurance program, since fewer insurers would reduce the possibility of adverse selection or risk fragmentation. We are confident that limiting carriers will not result in a one size fits all or a cookie cutter product. Instead, a full range of benefit choices would be available to enrollees and active competition between insurance carriers and the program bidding process would be encouraged.

Carriers that participate in this program and OPM should also negotiate medical underwriting requirements. OPM says that it will attempt to minimize underwriting requirements for active employees during the initial offering to encourage them to buy long-term care insurance before they retire. Relaxed underwriting requirements would help attract employees into the long-term care program.

Their participation in sufficient numbers is essential if the group is to secure discounted rates and better benefits. We realize that annuitants and family members probably would face medical underwriting standards. However, NARFE's goal is to ensure that annuitant underwriting standards are less burdensome than those offered to mature and older Americans in the private market.

While program ground rules must make insurance carrier participation in this program feasible, NARFE will insist that the greatest possible number of employees and annuitants would be able to buy long-term care insurance at reasonable rates.

Of all of the House proposals, NARFE's preferred vehicle is H.R. 1111. This legislation builds on other proposals by providing OPM specific guidance on benefit design without being overly proscriptive.

Beyond the core benefit design, H.R. 1111 permits plan participants to make their own decisions about some of the most important coverage features of a long-term care policy. For example, it would guarantee participants the option of receiving long-term care in a variety of settings, including nursing homes, assisted living facilities or home and community-based care.

In addition to benefits, H.R. 1111 requires OPM to create consumer protections for participants. OPM would be required to create an external dispute resolution process to resolve differences be-

tween policyholders and carriers, and the bill prohibits Federal preemption of State consumer protections when State standards are more stringent.

The Morella bill adds military personnel and retirees to the lists of persons eligible for the long-term care insurance. Those who were present for last year's hearing on this issue may remember that my predecessor Charles R. Jackson said that he had difficulty believing that he might need long-term care, and as a result, he had not bought a long-term care policy. He said, "I suppose I cannot justify paying the premium costs for something I find hard to realize I may ever need. Now if I'm a hard sell, just think how difficult it will be to persuade a 30, 40 or even 50-year-old Federal employee to buy long-term care insurance."

Mr. Jackson's testimony underscored the need and the challenge of building a sufficiently large risk pool to achieve the group discounts that will make long-term care insurance affordable. Inviting military personnel and retirees into this program will only help build this community of coverage. Neither military personnel nor civilian workers will buy long-term care policies without a major education effort.

Beyond the insurance policy itself, information and referral service counselors must be capable of telling employees and annuitants about the full range of long-term care services available to them.

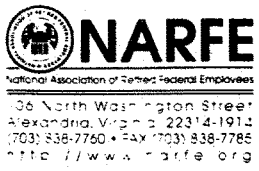
Finally, it is important to recognize that this insurance product is not a comprehensive solution to present and future challenges of providing long-term care. Admittedly, this insurance will not be helpful to individuals who have an immediate need for long-term care or persons who are already in a long-term care situation. For that reason, NARFE has endorsed the administration's plan to offer a $1,000 per year tax credit to long-term care recipients or family care givers.

This proposal would provide some relief to individuals and families that provide or pay for long-term care. Likewise, we support the White House's $625 million family caregivers plan that would provide respite home care services, counseling, support, information and referral services to families nationwide. And for all its shortcomings, Medicaid is the only safety net program that guarantees long-term care benefits for eligible individuals.

NARFE urges Congress to preserve this guarantee for persons presently eligible for Medicaid. The challenge of creating a better way to deliver and finance long-term care will not be resolved overnight. NARFE is committed to working with Congress and other organizations to preserve the quality of life for those who may need this long-term care, those who already receive it and those who care for disabled loved ones.

In closing, I want to commend you, Mr. Chairman, and, Mr. Cummings, and Representatives Mica and Morella and others for recognizing our critical need for private long-term care insurance. That concludes my testimony, Mr. Chairman.

[The prepared statement of Mr. Atwater follows:]



STATEMENT BY
FRANK G. ATWATER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

BEFORE THE
SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

HEARING ON
LONG-TERM CARE INSURANCE FOR
FEDERAL WORKERS AND ANNUITANTS

THE WAR MEMORIAL BUILDING
101 NORTH GAY STREET
BALTIMORE, MARYLAND

JUNE 14, 1999
1:00 PM

National Association of Retired Federal Employees
Frank G. Atwater NATIONAL PRESIDENT & CEO
Margaret L. Baptiste NATIONAL VICE PRESIDENT
John Walker Hartigan NATIONAL SECRETARY
Charles L. Fallis NATIONAL TREASURER

Mr. Chairman, I am Frank G. Atwater, President and Chief Executive Officer of the National Association of Retired Federal Employees (NARFE). I appreciate the opportunity to participate in today's hearing, and I commend you, Mr. Chairman, for your interest in making long-term care insurance available as a federal employment benefit.

Mr. Chairman, the need to plan for long-term care has become obvious to many Americans. Half of all women and a third of all men who are now 65 are likely to spend some time in their later years in a nursing home at a cost in excess of $40,000 year. Without adequate income or insurance, individuals who need long-term care are required to impoverish themselves to qualify for Medicaid nursing home benefits.

Absent a national response to long-term care needs, many private and public sector employers have begun offering group long-term care insurance to their employees. According to the Health Insurance Association of America (HIAA), employer-sponsored long-term care insurance plans grew by 21.6 percent in 1996 alone. In fact, half of the current Fortune 500 companies make private long-term care insurance available to their workers.

Why are employers offering this benefit? Many realize that they have to provide a competitive benefits package to attract the best and the brightest in a tight labor market. But more importantly, many corporate leaders have come to understand that the aging and longevity of the workforce and the population in general means that more employees are faced with the challenge of caring for a disabled family member. A valued employee is less productive or spends fewer hours on the job if they become a caregiver to a loved one. Employer-provided long-term care insurance helps some employees shoulder that burden by providing, in many instances, a full range of long-term care options, including community and home based care.

Although employees usually pay the full amount of long-term care insurance premiums, the premiums they pay are less expensive and the benefits they receive are better than similar products available to individuals in the private market. That is because of the economy of scale achieved through purchasing long-term care insurance on a group basis and because benefit specialists are more knowledgeable and skillful at negotiating coverage options than most individuals.

For NARFE, the availability of group long-term care insurance is consistent with our goal of assuring financial stability in retirement for government employees. Protecting retirement assets through careful financial planning necessarily means considering long-term care insurance as an option. The knowledge that retirement benefits and hard-earned assets will be protected while long-term care services are guaranteed cannot be overstated for NARFE members.

Since the recent growth of employer-sponsored long-term care insurance began, individuals on Capitol Hill, the administration and consumer groups like ours have been discussing the possibility of offering this product on a group basis to federal workers and annuitants. However, the issue did not get past the discussion stage until former subcommittee chairman John Mica held a hearing on long-term care in March 1998. Congressman Mica followed up on the hearing by introducing H.R. 4401 last August.

NARFE commends Representatives Mica, Elijah Cummings, Connie Morella and you Mr. Chairman for introducing long-term care bills in the House. Your actions tell us that legislation to offer long-term care insurance to federal employees and annuitants is a priority of members on both sides of the aisle and the administration. Absent your leadership, we would not be having this conversation today.

OPM Negotiation Authority

Although everyone agrees that long-term care insurance should be offered to federal employees and annuitants, NARFE has concerns regarding how the program would be managed. Some have suggested that the Office of Personnel Management (OPM) should be expressly prohibited from negotiating any benefits, terms, conditions or premiums with insurance carriers that intend to offer their products. NARFE strongly believes that OPM will have no leverage to secure group discounts or minimal benefits without the authority to negotiate with long-term care insurance carriers.

While the level and intensity of these negotiations varies from employer-to-employer, most, if not all, firms that sponsor long-term care insurance appreciate their role as plan purchaser and administrator. Indeed, if benefit specialists at IBM have the authority to negotiate group discounts, benefit design and medical underwriting of long-term care insurance for their employees, retirees and family members, then there is no reason why the equivalent professional OPM staff should not be given the same authority. We frequently hear that government would be more effective and efficient if it were managed more like the private-sector. Here then, is the perfect opportunity for government to emulate a proven free-market method of securing group discounts on long-term care insurance for employees and retirees.

We are pleased that such negotiation authority has been included in the bills introduced by Mr. Cummings and Mrs. Morella. NARFE supports these bills because they empower OPM to work in partnership with carriers to offer employees and annuitants long-term care insurance with the benefit coverage options they want at premium prices they can afford.

Participating Carriers

Mr. Chairman, there has also been significant discussion on the number of carriers that would be allowed to participate in this program. Representatives from carriers that primarily sell long-term care insurance in the individual market say that virtually any insurance carrier should be allowed to participate in the proposed federal program. Indeed, they argue that encouraging several carriers to participate would ensure a full range of choices for participants and encourage competition just like the Federal Employees Health Benefits Program (FEHBP).

Although federal workers and annuitants enjoy the benefits of competition in FEHBP, using several carriers in a long-term care program could fragment the risks of providing this insurance. When long-term care insurance is offered to employers in the private-sector, only about six percent of those eligible buy policies. Alternatively, 82 percent of federal employees and annuitants participate in FEHBP. The reason for this difference is simple; nearly everyone needs health care, but not everyone is sold on the notion that long-term care insurance should be part of their financial planning. Consequently, not everyone buys such policies, even at a discounted group rate. Given a smaller community of coverage, splitting the risk of providing long-term care insurance between many carriers could reduce a group plan's economy of scale and not produce lower premiums.

Additionally, allowing a large number of carriers into the federal long-term care insurance plan could also increase the probability that individuals who are less likely to become disabled could congregate in some plans while those who have a greater chance of needing care might tend to select other policies. NARFE supports the concept of limiting the number of carriers that would participate in a federal long-term care insurance program since fewer insurers would reduce the possibility of adverse selection or risk fragmentation. We are confident that limiting carriers will not result in a one-size-fits-all or cookie cutter product. Instead, a full range of benefit choices would be available to enrollees and active competition between insurance carriers in the program bidding process would be encouraged.

Medical Underwriting

Carriers that participate in this program and OPM should also negotiate medical underwriting requirements. That's because the present bills are mostly silent on medical underwriting. For example, OPM says that it will attempt to minimize underwriting requirements for active employees during the initial offering to encourage them to buy long-term care insurance before they retire.

Persons who purchase long-term care insurance make a lifetime commitment to paying policy premiums if they intend to receive full benefits in the future. Relaxed underwriting requirements would help attract employees into the long-term care program. Their participation in sufficient numbers is essential if the group is to secure discounted rates and better benefits. For the same reason, most private-sector employers encourage younger workers to participate in long-term care insurance programs to increase the size of the group, promote peace of mind and enhance productivity.

We realize that annuitants and family members probably would face medical underwriting standards. However, NARFE's goal is to ensure that annuitant-underwriting standards are less burdensome than those offered to mature and older Americans in the private market. We are hopeful that might be especially true of federal annuitants who still drive, get out of the house on a regular basis and socialize. But at the same time, we understand that insurance carriers would be unlikely to participate in the proposed federal program if they were forced to sell policies to senior citizens that are probable candidates for long-term care. While program ground rules must make insurance carrier participation in this program feasible, NARFE will insist that the greatest possible number of employees and annuitants may buy long-term care insurance at reasonable rates.

NARFE Supports the Morella Bill

Of all the House proposals, NARFE's preferred vehicle is H.R. 1111, the Federal Civilian and Uniformed Services Long-Term Care Insurance Act of 1999, introduced by Congresswoman Morella. This legislation builds on other proposals by providing OPM specific guidance on benefit design without being overly prescriptive. For instance, the Morella bill makes the long-term care insurance available under the program portable and requires carriers to renew coverage once a policy has been underwritten. Benefits would trigger when an enrollee cannot perform two or more activities of daily living (ADL) (i.e. eating, walking, transferring from a bed to a chair, dressing, bathing, using a toilet and remaining continent) or has a cognitive disorder (i.e. Alzheimer's disease or dementia). Policies would also allow enrollees to take benefits in the form of cash or services. And, an option for inflation protection of long-term care benefits would be required in each plan.

Beyond the core benefit design, H.R. 1111 permits plan participants to make their own decisions about some of the most important coverage features of a long-term care policy. For example, it would guarantee participants the option of receiving long-term care in a variety of settings, including nursing homes, assisted living facilities or home and community based care.

Long-term care policies sold in the private market have so-called "elimination periods" during which a policyholder must pay out-of-pocket for their own care. Some elimination periods last as long as 100 days from the date a policyholder needs long-term care to the date the insurance carrier will actually pay for it. The Morella legislation provides participants the option of buying a policy with a reduced elimination period.

Participants could also decide how long their long-term care coverage should last. Most long-term care policies sold in the United States do not provide lifetime coverage because premiums are too high. Instead, benefit periods usually last from one to six years. *Consumer Reports* says that most Americans won't need perpetual long-term care. This is because 90 percent of all people who enter a nursing home between the ages of 65 and 94 stay less than four years. Most stay an average of 2 ½ years. Under the Congresswoman's bill, plans would provide policyholders with length of coverage options.

Some plans would also include "nonforfeiture benefits," which provide a reduced benefit or value to the participant if he or she allows the policy to lapse. Long-term care insurance lapses when policyholders fail to pay premiums. When this happens to persons with nonforfeiture coverage, the insurance carrier usually applies the premiums paid by the policyholder to nursing home care as long as the money lasts.

Like other forms of insurance, the cost of added features – like reduced elimination periods – would result in higher premiums for policyholders who choose such options. However, the flip side would also be true. Premiums would be lower when enrollees opt for the core benefits package without adding other features.

In addition to benefits, H.R. 1111 requires OPM to create consumer protections for participants. The bill's protections would specifically require insurance carriers to maintain adequate reserves and be licensed in all 50 states. OPM would be required to create an external dispute resolution process to resolve differences between policyholders and carriers. Moreover, the bill prohibits federal preemption of state consumer protections when state standards are more stringent than federal law.

Besides consumer protections, the Morella bill adds military personnel and retirees to the list of persons eligible for the long-term care insurance. Uniformed service men and women work for Uncle Sam too and we believe that they should have the same access to group long-term care insurance as federal civilian employees and retirees. NARFE also appreciates the fact that military personnel and retiree participation in this program will increase the economy of scale and make deeper group discounts possible for everyone.

Those of you who were present for last year's hearing on this issue may remember that my predecessor Charles R. Jackson said that he had difficulty believing that he might need long-term care even tomorrow. And as a result, he had not bought a long-term care policy.

He added, "I suppose I cannot justify paying the premium cost for something I find hard to realize I may ever need. Now, if I'm a hard sell, just think how difficult it will be to persuade a 30, 40 or even 50 year-old federal employee to buy long-term care insurance."

Past-President Jackson's testimony underscored the need -- and challenge -- of building a sufficiently large risk pool to achieve the group discounts that will make long-term care insurance affordable. Inviting military personnel and retirees into this program will only help build this community of coverage.

However, neither military personnel nor civilian workers will buy long-term care policies without a major education effort. Such an effort should include an information and referral service such as private-sector employers frequently provide to their employees along with long-term care insurance. Beyond the insurance policy itself, information and referral service counselors must be capable of telling employees and annuitants about the full range of long-term care services available to them. This knowledge will help individuals make informed decisions about long-term care options.

Insurance Only Part of the Solution

Finally, it is important to recognize that this insurance product is not a comprehensive solution to present and future challenges of providing long-term care. The most critical factor to acknowledge is that long-term care insurance exists to address the future needs of policyholders. It is our hope that this program will enable a significant number of federal civilian and uniformed service members, retirees and family members to receive the long-term care they may need.

Admittedly, this insurance will not be helpful to individuals who have an immediate need for long-term care or persons who are already in a nursing home, an assisted living facility or home and community based care. NARFE urges Congress to support initiatives that would also help Americans with a likely or immediate long-term care need.

For instance, NARFE has endorsed the Administration's plan to offer a $1000 per year tax credit to long-term care recipients or family caregivers. Moreover, a related plan was included in the Majority's "Contract with America" in 1994. This proposal would provide some relief to individuals and families that provide or pay for long-term care.

Likewise, we support the White House's $625 million family caregivers plan that would provide respite, home care services, counseling, support, information and referral services to families nationwide through the Older Americans Act.

And, for all its shortcomings, Medicaid is the only safety-net program that guarantees long-term care benefits for eligible individuals. NARFE urges Congress to preserve this guarantee for persons presently eligible for Medicaid and we oppose reductions in state and federal contributions to the program.

Given our present political and budgetary realities, the challenge of creating a better way to deliver and finance long-term care will not be resolved overnight. However, NARFE will continue to labor with Congress and other federal-postal and aging organizations to improve the quality of life for those who may need long-term care, those who already receive it and those who care for disabled loved-ones.

In closing, I want to commend you, Mr. Chairman, and Representatives Mica, Morella, Cummings and others for recognizing our critical need for private long-term care insurance. We stand ready to work with you to enact legislation that will offer the federal civilian and military communities long-term care benefits and premiums that are better than what is available to individuals in the private-market.

Thank you again for inviting us to testify. That concludes my testimony. I would be glad to answer any questions.

Mr. SCARBOROUGH. Thank you, Mr. Atwater. I certainly appreciate it. And, of course, congratulations on your election. I will say this, there's one area I'm a little concerned about right now and that's your diplomacy of the bills, the few bills introduced, Mr. Cummings and I introduced. He has 110 and I have 602, and you endorsed the plan by the Member that's not here. We will work on that though.

Mr. ATWATER. I'm sorry. I had that going around in my head that there must be a couple of bills that I'm missing.

Mr. SCARBOROUGH. Yes, yes.

Mr. ATWATER. I couldn't get them written down. But I did mention your name afterwards.

Mr. SCARBOROUGH. You did, and you pronounced it correctly, too. So that's a good start.

Mr. ATWATER. You told me earlier I could call you anything I wanted to, but I wouldn't go so far as to calling you Mr. Goldsborough or something like that.

Mr. SCARBOROUGH. You can still call me whatever you want, just support my bill, and I'm happy, or Mr. Cummings'.

Mr. ATWATER. I certainly will. I wouldn't be here if we're not supporting your bill.

Mr. SCARBOROUGH. We will all work together.

I want to first of all ask you, Mr. Yocum, to expand a little bit on your testimony, because I think it's very compelling. I, myself, practiced law before getting into Congress, and the one thing I knew about patent law was that I didn't know anything about patent law because it was so extraordinarily complex. You engage in a field of practice that is about as complex as any field and yet you had to hire your own attorney to wade through the complex issues involved in taking care of your parents.

Now, I will say, by the way, you are very good with diplomacy, because you identified your age as 55, but you just made a general reference to your wife's age. That was very good. You picked that up, didn't you?

Mr. YOCUM. Thank you, Mr. Congressman.

Mr. SCARBOROUGH. I noticed that. But let me ask you, first of all, how much have you had to spend on legal representation just to figure out the basics of how to best protect your parents?

Mr. YOCUM. I was very fortunate, Congressman Scarborough, I paid zero.

Mr. SCARBOROUGH. Because you have friends who are attorneys?

Mr. YOCUM. It was professional courtesy on this gentleman's part.

Mr. SCARBOROUGH. Let me ask you this question then for the members out there that aren't as fortunate as us to have attorneys who are friends that will occasionally do that, how much can you estimate would it cost somebody that didn't have the same professional courtesy extended to them, a rough estimate?

Mr. YOCUM. If we assume a billing rate of around $150 to $200 an hour, something like that——

Mr. SCARBOROUGH. That's a good assumption.

Mr. YOCUM [continuing]. I would say easily anywhere from a $1,000 to $2,000 depending upon how long you're on the phone. Whenever I encounter someone who says, Chuck, can you do this

or that for my father-in-law, we're looking at preserving assets or things like that, this is an area of the law that I feel the same way as you feel about intellectual property.

I'm completely lost, but I will refer every single person to legal counsel before entering this particular adventure. That would be my recommendation. I think even if I had to pay the fee, and I was quite prepared to do so, I wouldn't take step one without having consulted counsel.

Mr. SCARBOROUGH. You know, it's a real shame that we've gotten to that point regarding this issue because it adds insult to injury, financial insult to injury for so many people that have to go through this very, very expensive process. I would guess this would actually help accelerate the spend-down process, which in itself can be very distressing not only for the parents, but the children of the parents that are taking care of them.

Let me ask you about your experience in this area, because we've had some testimony in past hearings about just how difficult it was for parents and children to go through their spend-down process where basically they had to spend everything that they had made over 40 years just to qualify for Medicaid and be able to get long-term care.

Could you tell me for you and your wife, what was the most difficult part of this spending down process?

Mr. YOCUM. There were a couple of difficult parts, and the part that I absolutely missed, notwithstanding the hours of advice that I received, was having to make sure that the timing was right when certain account balances show a certain figure in the relative's bank accounts. It took a long time to draw down the cash value of my father-in-law's insurance policies. That took a long time dealing back and forth with the insurance companies and what not, but you deposit the asset proceeds into the bank account, and if it shows up in the wrong time of the month, then it's well above the figure, even though the very next month you turn it around, and you either pay the health care provider or apply it to the family member's other needs.

And so I made several mistakes along the line, because I have a feeling that my father-in-law Otts would have qualified for medical assistance sooner had I handled things differently so that on the right time of the month the balances would show the right amount of money.

Mr. SCARBOROUGH. Right. Do you have any children?

Mr. YOCUM. Yes, sir, I do. I have two sons, one who is 23, just graduated from the University of Maryland last year. Incidentally he's working for a contractor for the State Department, which was his first really good job. And a son in his third year, majoring in art, also at University of Maryland College Park.

Mr. SCARBOROUGH. Well, I ask that question, because this really feeds into the one before. You know, I've got two boys, one is aged 8 and one is 11, and you know the second you have children, you realize that is your commitment and you start working to build for their future, to set aside money to get them get through college and hopefully to take care of them, and maybe even leave them with something.

I want to ask you on the emotional side of things, what do you think it would be like for your father-in-law, who worked his entire life, or like you, you're going to be working your entire life obviously very hard to see everything that you have earned over 30, 40, 50 years evaporate in a matter of a year or a year and a half just so you can qualify to be treated decently?

A followup to that is, what advice are you going to give your two boys to make sure that this sort of thing doesn't happen to them or happen to you, drawing upon all of your experiences?

Mr. YOCUM. Well, it was pretty wrenching. I have this gentleman who I look upon as my surrogate father, who has been dead for a good while now. He was a very proud man, very proud. And he was also proud of his having amassed, having put together a family, and their life savings when my mother-in-law died was around $7,000. That's worth about a month and a half in terms of private pay nursing home care.

And I think if I were to try to step in his shoes and look at that, I would be heart broken. We, the family, had made a decision that we were going to apply the proceeds of the house to get him the best care we could, even though there was an opportunity based on advice of counsel of somehow possibly sheltering part of the assets for our use after he were to die, but that's not how we wanted to do it. So it all goes into the black hole.

As far as advice for my two sons, they and I and my wife have seen the elder care side of the coin big time. We have worked with three or four of my wife's elderly relatives and my own mother, and we all see that in our future. And so my advice to both of my boys would be that when and if you can afford it, try to get long-term care insurance, and the big word there is affordable.

Mr. SCARBOROUGH. Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I wanted to just recognize our Department of Aging secretary, Secretary Sue Ward for the State of Maryland. Would you stand up, Ms. Ward? Thank you very much for being with us today.

Dr. Benjamin, I just want to talk about a few things that you mentioned. You were saying that Maryland is aiming more at community-based care because it's cheaper I take it than the nursing homes; is that right?

Mr. BENJAMIN. That's correct.

Mr. CUMMINGS. OK. So what's the difference? Would you give us an idea of what you project the difference is? I know it varies. But between say nursing care, nursing home care, and a year of at-home care, just the range?

Mr. BENJAMIN. Well, it depends. Let me walk you through some examples if that might be helpful. You have an individual who is at home and you have—let's say you still have a couple there, and you're now able to—the wife is not able to handle this person, unable to give them a bath, unable to keep them clean, and unable to change them and, in essence, she may just initially need someone to help her do those kinds of things in a much more intensive way than some of our personal care services would offer.

It seems to be that that's a much cheaper way than to take that individual and put them in a nursing home to give them more care than they probably need. Here's a person who is comfortable,

they're at home, they've got their bed, they've got their slippers, they've got their television set. What they really need is some assistance part of a day or for portions of the day, with parts of their daily living.

Let's go to a much more complex case, where you have someone who needs fairly intensive nursing care, but, again, not 24 hours a day, 7 days a week, you can do that same scenario by providing that person in-home care for the component of time that they need, again, versus putting that individual in a nursing home.

We're beginning to see probably as the side effect of managed care that our hospitals are becoming intensive care units, that our nursing homes are becoming medical surgical wards, and that our communities are now becoming what we used to take care of in nursing homes.

I believe we need to buildup that capacity in the community to provide for that care, particularly as we see those of us who are going to become seniors, become seniors because, as you pointed out in your so eloquent testimony, the numbers are going to be extraordinary. And so I believe that we need to have the full spectrum of care.

I strongly support our long-term care facilities. I don't want to leave you with that message. I strongly, strongly support that. But also what I support is the flexibility to give people what they need when they need it, instead of having these very rigid systems that say we're not going to pay for that until you spend every dime that you have. We're not going to offer you the care you need, the right kind of care you need when you need it. To me that's not cost efficient, nor good government. So I would like to see some flexibility in that, and I believe insurance can cover that, if we craft it, if we're smart about the way we craft that.

Mr. CUMMINGS. On that note you said a little bit earlier that the State of Maryland is currently soliciting bids, is that right?

Mr. BENJAMIN. That's right.

Mr. CUMMINGS. Tell us what the criteria is, what kind of criteria you are using to choose.

Mr. BENJAMIN. I don't know. I will be happy to provide that to the committee.

Mr. CUMMINGS. Will more than one carrier be allowed to participate?

Mr. BENJAMIN. My understanding is that is true. It is basically to do a group process similar to what you are proposing, but I can tell you those details.

[The information referred to follows:]

STATE OF MARYLAND

Request for Proposals

Long Term Care Insurance for Maryland State Employees

Solicitation No. F10R9000080

Department of Budget and Management
Employee Benefits Division
March 9, 1999

NOTICE

Prospective offerors who have received this document from a source other than the Issuing Office should immediately contact the Issuing Office and provide their name and mailing address so that the amendments to the RFP or other communications can be sent to them.

Minority Businesses are Encouraged to Respond to this Solicitation

NOTICE TO OFFERORS

In order to help us improve the quality of State proposal solicitations, and to make our procurement Process more responsive and "business friendly", we ask that you take a few minutes and provide comments and suggestions regarding the enclosed solicitation. Please return your comments with your proposal. If you have chosen not to bid on this contact, please fax this completed form to: **(410 333-7122)**.

Solicitation Number: **F10R9000080**
Entitled: **Long Term Care Insurance for Maryland State Employees.**
Date: **March 9, 1999**

1. If you have responded with a "no bid", please indicate the reason(s) below:
   - ¤ Other commitments preclude our participation at this time.
   - ¤ The subject of the solicitation is not something we ordinarily provide.
   - ¤ We are inexperienced in the work required.
   - ¤ Specifications are unclear, too restrictive, etc. (please explain in the Remarks section).
   - ¤ The scope of work is beyond our present capacity.
   - ¤ Doing business with State of Maryland Government is simply too complicated (please explain in the Remarks section).
   - ¤ We cannot be competitive (please explain in the Remarks section).
   - ¤ Time allotted for completion of the proposal is insufficient.
   - ¤ Start-up/implementation time is insufficient.
   - ¤ Proposal requirements (other than specifications) are unreasonable or too risky (please explain in the Remarks section).
   - ¤ MBE requirements (please explain in the Remarks section).
   - ¤ Prior State of Maryland contract experience was unprofitable or otherwise unsatisfactory (please explain in the Remarks section).
   - ¤ Payment schedule is too slow.

Other:_____

2. If you have submitted a proposal, but wish to offer suggestions or express concerns, please use the Remarks section below (use reverse or attach additional pages as needed).

REMARKS:_____

Vendor Name:_____ Date:_____
Contact Person:_____ Phone:_____
Address:_____

PROCUREMENT SCHEDULE

Long Term Care Insurance for Maryland State Employees

March 9, 1999 Advertisement of the Request for Proposals for Long Term Care Insurance for Maryland State Employees Issuance of Request for Proposals

March 9, 1999 Issuance of Requests for Proposals

March 19, 1999 Closing date for receipt of written questions to be answered during the pre-proposal conference. Must be received at the Issuing Office by 10:00 a.m. local time.

March 23, 1999 Pre-proposal Conference at 10:00 a.m.
300 West Preston Street - 1st floor auditorium
Baltimore, MD 21201

April 20, 1999 Closing date for submission of proposals. Proposals must be received at the Issuing Office by 1:00 p.m.

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D: Certified Minority Business Enterprises
E: Financial Proposal - Long Term Care Insurance

SECTION 1. GENERAL INFORMATION

1.1 SUMMARY STATEMENT

The Department of Budget and Management (DBM) is issuing this RFP for Long Term Care Insurance for Maryland State employees. The State of Maryland is seeking a vendor to provide an equitable, affordable program of insurance for long term care services that proactively addresses the everchanging and varied needs of its employees.

1.2 DEFINITIONS

For the purposes of this RFP, the following terms have the meanings indicated below:

"COB" means Coordination of Benefits.

"COBRA" means Consolidated Omnibus Budget Reconciliation Act.

"COMAR" means Code of Maryland Regulations.

"Contractual Employee" means a non-permanent employee of the State of Maryland who is not eligible for State subsidy of benefits, but is eligible to enroll in the State of Maryland Benefits Program, paying full premium costs.

"Covered Lives" means each individual enrolled in a plan.

"DBM" means the Department of Budget and Management.

"Dependent" means a spouse, natural child, step-child, legally adopted child, or legal ward of an eligible member, as defined in COMAR 06.01.07.03A(11).

"Direct Pay Enrollee" means an individual who is billed directly by the Department of Budget and Management for selected benefits.

"EBD" means Employee Benefits Division.

"EOB" means Explanation of Benefits.

"FTE" means Full-Time Equivalent.

"Leave of Absence" means a permanent employee who is on an approved, non-paid leave of absence from State of Maryland employment, who is not eligible for state subsidy of benefits, but is eligible to participate in certain benefits provided by the State of Maryland while on a leave of absence.

"MBE" Means a Minority Business Enterprise that is certified by the Maryland Department of Transportation.

"Member" means an employee who is eligible to participate in the State of Maryland Benefits Program but does not include the member's dependents.

"MIS" Means Management Information System.

"Part-Time Employee" means a permanent employee who works less than fifty percent of the standard work week and is not eligible for state subsidy of benefits, but is eligible to enroll in the State of Maryland Benefits Program.

"RFP" means this Request for Proposals for Long Term Care Services for Employee Benefit Programs for Maryland State Employees.

"Satellite Account Employee" means an employee of a political subdivision, agency, commission, or organization that is permitted by Maryland law to participate in the State of Maryland Benefits Program.

"Subcontractor" means an organization or entity that the offeror plans to utilize for the purposes of administrative services covered under this contract.

"TTY/TDD" means a telephone device used by hearing impaired individuals whereby they communicate via telephone connected to a keyboard and screen.

1.3 ISSUING OFFICE AND PROCUREMENT OFFICER

The sole point of contact in the State for purposes of this RFP is the Issuing Office at the address listed below:

State of Maryland
Department of Budget and Management
Employee Benefits Division
301 West Preston Street, Room 509
Baltimore, Maryland 21201
Attn: Gladys B. Gaskins
Telephone: (410) 767-4710
Fax: (410) 333-7122

The Procurement Officer is Joel Leberknight, 45 Calvert Street, Room 137, Annapolis, Maryland 21401, (410) 260-7116. (Fax: 410-974-3274).

A copy of this RFP also can be obtained from the Department's Internet Web Site. The address is www.dbm.state.md.us under Division of Policy Analysis - Procurement..

1.4 PRE-PROPOSAL CONFERENCE

A Pre-Proposal Conference will be held on March 23, 1999, beginning at 10:00 a.m. in the auditorium located on the 1st floor, 300 West Preston Street, Baltimore, Maryland 21201. Attendance at the Pre-Proposal Conference is not mandatory, but all interested offerors are encouraged to attend in order to facilitate better preparation of their proposals. The conference will be transcribed. A copy of the transcript of the Pre-Proposal Conference will be made available to potential offerors at a nominal charge directly from the

transcription company. In addition, minutes of the conference will be distributed, free of charge, to all vendors who are known to have received the RFP. Both written and verbal questions will be considered at the Pre-Proposal Conference.

All questions, either verbal or written, should be submitted in a timely manner. In the case of questions not received in a timely manner, the Procurement Officer shall, based on the availability of his time to research and communicate an answer, decide whether he can answer an untimely submitted question before the proposal due date. Answers to all substantive questions which have not previously been answered will be distributed to all vendors who are known to have received the RFP.

1.5 PROPOSAL DUE DATE

Except as provided in COMAR 21.05.02.10, the proposals are to be received by the Issuing Office, no later than April 20, 1999 at 1:00 p.m. Proposals may not be submitted by e-mail or facsimile.

1.6 DURATION OF OFFER

Proposals submitted in response to this RFP are irrevocable for 120 days following the closing date. This period may be extended at the Procurement Officer's request only by an offeror's written agreement.

1.7 REVISIONS TO THE RFP

If it becomes necessary to revise this RFP, amendments will be provided to all prospective offerors that were sent this RFP or otherwise are known by the Procurement Officer to have obtained this RFP. Acknowledgment of the receipt of all amendments to this RFP must accompany the offeror's proposal. Failure to acknowledge receipt does not relieve the offeror from complying with all terms of any such amendment.

1.8 CANCELLATION; DISCUSSIONS

The State reserves the right to cancel this RFP, accept or reject any and all proposals, in whole or in part, received in response to this RFP, to waive or permit cure of minor irregularities, and to conduct discussions with all qualified or potentially qualified offerors

in any manner necessary to serve the best interests of the State of Maryland. The State also reserves the right, in its sole discretion, to award a contract based upon the written proposals received without prior discussions or negotiations.

1.9 ORAL PRESENTATION

Offerors may be required to make individual presentations to State representatives in order to clarify their proposals. Representations made during the oral presentation become part of the offeror's proposal and are binding if the contract is awarded.

1.10 INCURRED EXPENSES

The State will not be responsible for any costs incurred by an offeror in preparing and submitting a proposal, in making an oral presentation, in providing a demonstration, or in performing any other activities relative to this solicitation.

1.11 MULTIPLE AND ALTERNATIVE PROPOSALS

Multiple proposals will not be accepted. An offeror may, however, submit an alternative proposal in addition to a proposal which fully conforms to the requirements of the RFP. Alternative proposals must be clearly labeled as such and follow the same format as the primary proposals but should contain only that information which is different from the primary proposal. Each proposal must be bound separately and prepared in accordance with Section 5 of this RFP.

1.12 ACCESS TO PUBLIC RECORDS ACT NOTICE

An offeror should give specific attention to the identification of those portions of its proposal that it considers confidential, proprietary commercial information or trade secrets, and provide justification why such materials, upon request, should not be disclosed by the State under the Access to Public Records Act, Title 10, Subtitle 6, of the State Government Article of the Annotated Code of Maryland. This information is to be placed after the Title page and before the Table of Contents in both the technical and financial proposals. Respondents are advised that, upon request for this information from a third party, the Department is required to make an independent determination regarding whether the information may be disclosed (see COMAR 21.05.08.01).

1.13 OFFEROR RESPONSIBILITIES

The State will enter into contractual agreement only with the selected offeror. The selected offeror shall be responsible for all products and services required by this RFP. Subcontractors, excluding those used to meet MBE participation goals, must be identified and a complete description of their role relative to the proposal must be included in the offeror's proposal. Additional information regarding MBE subcontractors is required under paragraph 1.17 below.

1.14 MANDATORY CONTRACTUAL TERMS

By submitting an offer in response to this RFP, an offeror, if selected for award, shall be deemed to have accepted the terms of this RFP and the Contract, attached as Attachment A. A proposal that takes exception to these terms may be rejected.

1.15 PROPOSAL AFFIDAVIT

All proposals submitted by an offeror must be accompanied by a completed Proposal Affidavit. A copy of this Affidavit is included as Attachment B of this RFP.

1.16 CONTRACT AFFIDAVIT

All offerors are advised that if a contract is awarded as a result of this solicitation, the successful offeror will be required to complete a Contract Affidavit. A copy of this Affidavit is included for informational purposes as Attachment C of this RFP. This Affidavit must be provided at the time of contract award.

1.17 MINORITY BUSINESS ENTERPRISES

A Minority Business Enterprise (MBE) subcontract participation goal of 15 percent has been established for this procurement. The contractor shall structure its awards of subcontracts under the contract in a good faith effort to achieve the goal in such subcontract awards by businesses certified by the State of Maryland as minority owned and controlled. MBE requirements are specified in Attachment D of this RFP.

A current directory of MBEs is available through the Maryland State Department of Transportation, Office of Minority Business Enterprise, P.O. Box 8755, B.W. I. Airport, MD 21240-0755. The telephone number is (410) 865-1244.

1.18 ARREARAGES

By submitting a response to this solicitation, each offeror represents that it is not in arrears in the payment of any obligations due and owing the State of Maryland, including the payment of taxes and employee benefits, and that it shall not become so in arrears during the term of the contract if selected for contract award.

1.19 PROCUREMENT METHOD

This Contract will be awarded in accordance with the competitive sealed proposals process under COMAR 21.05.03.

1.20 CONTRACT DURATION

The contract resulting from this RFP shall be for a period of four years beginning on or about January 1, 2000 and ending on or about December 31, 2004. The State, at its sole option, shall have the right to extend the contract term for 2 additional, successive one year terms as follows:

Option Year 1 - on or about January 1, 2005 to on or about December 31, 2005.
Option Year 2 - on or about January 1, 2006 to on or about December 31, 2006.

1.21 CONTRACT TYPE

The contract to be awarded shall be a firm, fixed price contract.

SECTION 2. OFFEROR QUALIFICATIONS

Offerors must be certified by the Maryland Insurance Administration to sell Long Term Care Insurance in the State of Maryland.

SECTION 3. SPECIFICATIONS

3.1 BACKGROUND

The State of Maryland does not currently offer a Long Term Care benefits plan. A Long Term Care Plan was previously offered by the State through the Travelers Insurance Company for Calendar Year 1988 - Calendar Year 1994. The benefit option was eliminated in 1994 when there were approximately 700 enrollees.

The State provides an expansive range of employee benefit plans to approximately 70,000 active employees, 27,000 retirees, 2,000 Satellite account employees, 1,500 Direct Pay enrollees, and their covered dependents. Benefit plans include health, dental, group term life, accidental death and dismemberment, flexible spending accounts, prescription, mental health, and vision.

These benefits are offered to a diverse workforce that includes clerical, administrative, technical, professional, maintenance, educational (State colleges and universities), public safety, appointed and elected officials at more than 250 different worksites.

3.2 SCOPE OF WORK

The State is soliciting proposals for one vendor to provide group Long Term Care (LTC) insurance, the selected contractor is to provide a responsive, efficient, auditable, service-oriented system that will:

A. Permit all eligible members to obtain group long term care insurance for themselves and/or their designated family members and issue Explanation Of Benefits detail for long term care services rendered.

B. Ensure prompt payment of claims to long term care providers either by a paper check or electronic funds transfer.

C. Deliver management information reports covering participation, utilization, claims reporting, and administrative services data by group covered under the plan.

D. Provide a state-of-the-art customer service operation that is available to plan members (both in-state and out-of state) from at least 8:00 a.m. to 5:00 p.m. Monday through Friday local time in Maryland except on State observed holidays. The customer service operation must also include a toll-free customer service line equipped with an automated voice response system that members (both in-state and out-of-state) can access directly 24 hours a day, 7 days a week. Claim forms (if used) must be mailed to members within two business days from the date of request. The customer service operation must include:

   a. Qualified staff available to answer questions on plan eligibility, plan guidelines, benefit levels, and claims procedures. Disabled individuals must be provided adequate access to the customer service system.

   b. An information system capable of electronically transmitting, receiving, and updating member profile information regarding demographics, coverage, and other information (e.g. eligibility, change of address, etc.).

c. The ability to maintain an eligibility file that identifies eligible members as well as certain other pertinent information regarding members.

d. A system for providing Explanations Of Benefits to eligible members detailing payments to facilities and providers for services rendered and the amounts applicable to each service.

E. Convert State data files, including the State master enrollment file and any other relevant files to the vendor's data system. This includes any upgrades or conversions of State of Maryland data files such as a master enrollment file, master dependent file, and any other relevant files to permit their use in the vendor's automated processing system.

F. Offer support services beginning with the 1999 Open Enrollment period (for the plan year beginning January 1, 2000) and subsequent open enrollments during the term of the contract.

G. Guarantee that in the event a long term care provider is not paid accurately for services rendered, that the member shall not be liable to the provider for any sum owed by the insurer/contractor.

H. Have a procedure for resolving complaints in place and operable on January 1, 2000. The State requires that an expeditious, written resolution will normally be mailed within 10 workdays of receipt of the complaint.

I. Provide administrative and enrollment processing services for the group long term care insurance program.

a. Provide a listing (by subgroups) of employees enrolled, social security number, type of coverage, and amount of premium. (Additional reporting requirements are identified in the Questionnaire, Section 3.5).

b. Furnish or cause to be furnished to each subscriber a benefit certificate booklet which outlines and defines all covered services, limitations and exclusions, procedures for receiving services, and schedule of benefits. Reprint of the certificate booklet will be required when there are significant modifications to the plan.

c. Provide a systematic procedure for the resolution of claim discrepancies, including an appeals process.

d. Provide annually the necessary data on employees and dependent enrollment in order for the employer to comply with all state and federal legislation. The program offered must qualify for tax preferences granted by the Health Insurance Portability and Accountability Act of 1996 (HIPAA '96).

e. Use a standardized enrollment application form that has been approved by the State of Maryland.

f. Share the expenses for printing the State of Maryland Open Enrollment booklet which will be shared among all benefit plans, including prescription, personal accident and dismemberment, etc.

3.3 DESIRED PLAN DESIGN

The State intends to offer a group long term care insurance program that provides a reasonable array of eligible benefits at an affordable cost to participants. The plan should have sufficient flexibility to allow participants to tailor benefits to their specific needs, but not so many options as to be confusing. Offerors are requested to submit a proposed group long term care plan design that will meet these criteria.

The proposed plan design should incorporate the following plan design options.

A. Daily benefit options:
   1. $75
   2. $100
   3. $150
   4. $200
B. Waiting period:
   1. 90 days
C. Benefit period options:
   1. 3 years
   2. 6 years
D. Inflation protection options:
   1. No inflation protection
   2. Inflation protection at 5% per year
E. Nonforfeiture provision options:
   1. No nonforfeiture provision
   2. Nonforfeiture provision

At a minimum, membership would be available to all active, satellite account , contractual and part-time employees, retirees, and their dependents, and relatives (parents and parent-in-laws).

Members will be responsible for 100% of the premium cost. The State of Maryland will not be providing any subsidy for this benefit. Employees and retirees may elect either payroll or annuity deductions. Other enrollees must be direct billed by the carrier.

3.4 IMPLEMENTATION SCHEDULE

The State desires that the offeror meet the following implementation schedule:

DATE	ACTIVITY
July 1, 1999 or upon contract commencement, if later	Begin implementation meetings with the State of Maryland.
30 calendar days after	Completion of draft communications materials presented to the

contract commencement	State for review.
September 1 - November 30	Open Enrollment Activities, including presentations to Agency Benefits Coordinators in Open Enrollment.
January 1, 2000	Effective Date of Insurance Coverage.

3.5 QUESTIONNAIRE

The purpose of these questions is to obtain information to assist the State in its evaluation of offeror capabilities in terms of the evaluation criteria identified in Section 4 of this RFP. The responses in this section will be an important component in the evaluation. In responding, offerors should repeat each question, followed by the answer. Answers should be concise, but complete. Offerors must respond specifically to each question in this section, regardless of whether the information appears or may be gleaned from other sections of the offeror's proposal. Failure to respond in this section to all questions may result in rejection of the offeror's proposal. To assist offerors in the preparation of their responses, a disk copy of this questionnaire in WordPerfect 6.1 format is available.

Organization Name:_____

Primary Contact:_____

Title:_____

Headquarters Address:_____

_____

_____

Telephone Number: ( )_____

Fax Number: ( )_____

E-Mail Address_____

Selection Criterion 1 - Benefit Design, Eligibility, Covered Services

Benefit Design

1. Describe the range of benefits in your proposed plan as described in Section 3.3 of this RFP.

2. Complete the following chart. Indicate the percentage of the daily benefit covered for the services where you answered "yes".

Services Covered	Yes	% Covered	No
Skilled nursing in skilled nursing home			
Skilled nursing in the home			
Intermediate nursing in a nursing home			
Intermediate nursing in the home			
Convalescent care in a convalescent facility			
Convalescent care in the home			
Custodial care in a nursing home			
Custodial care in the home			
Community adult day care			
Homemaker services			
Home health aide			
Respite care for family members or other care givers			
Hospice care (inpatient, outpatient)			
Speech therapy and physical therapy			
Assisted Living facility			
Alzheimer's facility			
Other (please describe)			

3. Describe in detail your definition of benefit eligibility. Provide your definitions of Activities of Daily Living (ADLs). Are cognitive impairments considered? Is your definition of completion of task based on "active" or "stand-by" assistance? Does the disability requirement differ for confinement or home health care?

4. Respond to the following:
   a. Describe your non-forfeiture (coverage-at-lapse) provision. Provide a financial example of this provision.
   b. Describe the automatic inflation protection feature. Is there a maximum inflation cap? Provide a financial example of this feature.
   c. Under what conditions may a participant switch to a program with an automatic inflation protection feature?

5. If the maximum lifetime benefit does not apply to all covered services, which services are limited?

6. Describe the waiting period. Do covered services need to be received during this period? Do the days need to be consecutive?

7. Is there a transition benefit (e.g., five times daily benefit amount, payable once per lifetime)? Describe the benefit and indicate whether it reduces the maximum lifetime benefit.

8. Do you offer a nursing home bed reservation provision? If so, please describe.

9. Do you reimburse the maximum daily benefit if the actual cost of services is lower than the maximum? Is your LTC product an "incurred" or "disability" model? Please discuss.

10. Does your policy exclude coverage and if so, what is excluded? Do you exclude coverage for persons with Alzheimer's disease?

11. Do you offer LTC information and referral services as part of your benefit package? Please describe these services. Are these services available to employees or dependents who are not participating in the long term care insurance program?

12. Will the policy offered to the State require treatment for an acute medical condition before payments will be made for custodial or intermediate care?

13. How often can claimants access care-planning services?
    a. How is this service accessed?
    b. What is the annual or lifetime limit on provision of case management services that is included in your rates?

14. How do you handle naming of beneficiaries?

15. What plan design(s) do you offer that best fit the needs of State employees, dependents and relatives?

Eligibility Provisions

16. Complete the following eligibility chart:

Who is eligible?	Yes/No	Comments/Special Issues
Employee		
Retiree		
Spouse		
Surviving spouse		
Parents		
Parents-in-law		
Children		
Others (describe)		

17. Are there any "linkage" requirements? For example, must the employee or retiree enroll in order for his/her spouse, parents, etc. to enroll?

18. Will employees be accepted into your Long Term Care insurance program on a guaranteed-issue basis? Are there any pre-existing limitations or exclusions?

Premium Provisions

19. What happens when a purchaser of long term care insurance misses or is late in paying his/her premiums?

20. How will you collect premiums from retirees and other "direct pay" employee groups?

21. Describe your premium waiver provision.

22. Describe your return of premium on death provision. Include a financial example.

Providers

23. Do you have a "preferred providers" list? How are providers eligible for inclusion

on the list? What screening and credentialing is conducted? How are participants advised of this list?

24. Complete the following chart:

Provider Type	Number Contracted	Discounts Negotiated
Nursing homes		
Alzheimer's facilities		
Assisted living facilties		
Home health care nurses		
Home health care aides		
Adult day care facilities		
Other		

25. Provide a listing of contracted providers in Maryland, including name, city and type of provider. This listing should be provided on paper and in an electronic format that will allow analysis (e.g. spreadsheet, data base, via Internet or e-mail).

26. Do you own providers? What discounts does the plan receive and how do you pass the discounts along to the client or participants?

27. Can the participant choose the facility?

28. What criteria do you apply for including a facility in your list of approved providers for long term care benefits? Do you limit the list of approved facilities? If so, how?

29. How do you assure quality in the care provided? How do you communicate with the State concerning the quality of care provided under this program?

Flexibility

30. Under what conditions may a participant increase or decrease his/her daily benefit level?

31. If an individual purchases a policy without a nonforfeiture benefit, and then desires to add nonforfeiture benefits at a later date, what restrictions will you impose on this election?

32. What restrictions, if any, will you place on a participant who purchases a plan with a two-year maximum benefit, for example, and later wants to increase coverage to a five-year maximum?

33. Is the plan portable (i.e., if a person who purchases long term care insurance while covered under the State program subsequently loses affiliation with the State, can she/he continue to carry the policy and pay the premium directly to your company)? If the covered person elects to continue the policy, would your premium rates change? If the plan is not portable, will you guarantee the return of some portion of the premiums already paid?

34. Is the policy you propose convertible at termination of employee service? Describe what happens upon contract termination.

35. May a participant trade or switch benefits among various benefit components (e.g. trade nursing home days for other services)?

36. If your company upgrades some of the basic design features of your long term care policy, will employees who have already purchased coverage be given the opportunity to upgrade to the new policy:
    a. On a guaranteed issue basis?
    b. Without being subject to pre-existing condition exclusions?
    c. At the rate for their prior entry age?

Selection Criterion 2 – History, Structure, Financial Strength, Experience

History

37. Provide a brief summary of the history of your company and information about the growth of your organization on a national level. Provide the following information about your company:
    a. Organization's legal name

b. State of incorporation
c. Date of incorporation

38. Describe any significant government action or litigation taken or pending against your company or any entities of your company.

Structure

39. Provide the addresses, including city and state, for the following activities:
    a. Corporate/Firm Management Office
    b. Customer Service Office
    c. Provider Service Office
    d. Account Management/Client Services Office
    e. Technical Support Office

40. Provide the names, location, telephone numbers and brief resumes for each of the following proposed contacts for the State of Maryland:
    a. Primary account service representative.
    b. Account manager.

41. Explain your organization's ownership structure, listing all separate legal entities. Describe all major shareholders/owners (10% or greater ownership) and list their percent of total ownership.

42. a. Describe how long the current ownership structure has been in place.
    b. Note any changes in ownership structure that have occurred within the last two years.
    c. Note any changes in ownership structure anticipated to occur within the next two years.
    d. List any ownership interest your company has in any business that provides a service or product related to long term care. Describe the relationship.

Financial Strength

43. Provide a profile of your group long term care business for each of the latest three calendar years (1998, 1997 and 1996). Include: total premium volume, total

number of clients, total number of participants covered, number and average size of public sector clients, number of public sector participants, number of claims for long term care benefits paid, and number and average size of plans terminated during the year.

44. Provide the following:
    a. copies of your company's Annual Reports for your most recent three fiscal years.
    b. a copy of your most recent quarterly financial statement filed with the Maryland Insurance Administration.

45. What fidelity and surety insurance, general liability and errors & omissions or bond coverage do you carry to protect your clients? Describe the type and amount of each coverage that would protect this plan. Do you agree to furnish a copy of all such policies for review if requested?

46. What has been the average percentage change in your long term care insurance rates in each of the past three years?

47. How are long term care insurance reserves invested and how is interest credited on those reserves?

48. What reserve information will be released to the State and/or to the enrollees at renewal and at year-end accounting?

Experience

49. Describe your company's experience in providing group long term care insurance. How many years have you been administering long term care plans? How many clients/accounts/covered lives are you currently administering? How long have you offered long term care insurance products to Maryland based clients?

50. List three (3) of your largest current group long term care insurance clients. For each client provide:

a. Client name and address.
b. Name, title and telephone number of a person we may contact.
c. Number of employees/retirees covered and total employees/retirees of the client.

51. List your three (3) largest current group long term care insurance clients located in Maryland. For each client provide:
    a. Client name and address.
    b. Name, title and telephone number of a person we may contact.
    c. Number of employees/retirees covered and total employees/retirees of the client.

52. List three (3) former group long term care insurance clients that have terminated their contract with your organization within the last 24 months. For each terminated client provide:
    a. Former client name and address.
    b. Name, title and telephone number of a person we may contact.
    c. Number of employees/retirees covered and total employees/retirees of the client.
    d. The number of years as a client.
    e. The reason(s) for terminating the contract.

53. What key features distinguish your LTC insurance product from your competitors and what do you perceive as your competitive advantages? Who do you view as your primary competitors for group long term care insurance? (Limit response to ½ page).

54. Do you now subcontract with any other organization(s) for professional services? If so, provide a description of your subcontracting arrangements.

Subcontractor Information – NOTE: Although preferred, the offeror is not required to identify MBE subcontractors until 10 working days after the contract is awarded.

55. Does your company currently have or plan to have offices or use subcontractors that have offices located in the State of Maryland?

56. Provide the same information requested in Questions 37-52 for each subcontractor, other than those used to meet the MBE subcontracting goal, that the offeror proposes to have perform any of the required functions under this contract.

Selection Criterion 3 – Administration, Member Services, Communications, Systems

Administration/Enrollment

57. Who determines eligibility? How do you screen applicants for eligibility?

58. Will you accept participants from the State's prior plan? Under what conditions?

59. Describe your process for enrollment of participants. What is your average turnaround time for processing an application for coverage? What is the process and timing for processing changes of coverage?

60. What percentages of applications are approved and denied? Provide a list of the top reasons for denial of coverage including a percentage for each reason. The list of reasons should represent at least 75% of all denials.

61. What is your anticipated and average actual turnaround time on each of the following types of LTC claims:
    a. Nursing home
    b. Home health care
    c. Nursing Aides

62. Describe your claims payment process from receipt of claim to issuance of check. Discuss how the process is supervised and how you maintain quality control of the process. Is there any difference for in-state vs. out-of-state vs. out-of-country requests?

63. Describe in detail the grievance and claims appeals processes used for your long term care product, including timing, people involved, percent resolved on first appeal and steps beyond the first appeal to final resolution. Describe the means by which customers will be able to express dissatisfaction with any of the services

provided. Do you monitor complaints and conduct follow-up surveys?

64. Do you conduct internal audits of claims processed? What percent of claims are audited, who conducts the audits and what items does the auditor review? Provide a summary of the findings of the most recent internal audit.

65. Do you conduct external audits of claims processed? What processes are audited? Provide a summary of the results of the most recent external audit. Will you allow the State to review the results of that external audit?

66. What training on your long term care program will you provide to State staff (benefits staff, Benefit Coordinators, and others as designated)?

67. Does your organization practice "post-claims underwriting"? Are medical history checks only performed upon receipt of a claim, and if so, if the insured had omitted any relevant information or misstated an item on the original application, could a claim be refused? Under what circumstances could a claim be refused? Describe other possible reasons for the non-payment of benefits.

68. If the name/address information provided by members differs from the membership information provided by the State, how will participants be able to access their long-term care benefits?

Member Services

69. Describe how you will provide customer service to the State of Maryland and its participants.

70. How many customer service representatives will be dedicated to the State? Will these representatives also provide service to other clients? If so, how many clients and what size?

71. What is the total number of customer service representatives for your long term care product?

72. Where will the customer service center be located for the State of Maryland?

Provide an address, telephone number and contact at the customer service center.

73. What training do your customer service representatives receive?

74. How do you track claims for your customer service center? Describe online systems and other tracking processes.

75. How is eligibility and plan provision information made available to customer service representatives and claims processors?

76. What are the hours of your customer service center? How do you handle evening and weekend calls? What facilities are available for the hearing impaired and for participants who speak a foreign language? How are calls monitored for quality, courtesy and accuracy? When can members access a live person?

Participant Communications

77. Describe how you communicate with employees and participants in the program.

78. Provide examples of the employee communication materials you propose to use, including:
    a. Enrollment and plan information.
    b. Summary of plan provisions.
    c. Outline of Coverage.
    d. Enrollment certificate.
    e. Other printed publications or video presentations.
    f. Draft plan description for Open Enrollment booklet.

79. Provide examples of the following:
    a. Application for enrollment.
    b. Medical questionnaire to be used in conjunction with enrollment.
    c. Sample claim form.
    d. Sample Explanation of Benefits (EOB) form.
    e. Standard letters used in communicating with individuals who are in "claim" status.
    f. Sample communication materials to be distributed to all members including, but not limited to, procedures for obtaining long term care

benefits, claim forms, and address changes.

80. The State prepares an annual summary of benefit plans booklet for its open enrollment season. Can your application be duplicated in an 8 ½ x 11 format compatible with the State's open enrollment booklet?

81. What participant access and information is available through the Internet?

82. How do you provide information to participants on providers by area and on the cost of care?

83. What do you do to communicate with employees after initial enrollment?

84. Describe your strategy for encouraging participation by State employees and other eligible individuals.

Reporting

85. List and describe your standard reports (including frequency). Include samples of each report.

Report Type	Available (Yes/No)	Frequency
Experience monitoring		
Utilization and Cost Anaylsis		
Case Management		
Other (describe)		

86. What additional reports are available upon request? What is the process for requesting such reports? How quickly are reports provided?

87. What data elements are collected to provide information on utilization?

88. What reports do you provide to participants in the program?

Systems

89. Describe your computer system security measures. Describe the system backup and disaster recovery procedures for your long term care systems. How often is the system tested? When was the system last tested and what were the results? What system down time have you experienced over the latest 12 months?

90. Provide a statement regarding your company's Y2K Compliance status. Include specific descriptions of any system issues that could affect the State's benefits and payroll systems. Do you warrant that the services and software used by your firms to service the client will not be affected by or will be modified to properly function during the transition to the Year 2000?

Performance Standards

Confirm your agreement to meet each of the following performance standards and indicate your company's actual performance for each measurement over the latest year.

1. Toll Free Calls
   a. Average speed of answer within 20 seconds on a monthly basis;
   b. Call abandonment rate of less than three percent on a monthly basis;
   c. No busy signals;
   d. Call backs on messages left after hours will be made on the next business day;
   e. Quality assurance surveys sent to 15% of all individuals calling the 800 line during enrollment periods;
   f. Phone reports and results of surveys provided to the State of Maryland on an "as requested " basis;
   g. Resolution of 95% of participant inquiries within 24 hours; and
   h. Resolution of remaining 5% of participant inquiries within 72 hours.

2. Underwriting:
   a. All applications reviewed and initial action taken within 10 business days of receipt; and
   b. Determination made on all applications within five business days of receipt of all necessary information.

3. Benefit Authorization:
   a. Make a determination on all requests for benefits within five working days of receipt of all necessary information;
   b. Process all claims and written inquiries within ten working days of receipt of all necessary information; and
   c. Maintain an overall accuracy rate for claims payments of 99%.

4. Implementation:
   a. Provider agrees to meet critical implementation dates including, but not limited to, communications material availability, employee meetings and earliest implementation date of January 1, 2000. All implementation efforts and services will be performed to the satisfaction of the State of Maryland.

5. General Client Satisfaction with Management of Account:

   a. Ongoing service, delivery, and policyholder services will be performed to the State of Maryland's satisfaction, including but not limited to: (1) response to written inquiries within 10 days; (2) appeals resolved within 30 days; (3) processing of enrollment information within 48 hours 90% of the time; (4) emergency enrollments by close of business, as determined by the State.

6. Agreement to Allow Outside Audits:

   a. Provider agrees to allow audits as requested by the State.

Selection Criterion 4 - Implementation and Management Plans

91. Provide detailed implementation and management plans that demonstrate the offeror's capability and plan for implementing and managing the services required, including data information services for enrollment.

a. Implementation Plan

The implementation plan should clearly demonstrate the offeror's ability to meet the State's requirements to have a fully functioning program in place and operable on January 1, 2000 as outlined in the Implementation Schedule in Section 3.4. This plan should include a list of specific implementation tasks/transition protocols and the time-table for initiation and completion of such tasks beginning with the contract award and continuing through the effective date of operation (January 1, 2000). The implementation plan should be specific about requirements for information transfer as well as any services or assistance required from the State during implementation. The implementation plan should also specifically identify those individuals, by area of expertise, responsible for key implementation activities and clearly identify their roles. A detailed organizational chart as well as resumes should be included.

b. Management Plan

   1. The management plan should include the name and title of the person with overall responsibility for planning, supervising, and performing account support services for the State. The management plan should also note

what other duties, if any, this person has and the percentage of this person's time which will be devoted to the State. This person's resume should be included.

2. The management plan should also include an organizational chart identifying the names, functions, and reporting relationships of key people directly responsible for account support services to the State. It should also document how many account executives and group service representatives will work full-time on the State's account, and how many will work part-time on the State's account.

3. The management plan should describe account management support, including the number of meetings with DBM staff to be held annually, information to be reviewed at each meeting, frequency of ongoing communication, and assurance of accountability for account services satisfaction. It should identify the location of all service centers that will be used to service this contract. It should also include the mechanisms and processes in place to allow Employee Benefits Division personnel to communicate with account service representatives; the hours of operation; types of inquiries that can be handled by account service representatives; and a brief explanation of information available on-line. The Employee Benefits Division requires identification of an account services manager to respond to inquiries and problems, and a description of how the offeror's customer service and other support staff will respond to subscriber or client inquiries and problems. The management plan should include the names, resumes and a description of functions and responsibilities for all supervisors and managers that will provide services to the State with respect to this contract.

Selection Criterion 5 - Maryland Economic Impact

92. Describe the benefits that will accrue to the Maryland economy as a direct or indirect result of your performance of this contract:

a. the amount or percentage of contract dollars (but not both) to be recycled into Maryland's economy in support of the contract through the use of Maryland subcontractors, Maryland suppliers, MBEs, and Maryland joint

venture partners. Be as specific as possible. Provide a breakdown of expenditures in this category.

b. the number and types of jobs for Maryland residents resulting from this contract. Indicate job classifications, number of employees in each classification, and the aggregate payroll to which you commit at both prime and, if applicable, subcontract levels.

c. tax revenues to be generated for Maryland and its political subdivisions as a result of this contract. Indicate tax category (sales tax, payroll tax, inventory tax, and estimated personal income tax for new employees). Provide a forecast of the total tax revenues resulting from this contract.

d. other benefits to the Maryland economy, which you promise will result from the award of this contract. Please describe the benefit, its value to the Maryland economy, and how it will result from the contract award.

Additional Benefits Available

93. Describe and document any future or additional benefits that you are offering the State if you are awarded this contract.

SECTION 4. EVALUATION CRITERIA AND SELECTION PROCEDURE

4.1 EVALUATION CRITERIA

Criteria for evaluation of the technical proposals are listed in descending order of importance and correspond to the respective sections of the questionnaire.

1. Benefit Design, Eligibility, Covered Services
2. History, Structure, Financial Strength, Experience
3. Administration, Member Services, Communications, Systems
4. Implementation and Management Plans
5. Maryland Economic Impact

4.2 SELECTION PROCEDURE

The contract will be awarded in accordance with the competitive sealed proposal process under Code of Maryland Regulations 21.05.03. The competitve sealed proposals method is based on discussions and revision of proposals during these discussions.

Accordingly, the State may hold discussions with all offerors judged reasonably susceptible of being selected for award, or potentially so. However, the State also reserves the right to make an award without holding discussions. In either case of holding discussions or not doing so, the State may determine an offeror to be not responsible and/or not reasonably susceptible of being selected for award, at any time after the initial closing date for receipt of proposals. Financial proposals of qualified offerors will be opened only after all technical proposals have been evaluated.

After a review of the financial proposals of qualified offerors, the Procurement Officer may again conduct discussions with the offerors. The purpose of any such discussions will be: to assure full understanding of the State's requirements and the offeror's ability to perform; to obtain the best price for the State; and to facilitate arrival at a contract that will be most advantageous to the State.

Offerors must confirm in writing any substantive oral clarification of their proposals made in the course of discussions. When in the best interest of the State, the Procurement Officer may permit offerors who have submitted acceptable proposals to revise their initial proposals and submit in writing best and final offers.

Upon completion of all discussions and negotiations, reference checks, and site visits, if any, the Procurement Officer will recommend award of the contract to the responsible offeror whose proposal is determined to be the most advantageous to the State, considering price and the evaluation factors set forth in this RFP. In making this determination, technical merit will receive greater weight than financials as determined by the average of rates to include the initial term of the contract and the options years as shown on Charts 1-8.

SECTION 5. PROPOSAL FORMAT

5.1 GENERAL

The proposal should address all points and questions outlined in the RFP. It should be clear and precise in response to the information and requirements described in the RFP.

5.2 FORMAT OF THE PROPOSAL

Proposals must be submitted in TWO SEPARATE VOLUMES, TECHNICAL AND FINANCIAL. Technical volumes must be sealed separately from financial volumes but submitted simultaneously at the Issuing Office. An original, so identified, and 6 copies, one copy unbound, of each volume are to be submitted.

Each offeror is required to submit a separate sealed package for each volume which is to be labeled "Technical Proposal" and "Financial Proposal" (respectively). Each sealed package must bear the RFP title, name and address of the offeror, the volume number (I or II), and the closing date and time for the receipt of the proposal on the outside of the package. A transmittal letter and a statement acknowledging receipt of any and all addenda should accompany the technical proposal. The sole purpose of this letter is to transmit the proposal; it should be brief and signed by an individual who is authorized to commit the offeror to the services and requirements as stated in the RFP. All proposals must be numbered from beginning to end. Enclosed in each package should be the original and six copies of the offeror's proposal.

5.2.1 Volume I - Technical Proposal

The Technical Proposal shall include:

a. Executive Summary
The Offeror shall condense and highlight the contents of the Technical Proposal in a separate section titled "Executive Summary." The summary shall provide a broad overview of the contents of the entire proposal and shall reference compliance with each item in the Offeror Qualifications (Section 2).

b. Offeror Qualifications
Provide a detailed discussion of the Offeror's service capabilities and approaches to address the qualifications outlined in Section 2 of this RFP. Fully explain how the proposed services will satisfy the requirements of the RFP.

c. Proposed Plan Design

Provide a detailed discussion of the group long term care plan design being proposed, including optional levels of coverage available to participants.

d. **Completed Questionnaire**
Repeat each number and question as provided in Section 3.5. Provide clear and complete responses. To assist offerors in the preparation of their responses, a disk copy of this questionnaire in WordPerfect 6.1 format is available.

e. **Required Submissions**
Offerors should submit:
1. Completed Proposal Affidavit (Attachment B - original copy only).
2. Certified Minority Business Enterprise (MBE) Affidavit (See Section 1.17 and Attachment D-1).
3. Financial Statements and Annual Reports, (audited preferred).

f. **Subcontractors**
Offerors must identify subcontractors and the role these subcontractors will have in the performance of the contract. Disclosure of MBE subcontractors at this point is optional.

5.2.2 **Volume II - Financial Proposal**

Under separate sealed cover from the Technical Proposal and clearly identified with the same information noted on the Technical Propoposal, the Contractor must submit an original and six copies of the Financial Proposal. The Financial Proposal must contain all cost information in the format specified in Attachment E of this RFP.

ATTACHMENTS

In accordance with the State Procurement Regulations, the Proposal Affidavit, **Attachment B**, and Certified MBE Utilization and Fair Solicitation Affidavit, **Attachment D-1**, must be completed and submitted with the Technical Proposal, and the Contract Affidavit, **Attachment C**, must be submitted at Contract award.

Mr. CUMMINGS. Mr. Atwater, your organization provides long-term care insurance?

Mr. ATWATER. Yes, through Maginnis & Associates.

Mr. CUMMINGS. How long have you been doing that?

Mr. ATWATER. Certainly before my watch. I was national treasurer for 4 years. I have been president for 7 months. Several years before I came on board we had the Maginnis Co. as an insurance carrier.

Mr. CUMMINGS. Is there more than one carrier?

Mr. ATWATER. Actually under contract to NARFE, Maginnis is our broker. Within Maginnis, there are several insurance companies that offer different types of insurance, long-term care, dental plans and things like that.

Mr. CUMMINGS. You know, David Carver of AT&T, who will be testifying in a moment, very interestingly one of the things that AT&T did, and maybe I have read so much testimony that some may be coming together, but offered the long-term care insurance with life insurance and another thing that they did that was interesting, when they decided to offer the long-term care insurance they wanted to ensure that they would get maximum participation so they offered it at the time of the open enrollment so that more people's attention would be drawn to it, to the opportunity.

One of the things that Mr. Scarborough and all of us have been concerned about is that once we figure out exactly how we are going to do this and create the mechanism to do it, making sure that Federal employees take advantage of it. How do you make sure that you maximize the opportunity?

We know that cost is something that is very important. We understand that. But even when you get the cost down to a reasonable amount and you have a decent package, do you have any recommendations as to how you get the word out and sell it?

And I also ask the same question of you, Mr. Yocum.

Mr. ATWATER. I don't think much about offering the long-term care insurance and life insurance together, and I would like to know more about it. However, on selling long-term care insurance, and I have said this to Ms. Janice Lachance, the Director of OPM, we need to sell long-term care insurance to our younger Federal employees at the very beginning of their employment similar to the way we sold the Federal Employees Health Benefits Program and the insurance program. If we could get a long-term care program and offer it in a package with FEHBP and sell it to them early on, I would have had no problem when I first came in civil service many years ago if I had to contribute 1 percent or 2 percent of my pay, like I did for my retirement, as long as it was sold to me and offered as a package.

I have a daughter who is 34 years old and she is with the National Park Service headquarters here in Washington, DC. She has worked for the Air Force and the Coast Guard, she understands the need for long-term care and she and her husband are looking for it right now. As I said, they are both in their 30's. But I think whatever program we have has got to have that selling part of it right from the beginning.

I have just come back from about 11 or 12 State conventions where I talked about long-term care to our Federal retirees and I

told them maybe if you need long-term care you should look for it now.

The bill that will be passed in the future may not be exactly what they need at the time, so I think we need to start a program that would sell, encourage new employees to buy long-term care from the beginning.

Mr. CUMMINGS. Mr. Yocum.

Mr. YOCUM. Thank you, Congressman Cummings.

Before I and my wife went through these last few years, our eyes just weren't opened. I think maybe there is some reluctance on the part of anyone to purchase long-term care insurance because they don't want to see themselves in this position. They just positively don't want to.

So I think one thing that would help sell it would be to, if possible, make it almost like a quasi-health insurance, you are going to need it sometime. Somebody in the family is going to need it and I think Dr. Benjamin's testimony has been very revealing because and my wife and I have seen this, the need is to provide some additional help at the home level and not necessarily in an institution. If we can point the prospective enrollee to all the different ways that long-term care can help them in the future, that it is not limited just to long-term care at a nursing facility, I think that would go a long way. And for me personally if we were to lose, get rid of the cap, I think I would be a lot more willing to spend the money on a monthly basis to keep a policy in effect.

Mr. CUMMINGS. I just wanted to again thank all of you for being with us today, and I also want to thank Delegate Shirley Pullian for being here, too. Thank you for being with us.

Mr. SCARBOROUGH. I want to thank you, Mr. Cummings. I wanted to do a very brief followup, a couple of quick questions. Dr. Benjamin, I wanted to ask you, first of all hearing Mr. Yocum's testimony brought to mind the question of how much would it cost for an average stay in a Maryland nursing home for a year. Do you have a rough estimate that you can give the subcommittee?

Mr. BENJAMIN. I can give that for you in writing. There is a fairly wide variation. I can get that for you in writing.

[The information referred to follows:]

Long Term Care Expenditures - Overview

Long Term Care Expenditures
Long term care, including nursing home and home care, is funded primarily by Medicaid at 38%, next by individuals via out-of-pocket expenses at 33%, next by Medicare at 16%, private insurance and other accounts for 13% (Long Term Care for the Elderly, The Commonwealth Fund, 1996).

Nursing Homes:
- National Medicaid average per person monthly cost in 1995 = $2,555
- National Medicare average per person monthly cost in 1995 = $5,688

(Source: AARP, 1998).

Assisted Living:
- National average monthly fee = $1,200 - $2,000

(Source: Administration on Aging, 1998)

Medicaid Home and Community-Based Waiver Services:
- National average monthly cost-per-case in 1996 = $301
- Maryland average monthly cost-per-case in 1996 = $212

(Source: University of Minnesota, 1999).

Medicaid Funded Home and Community-Based Waiver Services*:
- National average monthly cost-per-case in 1996 = $485
- Maryland average monthly cost-per-case in 1996 = $465

*Nursing home eligibles in community
(Source: University of Minnesota, 1999).

Mr. SCARBOROUGH. Let me ask you this. Obviously it is going to be fairly expensive. In your capacity, have you found traveling across this State that most residents of your State believe that they are covered for long-term care in some way, either through their job or through Medicare?

Mr. BENJAMIN. Yes. That is a misperception that a lot of people have that they are covered and they are not. Or that Medicaid does cover it or Medicare covers it. A lot of people think that Medicare will cover it and they do not know that they have to spend down to do that, that is correct.

Mr. SCARBOROUGH. Mr. Atwater, I wanted to ask you, just clarifying a point or two, we had gotten the information that your organization's long-term care plan was temporarily closed or closed down for now. Are you still offering new policies?

Mr. ATWATER. Yes, sir. We are offering it under the broker that I mentioned earlier, Maginnis & Associates. We have not stopped it. It is still being offered unless it happened in the last few weeks or so. I need a new legislative department if they have.

Mr. SCARBOROUGH. We had called Florida and identified ourselves as being from Florida, and we will get the information to you, and we were told that they were not offering it currently. I was going to expand upon that just to ask if that was the case, then what worked for you all and what didn't? In your capacity as president right now, what are you finding to be the successful points of the program that you are offering? What is working and what is not working?

Mr. ATWATER. Well, it is an individual choice whether you buy long-term care insurance or not. I may have some statistics here, how many we do have on long-term care insurance, if I can just look through this. Through our program we have some 3,100 of our members who do have long-term care through our Maginnis & Associates broker. I have not heard what is working and what isn't. It is an individual choice whether people want it or not.

When I have been traveling around to the different States recently this spring, many of our members are truly interested in long-term care. Some have gone out and gotten their own at a private insurance company, American Express or something like that, and others have gotten it through Maginnis & Associates. I haven't heard any complaints.

Mr. SCARBOROUGH. You know, there are two areas where we are separated, and I touched on them and I think they are the two areas that we are going to need to move together and find common ground and make sure that this bill does pass in some form, I suspect in the end in a form that takes a little bit from everybody; that is, a compromise form, but let me ask you, the first point you talked about was sort of the field of insurers that were eligible. My personal belief is that the more qualified insurance companies you have, the more choices that the insureds have and the more competition you have in the market. Obviously you agree with OPM's position that the field should be limited, very limited and restricted. Let me ask you, you just talked about choice, individual choice and flexibility. Don't you think in some way having more insurers out there, in the free market, would drive down the prices? And offer more flexibility in plans for your membership?

Mr. ATWATER. Sure, I agree that more choices would be better.

Mr. SCARBOROUGH. Right.

Mr. ATWATER. That is something that we are going to have to talk about and work together in reaching an agreement on this. Right now of course we are in agreement with OPM on the plans.

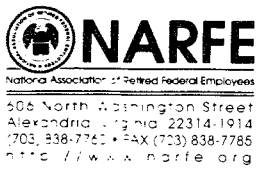
As far as offering choices, I would like to see it opened up as a personal statement. On the other hand, I kind of have to agree with the folks that are the experts in this area, which I am not, that maybe a limitation like our Federal employee insurance program would be a better way to go. I have to do more studying on that. But we are willing to open it up and talk to you and certainly work with you on it.

Mr. SCARBOROUGH. That is something obviously that we do need to talk about because obviously the life insurance program is about as restrictive as possible where you only have one carrier. That is a pretty good market for one carrier to have. Obviously the FEHBP plan is expansive and I just tend to think the more qualified carriers we have participating the better, but again that is something that we need to come together on.

Also, you talked about relaxed underwriting, something else that I think we need to balance out. Usually I think just about every insurance person you bring in will tell you when you have relaxed underwriting that actually causes the cost to go up, which is the case 99 percent of the time. I do certainly understand your point, though, that relaxed underwriting also allows the field of participants to expand, so that is something that we are going to have to balance also, because if we relax the underwriting so much that absolutely everybody is qualified, that means that this program is going to cost those that you represent. Do you think that is a fair assumption to make?

Mr. ATWATER. It is a fair assumption and we need to work with you folks on that.

[The information referred to follows:]



June 18, 1999

The Honorable Joe Scarborough
Chairman
Subcommittee on Civil Service
Committee on Government Reform
U.S. House of Representatives
B-371-C Rayburn H.O.B.
Washington, D.C. 20515

Dear Chairman Scarborough:

Thank you for the opportunity to testify earlier this week before the Civil Service Subcommittee on the National Association of Retired Federal Employees' (NARFE) support for creating a federal worker and annuitant group long term care insurance program.

During the hearing, you asked me about the number of insurance carriers that would participate in the proposed program, medical underwriting for long-term care plans, the use of life insurance policies with long-term care riders and NARFE Insurance Services' long-term care plan. I want to take this opportunity to provide the subcommittee additional information and comments regarding your questions. For that reason, I request that this letter be included in the subcommittee's June 14 hearing record.

First, you asked me to comment on NARFE's support for limiting the number of insurance carriers that would participate in the proposed federal program. As part of our discussion, you suggested that allowing virtually any carrier to sell long-term care insurance to the federal community would encourage choice and competition in the program.

NARFE strongly believes that opening the program to a large number of carriers would not result in the group insurance rates that everyone desires. As you know, when private-sector employers have made long-term care insurance available to their employees, only six percent of those eligible have elected to buy policies. Several carriers competing for this relatively small customer base would each create their own administrative and marketing infrastructures. Such duplication would be costly and undermine the economy of scale that is critical in a group insurance environment. Consequently, duplicative administrative costs would be needlessly passed along to federal employees and annuitants.

National Association of Retired Federal Employees

Frank G. Atwater, NATIONAL PRESIDENT & CEO
Margaret L. Baptiste, NATIONAL VICE PRESIDENT
John Walker Harrigan, NATIONAL SECRETARY
Charles L. Fallis, NATIONAL TREASURER

We are also concerned that the presence of a large number of carriers would increase the likelihood of adverse selection and risk fragmentation within the program. Carriers could design long-term care insurance products that would attract enrollees who are less likely to need long-term care. If that occurs, individuals who meet underwriting standards -- but are nonetheless more probable candidates for long-term care -- would be left in other plans. Such plans, consequently, would be required to increase premiums. The purpose of insurance is to spread risk across a large community of coverage. Without risk sharing in an employer-sponsored group long-term care insurance program, higher risk enrollees would face exorbitant premium costs. NARFE believes that limiting the number of carriers will help to protect this fundamental principle of insurance and thereby make plan premiums affordable and predictable for all eligible enrollees.

NARFE appreciates your interest in creating a long-term care insurance program that would encourage competition between carriers and plan choices for consumers. We believe that competition and choice can be assured in a federal program that limits the number of carriers. For instance, several carriers will compete on the basis of cost, benefit design, terms and conditions to become the program's carrier or carriers as part of the contract bidding process. In fact, during the hearing, David Carver, a District Manager for Benefits Planning and Analysis with AT&T, said that selecting a single carrier for an employer-sponsor long-term care program in a competitive bidding process would result in lower premiums and costs than allowing several carriers to participate.

Limiting the number of carriers need not mean limiting consumer choice. Even with a limited number of carriers, enrollees would have the full range of benefit options that are presently available in other employer-sponsored plans. Guidance on benefit design included in H.R. 1111 will ensure such choice.

You also asked me about my testimony on medical underwriting. We understand that individuals who want to buy long-term care insurance in the individual or group markets must undergo some level of medical underwriting. Without some underwriting, individuals with an immediate or likely need for long-term care could buy such insurance with the intention of collecting benefits shortly after becoming a policyholder. And as a result, premiums could become too expensive and carriers would be less likely to participate in the proposed program.

Although too little underwriting could result in additional costs, too much underwriting could exclude a significant number of federal workers and annuitants whose health history would not necessarily result in a severe disability. Indeed, NARFE members are concerned that overly burdensome medical underwriting standards could prevent a large percentage of eligible individuals from purchasing long-term care insurance through this program.

NARFE acknowledges that the need to screen enrollees, and desire to issue policies for as many eligible individuals as possible, is a balancing act. For that reason, we are not requesting prescriptive statutory language on medical underwriting. Instead, OPM should have the authority and flexibility to negotiate medical underwriting standards with carriers, just as it bargains on premiums, benefit design and other terms and conditions. Moreover, Congress should make its intention known that while underwriting standards must be designed to contain costs and make carrier participation feasible, such standards must also allow the greatest number of employees and annuitants to buy long-term care insurance at reasonable rates. In addition to providing less expensive premiums and better benefits, the economy of scale created by a group plan should be used as leverage to make medical underwriting standards more reasonable than individual plans available on the private market.

I also wanted to respond to your question about offering a life insurance policy with a long-term care rider to federal employees and annuitants. We are certainly open to discussing new ways to help members of the federal community and their families plan for the future. However, NARFE is concerned that mixing both functions in a single insurance product might not serve the long-term financial planning interests of most federal workers and retirees. While we want to encourage federal employees to buy long-term care insurance earlier in their careers, it may not make financial sense for most federal annuitants to maintain life insurance policies as they age. For that reason, paying for a combination policy later in life -- instead of a plan exclusively devoted to long-term care insurance -- may be ill-advised.

Finally, you asked me why the NARFE Insurance Service long-term care plan was no longer available as an affinity benefit to our members. I understand that a member of your staff made this discovery by speaking directly to a NARFE Insurance Services account representative in a recent telephone conversation. Following the hearing, I learned that the broker of record for NARFE Insurance Services -- Maginnis and Associates – has temporarily suspended our long-term care option. That is because Maginnis is currently seeking a new carrier to underwrite this policy. Only carriers that have an "A" rating on insurance company financial standards are considered by Maginnis as underwriters for NARFE plans. Maginnis then evaluates and compares the products offered by financially sound carriers. Once selected, Maginnis negotiates with the carriers on the basis of cost. NARFE reviews and approves the carriers and products recommended by Maginnis. Although Maginnis has contracted with several different carriers since the product became available, only a single firm is used at a time to underwrite the NARFE long-term care insurance policy.

I hope the information that I have provided in this letter is helpful and enhances the subcommittee's understanding of our comments on this important issue.

We are eager to work with you to enact legislation that will offer the federal civilian and military communities long-term care benefits and premiums that are better than what is available to individuals in the private market. Toward that end, please have your staff contact Judy Park and Dan Adcock of our legislative department at (703) 838-7760.

Sincerely,

Frank G. Atwater
National President & CEO

cc: Civil Service Subcommittee members

Mr. SCARBOROUGH. Mr. Cummings.

Mr. CUMMINGS. Just a followup on that——

Mr. ATWATER. I knew I should have mentioned your bill, sir.

Mr. SCARBOROUGH. You really should have.

Mr. CUMMINGS. Just following up on Mr. Scarborough's question, we have to maintain that balance. There has to be that balance between how much latitude we allow as to who comes into the program and that has a direct effect of course on the cost. That is one of the problems that we are running into, trying to figure out how to keep that balance, and have reasonable restrictions as to who is covered so that the premiums are at a decent rate because if we are not careful, we will create a Cadillac package and nobody will want it and we will have defeated our purpose.

I am just wondering, do you have certain things that you look to for trying to maintain that balance. I am sure that you have an appreciation based upon your answer to Mr. Scarborough's question, do you have an appreciation for that balance that we are trying to come up with?

Mr. ATWATER. I guess I would have to research the whole thing more, sir. I am not ready to make a comment regarding that.

Mr. CUMMINGS. I understand. I think in our next panel they will probably be able to talk about some of their experiences which might be helpful to us.

Mr. SCARBOROUGH. I want to thank all of you for coming and testifying today. It certainly has been very helpful. We certainly hope that we can continue to work together because this is obviously something that is critical for the people of Maryland and for the country. So thanks a lot. We appreciate it.

Mr. SCARBOROUGH. We are now going to call our next panel up. On our next panel we have Dave Carver, Ken Grubb and Dave Cavanaugh. David Carver is currently the district manager for Benefits Planning and Analysis for AT&T. In this position he led AT&T's efforts to obtain long-term care insurance for their employees. Ken Grubb, president, New York Life Insurance Co., is testifying today on behalf of the Health Insurance Association of America as a member of its long-term care committee. He has been with us before. We have David Cavanaugh, Manager of Business Development and Special Projects for Wright & Co. Wright & Co. is a national firm providing administration, consultation and insurance benefits to the Federal and private sector. Wright & Co. currently offers policies which link life insurance and long-term care insurance in a single policy.

And the panel are obviously experts at testifying because they are already standing and ready to take the oath.

[Witnesses sworn.]

Mr. SCARBOROUGH. We ask that you stay to the 5-minute limitation, and any additional comments that you have that you would like in the record that you can't get in during the 5 minutes, we will gladly submit to the record.

Mr. Carver, if you can begin.

STATEMENTS OF DAVID M. CARVER, DISTRICT MANAGER FOR BENEFITS PLANNING AND ANALYSIS, AT&T; KENNETH A. GRUBB, PRESIDENT, NYLIFE ADMINISTRATION GROUP/NEW YORK LIFE INSURANCE CO., HEALTH INSURANCE ASSOCIATION OF AMERICA; AND DAVID E. CAVANAUGH, MANAGER OF BUSINESS DEVELOPMENT AND SPECIAL PROJECTS, WRIGHT & CO.

Mr. CARVER. Mr. Chairman, Congressman Cummings, I appreciate this opportunity to appear before your committee today to discuss AT&T's experience as an employer that offers long-term care insurance to our employees. I am the district manager for Benefits Planning and Analysis at AT&T. In this position, I led AT&T's effort to obtain long-term care insurance for our employees.

In 1990, AT&T began work on the planning phase of their long-term care program. The market at that time was considerably less developed than it is today. Our initial research began with the development of basic principles to guide AT&T in its decisionmaking process.

Items that needed to be reviewed included tax status of the product, review of employee need, product integrity and the general communications approach that the company would follow in order to maximize the benefits of this product for our employee population.

In 1990–1991, there was considerable discussion of whether an employer could offer long-term care as an employer paid coverage and the potential tax consequences of the benefits that the employee might receive from such a plan. At that time there was no specific part of the IRS code that completely covered this type of benefit.

Early on AT&T focused on employee need in two areas. First, financial protection and second, determination by the employee of their own personal evaluation of need. We were comfortable that a carefully designed plan could accomplish both goals. Financial protection could be assured by making the breadth of benefits extensive enough and that determination by the employee of their own needs could be accomplished by offering significant choice of plan designs. It was determined that AT&T long-term care would be a voluntary employee pay all plan. It would be incumbent upon AT&T to ensure that the program was designed such that it was fair and equitable for all plan participants. While AT&T wanted to insure the largest group of participants, we also needed to ensure that the product itself was not compromised by allowing unreasonable advantages to different population groupings.

AT&T was particularly concerned about anti-selection. We struck a balance that would encourage employees to join when first eligible, and minimize the likelihood that one individual would have an advantage over another. Active employees that were actively at work would be accepted without underwriting during the initial open enrollment eligibility period. Spouses and employees who enrolled later would be allowed to complete the underwriting short form, all other potential participants would have to go through the standard underwriting form.

AT&T would prefer not to exclude participants from its plans. However, AT&T does not believe that a person with a known pre-

existing condition should be able to apply for insurance, pay the same rates as everyone else and know that they will receive benefits or have a far higher likelihood of receiving benefits than the general insured population. It was felt that getting a long-term care insurance product in front of employees at that time when employees needed to make benefit decisions would be critical to the success of the initial enrollment.

Our company research had shown that our employee population had a tendency to do nothing when given the opportunity, especially if doing nothing allowed them to maintain the status quo.

The long-term care insurance program was launched when AT&T introduced its new cafeteria plan, which was one of the largest communication efforts that AT&T would undertake to its management population in the 1990's. Once the general program outline was completed, specific plan design features needed to be developed. AT&T wanted employees to have as much flexibility as possible while insuring that adequate coverage would exist. The market in 1990 offered two major plan design features: nursing home coverage and home health care coverage. Most products available in the marketplace would be nursing home only or nursing home and home health combined, which we would know as comprehensive care. AT&T decided to offer both. A survey of nursing home costs revealed that annual nursing home expenses varied from $20,000 to over $50,000 per year. That was 1990. This translated into a benefit range of $60 to $140 per day. Our initial design, therefore, was to create six plan choices by offering $60, $100 and $140 per day benefit levels in both of those coverage categories of nursing home only and comprehensive care.

Our next decision was how long should coverage be given. When we first looked at this feature, AT&T wanted unlimited duration. However, in order to incorporate a sense of cost control into the plan, we decided upon limits that were multiples of the daily dollar amounts. The nursing home only coverage was given 5 years duration, and the comprehensive coverage was given 7 years. Under this design, if the participant were to use the benefit less frequently than daily and or obtain a daily benefit cost below the daily benefit purchased, then the duration of benefits could be extended well beyond the 5 or 7 years.

Determination of eligibility for benefit payment came next. The long-term care market had developed a methodology to determine eligibility for benefit payment based upon a person's functional ability in several categories called activities of daily living, or ADLs. AT&T would need to specify which ADLs would be evaluated, and how many ADLs a plan participant would need to have lost function in before the participant would be eligible for benefit reimbursement.

Next was the waiting period once you are eligible for benefits. This is the period of time that the individual would be expected to spend in benefits status before the plan would begin paying benefits. This period needs to be carefully evaluated for its impact upon the premium costs of the plan, meaning that you don't want it too short, and the individual cost to the plan participant who must incur those costs until benefit payments are made.

There are many more features that are necessary to ensure the delivery of high quality long-term care product. The ones that I have discussed just now are the major features AT&T looked at in its initial plan design development. The next step AT&T employed was to determine the principles that we would follow in evaluating the potential vendors for our product. AT&T looked at the following: A single carrier rather than multiple carriers; financial strength and market commitment of the carrier; and the carrier notability.

Our original bid went to 9 potential vendors. Four were selected as finalists that received site visits. AT&T incorporated principles into the bid specification. These were to allow carriers to differentiate themselves. The bid specification was written in such a way as to encourage creativity.

We wanted to ensure and enhance program integrity. The balance in this type of insurance program can be sifted down to two elements, premiums and the incurred claims. The potential vendors were encouraged to present ways to maximize coverage and to minimize premiums. We needed to meet the diverse employee retiree needs of the company. The population of AT&T was a diverse group of employees, retirees and their eligible family members, all with varying needs. AT&T wanted to present a long-term care product that would be flexible enough to meet this diverse set of individuals and their needs.

We also needed to balance affordability versus availability. Affordability was measured by the percentage of the population that could reasonably be expected to afford the product. In this comparison, availability refers to the number of potential plan participants that would be accepted into the plan based upon the underwriting restrictions. With a selection of our vendor, the next step was to develop enrollment expectations. Based upon the six levels of benefits that AT&T decided to offer, it was estimated that a 5 to 7 percent overall enrollment rate should be expected for management employees. Enrollment rates of 2 to 3 percent were expected for retired employees and occupational employees. AT&T has exceeded these targets with management enrollment currently at 14 percent, retired employees at 3 percent and our occupational employees at 4 percent. These percentages strictly are employee population and not their family percentages. We are very pleased with the initial enrollment figures, and the continued participation that the program has experienced.

The AT&T plan has been enhanced on two separate occasions, once in 1996 and again in 1999. In 1996, AT&T changed the daily benefit amounts from the $60, $100, $140 to higher amounts to $80, $120, $160 and $200 per day. We also added the assisted living facilities as a covered service under the comprehensive plan.

In 1999, after Congress enacted the tax qualifications under HIPAA, we amended the plan to comply. Working with our long-term care carrier, we were also able to make additional plan enhancements in comprehensive and nursing home only coverage. In addition, we felt necessary to add a third plan option.

Determination provisions to the contract were one of the key elements of the entire bid process. No matter how well intentioned the vendor may be or how diligent AT&T was in the selection process,

the ability to change carriers and do it without harm to the plan or to the participating employees is critical. Long-term care insurance is an asset intensive product with a long potential investment horizon. The insurance company established active life reserves to account for their assumption of liability. However, the interest or investment gains from these active life reserves would be critical to the financial health of the program. There are a few items that we were unsuccessful in implementing into our long-term care plan or continue to be frustrated by, and that is the mandating of certain provisions in certain States, difficulty in protecting the integrity of the plan and exclusion from section 125 of the Internal Revenue Code.

We have many general positives we feel, and that is in general the development and availability of long-term care product in the insurance marketplace, the increased awareness across the country of the need for this type of coverage, our enrollment experience and our continued good experience with lower than expected lapse rates.

Clearly AT&T has a wealth of experience in putting together a program for our employees. I am pleased to have the opportunity to share this experience with you, and we look forward to being available for your questions as you move ahead in putting together the legislation that will enable Federal employees to obtain long-term care insurance at the workplace.

[The prepared statement of Mr. Carver follows:]

STATEMENT
OF
DAVID CARVER
AT&T CORP.
BEFORE THE CIVIL SERVICE SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT REFORM

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before your committee today to discuss AT&T's experience as an employer that offers long-term care insurance to our employees. My name is David Carver. I am the District Manager for Benefits Planning and Analysis. In this position I lead AT&T's effort to obtain long-term care insurance for our employees.

In 1990, AT&T began work on the planning phase of their Long-Term Care program. The market at that time was considerably less developed than it is today. Our initial research began with the development of basic principles to guide AT&T in its decision making process.

Items that needed to be reviewed included tax status of the product, review of employee need, product integrity and the general communications approach that the company would follow in order to maximize the benefits of this product for our employee population.

Tax Status of Product

In 1990-1991 there was considerable discussion of whether an employer could offer Long-Term Care as an employer paid coverage and the potential tax consequences of the benefits that the employee might receive from such a plan. At that time there was no specific part of the IRS code that completely covered this type of benefit. Long-Term Care insurance was, in part, an acute medical care insurance but for the most part consisted of custodial care mixed with many services that could be viewed as non-medical even though they were provided because of an underlying medical condition (e.g., assistance with eating, clothing, etc.).

Employee Need

Early on AT&T focused on employee need in two areas. First, financial protection and second, determination by the employee of their own personal evaluation of need. As AT&T looked to construct the new Long-Term Care plan, we looked to meet these two goals. We were comfortable that a carefully designed plan could accomplish both goals. Financial protection could be assured by making the breadth of benefits extensive enough (coverage, duration, etc.) and that determination by the employee of their own needs could be accomplished by offering significant choice of plan designs.

Product Integrity

It was determined that the AT&T Long-Term Care plan would be a voluntary, employee-pay-all plan. It would be incumbent upon AT&T to ensure that the program was designed such that it was fair and equitable for all plan participants. While AT&T wanted to insure the largest group of participants as possible we also needed to ensure that the product itself was not compromised by allowing unfair (or unreasonable) advantages to different population groups. AT&T was particularly concerned about anti-selection.

We struck a balance that would encourage employees to join when first eligible and minimize the likelihood that one individual would have an advantage over another. Active employees that were "actively-at-work" would be accepted without underwriting during their initial open enrollment eligibility period (but with a six-month delay for pre-existing conditions). Spouses and employees who enrolled later would be allowed to complete the underwriting short form. All other potential participants would have to go through the standard underwriting form.

AT&T would prefer not to exclude participants from its plans. However, AT&T does not believe that a person with a known pre-existing condition should be able to apply for insurance, pay the same rates as everyone else and know that they will receive benefits or have a far higher likelihood of receiving benefits than the general insured population. By not having pre-existing conditions, we also knew that the Long-Term Care Insurance premium rates would immediately be higher because there would be a percentage of the population that would have an increased likelihood of benefits without a proportional increase in their individual premium levels. All employees participating in the plan would have to pay somewhat higher rates to offset for this minority of participants with the higher benefit likelihood.

General Communications Approach

It was felt that getting the Long-Term Care Insurance product in front of employees at a time when employees "needed " to make benefit decisions would be critical to the success of the initial enrollment. Our company research had shown that our employee population had a tendency to do nothing when given the opportunity, especially if doing nothing allowed them to maintain the status quo. The Long-Term Care program was therefore positioned for inclusion in one of the largest communications efforts that AT&T would undertake to its management population in the 1990's. On July 1, 1991, AT&T would introduce a new cafeteria plan. The new program would have significant plan changes in Medical, Dental and Long-Term Disability. In retrospect, introducing the Long-Term Care product during this time period actually allowed us to capture the attention of more of our management employee group than we would have otherwise. During this time our management employees, while focused on all of their health and welfare issues, also seemed more likely to ask for Long-Term Care more information, look at the new and different plan designs being offered and ultimately to enroll.

Plan Design

Once the general program outline was completed, specific plan design features needed to be developed. AT&T wanted employees to have as much flexibility as possible while ensuring that adequate coverage would exist.

Major Design Characteristics
The market, in 1990, offered two major plan design features: Nursing Home Coverage and Home Health Care. Most products available in the marketplace would be Nursing Home Only or Nursing Home & Home Health Care. AT&T decided to offer both.

The Nursing Home Only Coverage included Nursing Home care as well as Inpatient Hospice Care.

The Comprehensive Coverage, in addition to all of the coverage available in the Nursing Home Coverage, also included coverage for Home Health Care, Adult Day Care Centers, Alternative Care Facilities, On-going Care Advisory Services, At-home Hospice Care and Respite Care. Each of these coverages is detailed in the company's Summary Plan Description.

How Much "per day" Coverage
A survey of Nursing Home costs revealed that annual Nursing Home expenses varied from $20,000 per year to over $50,000 per year. This translated into a benefit range of $60 to $140 per day. Our initial design therefore was to create 6 plan choices by offering $60, $100 and $140 per day benefit levels in both of the coverage categories.

For How Long
When we first looked at this feature, AT&T wanted unlimited duration. However, in order to incorporate a sense of cost control into the plan we decided upon limits that were multiples of the daily dollar amounts. The Nursing Home Only Coverage was given 5 years duration and the Comprehensive Coverage was given 7 years (which at the time was longer than any previous group policy duration). Under this design, if the participant were to use the benefit less frequently than daily and/or obtain a daily benefit cost below the daily benefit purchased then the duration of benefits could be extended well beyond the 5 or 7 years.

Determination of Eligibility for Benefit Payment
The Long-Term Care market had developed a methodology to determine eligibility for benefit payment based upon a person's functional ability in several categories called "Activities of Daily Living" or ADLs. AT&T would need to specify which ADLs would be evaluated and how many ADLs a plan participant would need to have lost function in before the participant would be eligible for benefit reimbursement. AT&T selected 8 ADLs to be evaluated (eating, bathing, dressing, toileting, transferring, bladder

continence, bowel continence, mobility) and a plan participant needed to be unable to perform the equivalent of 3 ADLs to receive a benefit. We used equivalents so that a participant could get less than 100% of an ADL and have that partial amount added into the evaluation to reach the total of 3.

The selection of ADLs to use in the plan had a direct impact on the cost of coverage. Specifying more ADLs that need to be evaluated will increase cost (more opportunity to have some lost function). Similarly, the fewer ADLs needed to become eligible for benefit payments will increase the cost. Selection of ADLs to evaluate is a difficult decision and AT&T felt that more in this area was better. The selection of 3 to reach benefit payment status allowed for less than 50% function in all ADLs or 100% loss of function in only 3 ADLs to become benefits eligible. Since many of the ADLs are similar in nature and may very well be expected to occur simultaneously AT&T believed this to be a reasonable approach. Remember that cost was also a consideration in this selection.

Waiting Period – Once you're eligible
This is the period of time the participant would be expected to spend "in benefit status" before the plan would begin paying benefits. This period should be carefully evaluated for its impact upon the premium costs of the plan (not too short) and the individual cost to the plan participant who must incur the costs until benefit payments are made (not too long). AT&T selected 60 days for the Nursing Home only and a combination of 30 days and 60 days for the comprehensive plan.

These are the major features of the original plan design. There are many more features that are necessary to ensure the delivery of a high quality Long-Term Care product: the ones I have discussed just now were the major features AT&T looked at in its initial plan design development.

Determination of Vendor Market for AT&T

The next step AT&T employed was to determine the principles that we would follow in evaluating the potential vendors for our product.

Single versus multiple carriers
AT&T had a strong desire for uniformity of administration across its Long-Term Care plan. In the very early stages we did not eliminate regional players but felt that they needed to prove that they brought something special to the Long-Term Care product. A single, national vendor was AT&T's preference.

Financial Strength/Market Commitment
The Long-Term Care product generates both a significant liability exposure and a long term benefit payment commitment. It was important to AT&T that the carrier have the necessary financial strength to assume the liabilities that a product like this would

generate and had made the commitment to the Long-Term Care market in company resources.

Carrier Notability
Since this was going to be an employee-pay-all plan it was necessary to secure a carrier that not only had the financial strength to support the program but also would be known to our employees. Name recognition would provide an additional sense of security to the employee purchaser.

Our original bid went to 9 potential vendors. Four were selected as finalist that received site visits.

Incorporate Principals in Bid Specification

Allow carriers to differentiate themselves
The bid specification was written in such a way as to encourage creativity. AT&T felt that since this was still a very immature market it was important to find a carrier that would be willing to go beyond the conventional wisdom

Ensure & Enhance Program Integrity
The balance in this type of insurance program can be sifted down to two elements: premiums (income) and Incurred Claims (Actual Paid Claims & Assumed Future Claim Liabilities). Each potential outflow (incurred claims) would need to have an equivalent, offsetting inflow (premiums and earnings on premium reserves). The potential vendors were encouraged to present ways to maximize outflow and minimize inflow.

Meet diverse employee/retiree needs
The population of AT&T was a diverse group of employees, retirees and their eligible family members, all with varying needs. AT&T wanted to present a Long-Term Care product that would be flexible enough to meet this diverse set of individuals and their needs.

Balance affordability versus availability
Affordability is measured by the percentage of the population that could reasonably afford the product. In this comparison, availability refers to the number of potential plan participants that would be accepted into the plan based upon the underwriting restrictions.

Increasing availability directly increased the premium cost each participant would have to pay. As discussed above, AT&T decided to allow employees to be initially enrolled if they were "actively-at-work", spouses would be allowed to complete the underwriting short form and all other potential participants would have to go through the standard underwriting form.

Other Criteria
Some of the other more technical aspects AT&T reviewed to determine our selection were:

- Development of Working Relationship
- Contractual Requirements
- Performance, Staffing, Administration
- Regulatory Compliance
- Employee Communications Ability & Experience

Enrollment

With the selection of the vendor, the next step was to develop enrollment expectations.

Enrollment Expectations
Based upon the six levels of benefits that AT&T decided to offer it was estimated that a 5%-7% overall enrollment rate should be expected for management. Enrollment rates of 2%-3% were expected for retired employees and occupational employees. We've exceeded these targets:

Enrollment Numbers	
Management	12% (currently 14%)
Retired Employees	3% (currently 3%)
Occupational Employees	2% (currently 4%)

AT&T was very pleased with the initial enrollment figures and the continued growth in participation that the program has experienced.

Who Needs Long-Term Care Protection
Long -term care insurance is generally not appropriate for all individuals. An individual requiring long-term care could expect to assume a financial cost of at least $100,000 for a minimum three or four years. It is generally thought that long-term care insurance is not an appropriate option for those with sufficient income and assets who can assume this financial cost. Likewise, it is thought not to be an appropriate product for those individuals who don't have sufficient income or who have other financial demands such that they may not be able to pay for long-term care insurance premiums. Between these two groups of consumers lies the vast majority of Americans for whom a $300-400,000 long-term care expense would result in the pauperization of the remaining spouse or create a financial hardship for children of the individual requiring long-term care. The main reasons consumers choose to purchase long-term care insurance is 1) to protect their current assets and income or 2) to provide freedom of choice in the care they receive from providers, which is often restricted under government programs. Some consumers purchase long-term care insurance to provide fully for their long-term care needs, while others choose to purchase it to supplement other savings and income they might use to pay for their long-term care needs.

The National Association of Insurance Commissioners (NAIC) recognizes the wide spectrum of consumers who may benefit from the purchase of long-term care insurance. At the same time, the NAIC realizes that younger individuals may have access to greater income and fewer assets, while older individuals may have accumulated greater assets, but have less income. As a result, the NAIC has adopted Suitability Standards that assist consumers to determine whether or not the purchase of long-term care insurance is an appropriate, and affordable purchase for them. Some states have adopted these standards into state law. The NAIC Suitability Standards provide for an income asset test for consumers to consider before they choose to purchase long-term care insurance. Generally, long term care insurance is thought to be appropriate if the individual's assets are greater than $30,000 or the expected premium of the long-term care insurance is no greater than 7% of the individual's income. In addition, consumers are asked to consider if they can afford an increase in premiums in future years.

Brief Summary of Plan Changes

The AT&T plan was enhanced on two occasions, once in 1996 and again in 1999.

1996 changes

- Daily Benefit Amounts changed from $60, $100 & $140 to $80, $120, $160 & 200
- Assisted Living Facilities added as a covered service under the Comprehensive Plan (no impact on rates)

1999 changes

These changes included not only the changes for tax qualification under HIPAA, but also several plan enhancements were made.

HIPAA Changes

Benefit Eligibility: The 8 original ADLs were consolidated into 6 and the criteria for benefit eligibility was changed from 3 of 8 ADL's to 2 of 6 ADL's. Benefits would also be authorized if the insured required substantial supervision to protect themselves due to a severe cognitive impairment.

Coordination of Benefits provision: Under HIPAA, long-term care carriers cannot pay benefits to the extent paid by Medicare.

Nonforfeiture provisions: added as an option to each participant. While this was not strictly required by HIPAA because the AT&T plan fell under an exemption for grandfathered plans, several states require that nonforfeiture be offered and, in an effort to minimize state variation, it was made available in all states.

Additional Enhancements to the Comprehensive Coverage

- Informal Care providers included under the Respite Benefit (21 days per year)

- Home care services payments increased from 50% of daily benefit amount to 60%
- The waiting period was reduced to 30 days for all covered services.
- Alternate Plan of Service provision added. This allows the care manager to authorize benefits for qualified long-term care services not specifically covered under the plan.
- Transition Expense Benefits was added. This provided for a benefit payment of up to five times the daily benefit to be used for miscellaneous long-term care items.

Additional Enhancement to the Nursing Home Only Coverage

- Assisted living facilities added as a covered service
- Transition Expense benefit was added

Third Coverage Option Added

In addition, a third plan option was added. It is a 4-yr. Comprehensive Coverage (in addition to the original 7-year Comprehensive Coverage). This was done to provide a plan that was comparable to another benchmark plan available in the marketplace on an individual basis.

Renewal Expectations

To successfully manage the employer/carrier relationship AT&T actually performed various renewal scenarios during the initial carrier selection process. Using a number of hypothetical scenarios, we asked each carrier to determine what their renewal would be if that scenario actually occurred. This enabled AT&T to understand a number of underwriting principles that the carriers used to quote the business and also to gain reasonable renewal expectations. The only assumptions needed to perform this analysis were participant distributions by age and paid claims.

The original contract was for 5 years. AT&T undertook the renewal process with our carrier in the 1996/97 timeframe. Unrelated but coincidental to this was the spin off of around 50% of the company into Lucent Technologies (created 10/96). Needless to say this created many complexities beyond the scope of this testimony. AT&T had no major issues with its insurance carrier and we were able to reach a successful contract extension. I feel strongly that the work done 5 years earlier during the bid process laid the foundation that allowed the renewal process to proceed so successfully. We did however implement one plan change with the renewal. AT&T added Alternative Care Facilities (Assisted Living Facilities) to the Comprehensive plan. It did not impact the rates.

Termination Provisions

The termination provisions to the contract were one of the key elements of the entire bid process. No matter how well intentioned the vendor may be or how diligent AT&T was in the selection process, the ability to change carriers and to do it without harm to the plan or the participating employees is critical.

AT&T employed one rule. We wanted the right to take everything upon termination. For the most part this meant all reserves, even reserves established for participants in claim payment status. Although we negotiated this right, AT&T also established guidelines under which plan participant that was in "claim payment" status would be allowed the choice of staying with the current carrier or moving to the new carrier. The reserves would be allocated accordingly.

Asset Management & Investments

Long-Term Care Insurance is an asset intensive product. An individual that purchases a product at age 50 would not be expected to incur any claims to around age 80 or later, if at all. AT&T was very interested in understanding how the premiums that would be paid over that expected premium payment period would be utilized and to support premium rates that are designed to be level over time for all participants. The insurance company established Active Life Reserves to account for their assumption of liability. However, the interest or investment gains from these active life reserves would be critical to the financial health of the program.

The insurance companies had standard crediting methods for gains on reserves. Typically, these rates would be in the 5%-7% range. AT&T felt that the gains would be greater should the carrier agree to invest in higher yielding investments, such as equities versus the usual bond type investments. We negotiated this type of agreement with our insurance carrier. While the agreement has many variables, it is essentially a sliding scale based upon assets that establishes a target investment mix of bonds and equities. AT&T does not involve itself in the actual investments. What AT&T does is monitor the performance against various indices such as the S&P 500 and then question performance if it varies significantly from them.

Other Financial Findings

A major inconvenience and expense for AT&T is having to switch carriers. It was our hope to avoid this by making a good selection from the outset. As we got involved more into the Long-Term Care product there were certain other concepts that I learned that may help you in evaluating and understanding the market.

Policy Lapse Rates

This is the industry jargon for voluntary terminations by participants. While this can happen for a number of reasons, the assumed Lapse Rate made by the carriers has a considerable impact upon your policy financial viability. AT&T felt that a measure of success would be to have a low lapse rate and in fact, AT&T achieved a lapse rate of 5%, 2% below the carriers assumed lapse rate of 7%. Unfortunately, policy lapses are partially used to offset other expenses. So by achieving our lapse rate goal, it was shown as a negative when the financial experience was produced. Luckily this "negative" lapse rate was offset by investment gains.

Entry age pricing
Entry Age Pricing is most like what you would experience in the Whole Life Insurance marketplace. Entry age pricing establishes the premium you will pay for the policy you purchased. The only change to this rate would be if a rate change occurred at renewal. This pricing methodology makes the ability to take reserves with you should you select another carrier very important. If you are unable to take the reserves, then the new carrier would want to rate all participants at their ages when they took over the policy, usually at a much higher premium rate than their original entry age rates.

Inflation Provisions
Originally, we were going to offer a separate plan with an automatic inflation provision. After reviewing the cost of premiums associated with a plan provision like this, we tried to find alternative solutions. Our final design used a flexible inflation provision. The provision allows for an inflation increase at least once every five years. Participants that elect the additional coverage do so without evidence of insurability. Participants may also choose not t increase coverage without impacting their rights to any future inflation adjustments.

Plan Administration

Once applicants are accepted in the plan, the goal is for them to be able to easily access their benefits when they need them. Easy access not only entails an uncomplicated process to obtain the benefits but also includes working with supportive health care professionals that understand the insured's condition and the long-term care delivery system.

In instances where an insured begins the benefit authorization process and it is determined that they do not meet the benefit eligibility requirements, we view this more as a postponement rather than a declination. Medical conditions frequently become more complex and severe over time. The initial declination of benefits often allows people to access their benefits at a later period when a greater need exists.

General Future Challenges

There are a few items that we were unsuccessful in implementing into our Long-Term Care plan or continue to be frustrated by:

- Ineligibility of children (either dependent or non-dependent)
- Mandating of certain provisions in certain states (creates conflicts)
- Difficulty in protecting the integrity of the plan (underwriting vs. employee expectations)
- Exclusion from Section 125 of the Internal Revenue Code (we would expect participation to increase 50%-100%)

General Positives

Since we originally developed this program we are very pleased to see the following items have been accomplished:

- Development and availability of the LTC product in the marketplace
- Increased awareness across country of the need for this type of coverage
- Our enrollment experience and our continued good experience with lower than expected lapse rates

Clearly AT&T has a wealth of experience in putting together a long-term care program for our employees. I am pleased to have had the opportunity today to share this experience with you and we would look forward to being available for your questions as you move ahead in putting together the legislation that will enable federal employees to obtain long-term care insurance at the work place.

Mr. SCARBOROUGH. And because of AT&T's experience in this field, I think your insights have been very helpful. I want to say to all of you gentlemen, because we are pushed for time, any additional comments you want to put into the record, we will gladly do that. I have a lot of questions, so if you don't have any objections, I am going to be submitting some questions, and I am sure that Congressman Cummings will be doing the same.

If you have the responses back to us within 30 days, that would be helpful, and we can put them into the record.

Mr. Grubb, welcome back.

Mr. GRUBB. Good afternoon, Mr. Chairman and Mr. Cummings. I am Ken Grubb, president of New York Life Insurance Co.'s long-term care subsidiary, and I am pleased to speak to you again on behalf of the Health Insurance Association of America [HIAA], the Nation's leading trade association of health insurance providers. HIAA provides coverage to 115 million Americans. My comments are intended to give you our association's thoughts on the legislation under consideration that would offer long-term care insurance to Federal employees and their families.

I purchased long-term care insurance for myself, my wife and our three children through my company-sponsored plan. If our children are only in their 20's, why do we insure them? We should help Federal employees and their dependents understand that long-term care insurance is not just for the elderly. Forty percent of people in nursing homes today are under the age of 65.

There has been a lot of talk in this hearing about affordability. The cost of my children's insurance is under $220 per year. And as Mr. Yocum said, it is unlimited coverage, so it will never end. Like Mr. Yocum, I am keenly aware of problems families face because of long-term care needs. My parents both needed care, and they had no insurance coverage. They had very limited savings. It is almost the same story Mr. Yocum told, with only Social Security as a source of income. I paid for their care to allow them the dignity that they deserve and to avoid the painful choices they would have to make to qualify for Medicaid.

Today employers lose $29 billion a year in lost employee productivity due to long-term care related issues. By offering this benefit to its employees, the Nation's largest employer, the Federal Government, would send a strong message to all employers that long-term care insurance should be part of their benefits package, too. HIAA would like to make the following summary points with respect to proposed bills with details in our written testimony.

No. 1, the key to a successful Federal long-term care insurance program is an effective education and marketing campaign. The Federal Government's endorsement of long-term care insurance and your playing an active role in educating employees is critical to the success of this program.

Two, using artificially low premiums as a major determinant for good long-term care insurance is a dangerous route to take. A policy with rich benefits, offered at low premiums and minimal underwriting is a sure sign of disaster. Implementing such a program would result in an unsustainable plan with unstable premiums.

Three, OPM should not be responsible for adjudicating claims. HIAA opposes any type of third party adjudication.

And finally, No. 4, it is essential that market competition determine which carriers offer the plans under the Federal program. All interested companies should be allowed to freely compete in a fair selection process. Some contend that too many choices under a free competition model would confuse consumers, discourage product purchases, drive up marketing costs and increase prices. HIAA disagrees with these contentions. The industry believes, and the current long-term care insurance marketplace has proven, that free competition works.

We have many reputable and financially sound companies offering a wide array of benefits at stable premiums because of open competition. Some new generation products have actually been introduced with lower premiums than their predecessors. I know ours was, and we have never raised our rates. The risks of consumer confusion, high marketing costs and uncertain penetration rates are part of what carriers deal with today. The industry has successfully overcome these challenges and is thriving because of free competition.

We suggest care be taken to avoid fostering the growth of only one company or a small consortium of companies. This could actually hinder product development and stifle competition. Limited consumer choice could cause Federal employees to look outside the program for more affordable or better quality coverage. HIAA is aware of a proposal to select a single consortium of companies to offer the Federal program. We are currently evaluating that proposal. Details of how such a concept would work are unclear, and critical issues such as the mechanics of how this proposal would work are unresolved. Until they are clarified, HIAA is reserving comment.

Long-term care is the largest unfunded liability facing Americans today. HIAA applauds tax incentives suggested for those paying long-term care insurance premiums. These incentives recognize the vital role that insurance plays in helping individuals, rather than the government, pay for long-term care costs. Long-term care insurance can give millions of people the opportunity to remain financially independent.

Thank you, Mr. Chairman and Mr. Cummings, for considering ways to give this sense of security to your fellow Federal employees and to their families. We look forward to working with you to, as Mr. Cummings said so eloquently, do it right.

[The prepared statement of Mr. Grubb follows:]

Health Insurance Association of America

Statement

Of the

Health Insurance Association of America

On

Offering Long-Term Care Insurance To All Federal Employees, Annuitants and their Families And the Role of Private Long-Term Care Insurance in Financing Long-Term Care

Presented by

Kenneth A. Grubb
President, NYLife Administration Group
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Before the

Subcommittee on Civil Service
Of the
House Committee on Government Reform and Oversight

UNITED STATES CONGRESS

Baltimore, Maryland

June 14, 1999

Good morning, Mr. Chairman and Members of the Subcommittee. I am Kenneth Grubb, President of NYLife Administration Corporation, the long-term care subsidiary of New York Life Insurance Company. I am also a member of the Long-Term Care Committee of the Health Insurance Association of America (HIAA). I am here testifying on behalf of HIAA. HIAA is the nation's most prominent trade association representing the nation's private health care system. Its 269 members provide health, long-term care, disability, and supplemental coverage to more than 115 million Americans. Association members include companies representing a majority of the long-term care insurance market and companies that provide services to the long-term care insurance industry, giving us a unique perspective on the issues under review by this Subcommittee.

New York Life Insurance Company is the fifth largest U.S. insurance company, based on most traditional measures of size (i.e., assets, revenues). Founded in 1845, and headquartered in New York City, New York Life maintains operations in all 50 states through a network of over 7,400 employees and 6,500 active agents. New York Life's product line includes insurance products, such as life, annuities and long-term care, and asset accumulation products, such as mutual funds and institutional money management. NYLife Administration Corporation, is a wholly owned New York Life Insurance Company subsidiary, based in Austin, Texas, and is responsible for the company's long-term care insurance business.

As a personal aside, I purchased long-term care insurance for my wife, myself and our three children (all in their 20's) through our company sponsored program. I did so because I strongly believe in the need for families to protect themselves from the burden of potentially enormous expenses, should a loved-one need this care. Long-term care insurance is not just for the elderly. Forty percent of people in nursing homes today are

under the age of 65. Coverage is far more affordable when you are young and the need is still there.

My parents both needed long-term care and had no insurance coverage. They had saved about $100,000 during their working years and had only social security as a source of income. I paid for their care to allow them the dignity they deserved and to avoid the painful choices that would qualify them for Medicaid coverage.

In addition to being associated with the insurance industry, I am a retired Air Force Reserve Colonel. As such, I am quite pleased that consideration is being given to offering the Federal long-term care program to military personnel and their families. Our military protects our freedom every day. No pun intended, I salute offering these fine people an affordable option for protecting themselves from the financial ravages of a long-term illness.

On behalf of HIAA, I appreciate the opportunity to talk to you today about H.R. 602, H.R. 110, and H.R. 1111, which deal with offering long-term care insurance to federal employees, annuitants, and their families and the critical role of long-term care insurance in financing our nation's critical long-term care needs. I would like to commend the Subcommittee and the Clinton Administration for realizing the potential of the long-term care insurance market. The bills being considered today encourage federal workers to assume personal responsibility for their future long-term care expenses through the purchase of long-term care insurance.

Today, more than 100 companies provide long-term care insurance to over 6 million people. In addition, over 1,800 employers have now sponsored a long-term care insurance plan for their employees. High-quality private insurance coverage is offered

through a variety of mechanisms, including individual, group association and employer-sponsored arrangements, and riders to life insurance plans.

Let me begin by summarizing the most important points of my testimony:

- HIAA supports the offering of long-term care insurance to all federal employees, including members of the United States uniformed services, and members of their families. However, it is imperative that the structure of a Federal Employee Long-Term Care Insurance Plan allow for market competition and design flexibility. This would assure that the long-term care insurance policies that would be offered to federal employees through this program would be affordable and encourage innovation in the coverage of long-term care services.

- Our nation faces a long-term care crisis. Long-term care is the largest unfunded liability facing Americans today. Despite the tremendous need for long-term care protection, there is a clear lack of adequate planning for it.

- The long-term care insurance market is growing, and the policies that are available today are affordable and of high quality. There is a critical role for private insurance to provide a better means of financing long-term care for the vast majority of Americans who can afford to protect themselves. Continued growth of the market will alleviate reliance on scarce public dollars, enhance choice of long-term care services for those who may need them in the future, and promote quality among providers of long-term care.

- There is a continued role that the government can play in financing long-term care for those without adequate resources to protect themselves. The government also plays a critical role in enhancing the growth of the private long-term care insurance market. Government initiatives which show support of the private long-term care insurance market emphasize to the public the importance of assuming personal responsibility and less reliance on public support for their own long-term care.

To address these concerns, HIAA believes the following steps must be taken:

1. When implementing the Federal Long-Term Care Insurance Program, it is essential that market competition determine availability, quality and affordability of long-term care plans that will be offered.

2. The government must continue to encourage personal responsibility for financing long-term care through the expansion of the private long-term care insurance market. Initiatives to stimulate the private insurance market through enhancement of the tax status of long-term care insurance must be encouraged as well.

3. The public and private sectors must continue to educate the public about the risks and costs of long-term care. Without understanding the problem, the public cannot be expected to understand the appropriate solutions. It is critically important for the public and private sectors to do more in this area.

4. The government's ability to target assistance to those most in need must be improved. The government must take full responsibility for providing care to those without the resources to do so.

5. Support for research and demonstrations related to the need for long-term care services and private and public sector partnerships in paying for long-term care must be encouraged.

This hearing is a very positive step in accomplishing these objectives. The public and private sectors must take the time to make the necessary investment now in designing a financing arrangement that our elderly can live with today, our future retirees can live with tomorrow, and our children can depend on in the next generation. We commend the Subcommittee for bringing this issue to the forefront and recognizing the important role that the private long-term care insurance market can play in solving our nation's long-term care dilemma.

Introduction

Long-term care is the major catastrophic health care expense faced by the elderly today and will definitely remain so for our retiring baby boomers. For the elderly who have out-of-pocket health care expenses of over $2,000 a year, an average of 80 percent is spent on nursing home care. With annual nursing home costs averaging $41,000 (increasing to about $100,000 in 1996 dollars by 2030), and easily double that amount in high cost areas, such expenses can indeed cause financial ruin. Instead of pooling risks, the current system places each household on its own, and when household resources have been depleted, Medicaid becomes the payer of last resort. This approach combining out-

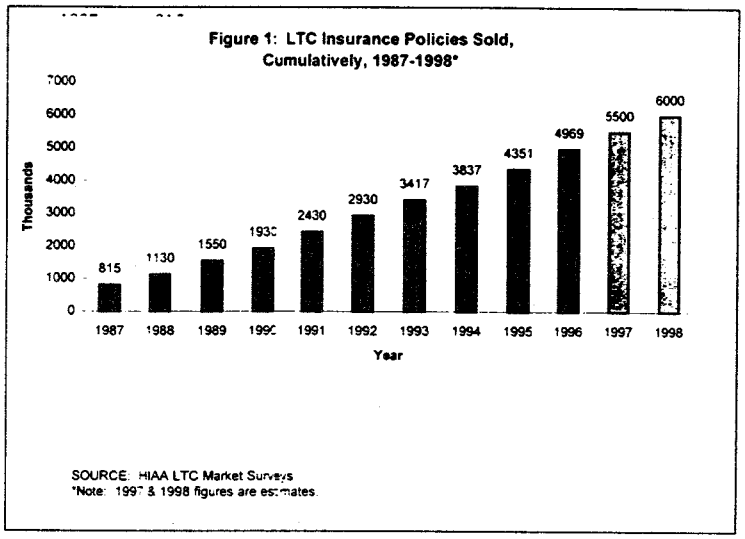
of-pocket outlays and welfare focuses upon remediation and relief, when prevention and planning should be the preferable approaches.

Today's situation, a population of approximately 8 million people, increasing to about 13 million in 2030, needing long-term care services and lacking preparation for this catastrophic event, calls for a thoughtful and deliberate approach. HIAA supports a comprehensive approach to financing long-term care that utilizes the inherent strengths of both the private and public sectors in a more efficient and equitable manner than the essentially unintended system created today.

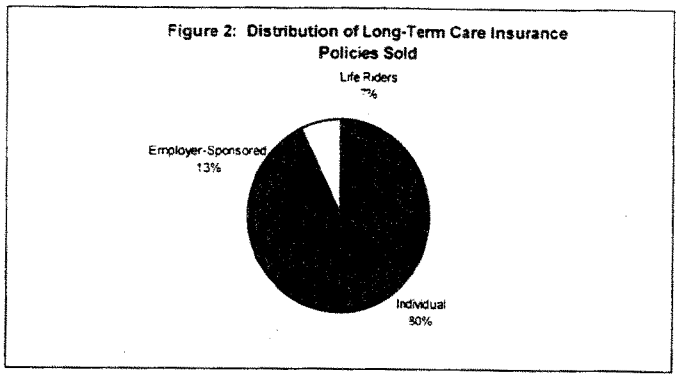
The Private Long-Term Care Insurance Market Today

The insurance industry is justifiably proud of the role it has played in the evolution of the largest private insurance system in the world. Now, we are entering the next logical phase of this evolution. Advances in medical technology and general health are increasing the life span of the elderly, but they are also increasing the number of people who will need treatment for chronic illness. At the same time, rising income, particularly among the current elderly and future baby boomer retirees, makes insurance against the costs of long-term care more affordable.

The market is developing rapidly, as evidenced by the number of companies developing long-term care insurance products, the number of individuals covered, and the variety of products available to the public today. HIAA estimates reveal that today over 100 companies have sold over 6 million long-term care insurance policies. The market has grown an average of about 20 percent annually. These insurance policies include individual, group association, employer-sponsored, and riders to life insurance policies that accelerate the death benefit for long-term care. (See Figure 1 on the next page.)



Approximately 80 percent of the 6 million long-term care insurance policies are sold through the individual and group association markets. The employer-sponsored and life insurance rider markets comprise about 13 percent and 7 percent, respectively, of the entire market. These two markets are growing faster than the individual market. In 1988, both markets comprised less than 3 percent of the entire market. (See Figure 2 on the next page.)

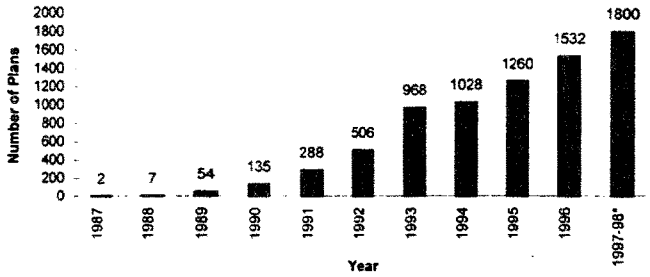


The majority of long-term care insurers continue to sell policies in the individual market. About one-third of the long-term care insurance carriers sold policies in either the employer-sponsored or life insurance markets, up from 14 percent in 1988.

Although all three markets have experienced significant growth through the past decade, most of the policies are still sold in the individual and group association markets. HIAA findings show that the total premium volume for the individual and group association policies sold in 1996 alone was about $750 million. The employer-sponsored market enhanced this growth by contributing close to 20 percent of the sales in 1996. HIAA estimates that over 800,000 certificates have been sold through about 1,800 employers. (See Figure 3 on the next page.) Although the growth in the long-term care life insurance rider market has been minimal in recent years, it continues to account for about 7 percent of the entire long-term care insurance market, with over 350,000 policies sold

cumulatively as of the end of 1997. In addition, many carriers have recently expressed a renewed interest in this market.

Figure 3: Number of Employer-Sponsored LTC Plans Offered, by Year, Comulatively, 1987-1998



*Note: 1997-1998 figure is an estimate.

As in previous years, the long-term care insurance market remained highly concentrated among a relatively small number of sellers. Twelve sellers represent approximately 80 percent of all individual and group association policies sold in 1996. HIAA conducted an in-depth look at the top sellers' latest policies and found that insurers offer policies with a wide range of benefit options and design flexibility at moderately priced premiums.[1]

In addition to examining each top seller's policy provisions and marketing materials, we also reviewed the premiums they offered for their most recent policy. Premiums for long-term care insurance policies varied widely depending on multiple factors, including entry-age of the policyholder and benefit designs chosen. (See Table 1 on the next page.)

[1] A summary of the benefit options offered by the leading sellers of long-term care insurance may be found in HIAA's publication, *LTC Insurance in 1996*.

Table 1: Average Annual Premiums for Long-Term Care Insurance

AGE	Base	With 5% Compounded Inflation Protection (IP)
40	$209	$503
50	$328	$665
65	$964	$1761
79	$3803	$5276

(NOTE: These are based on 1997 premiums of 12 individual carriers and two employer-sponsored plans. Such premiums do not necessarily exist for any one insurer or specific plan. Premiums are generally for a $100/$50nursing home/home health coverage. 4 years coverage. and 20-day elimination period.)

SOURCE: HIAA LTC Market Surveys

HIAA studies have shown that average premiums among leading sellers of long-term care insurance have been decreasing over time. For example, 1996 premiums decreased an average of 5 percent when compared to the average premiums for the leading sellers in 1995. This is a strong indication that market competition and insurers' increasing confidence with their pricing and anticipated claims experience have kept premiums stable. if not more affordable. In addition, given the tremendous changes in long-term care insurance policy design (i.e.. elimination of prior hospitalization requirements, expansion of available benefits. coverage of additional sites and levels of long-term care). buyers are now clearly receiving more benefits for their premium dollar.

The Employer-Sponsored Long-Term Care Insurance Market

The growth in employer-sponsored plans is particularly promising. Employer plans offer the opportunity to reach a large number of people efficiently during their working years when premiums are more affordable. Coverage in the workplace offers the additional advantage of employers selecting the best plan at the best price for their employees. Enrollment experience shows that the average age of the employee electing this coverage is 43. This is strong evidence that with education and availability, younger people can and will purchase long-term care protection. Most of these plans offer coverage to the elderly as well, by including retired employees and their spouses and parents of the employee or employee's spouse.

Currently, over 1,800 employers are offering a long-term care insurance plan to their employees and retirees. There were over 800 employer-sponsored plans introduced between 1995 and 1998 alone. Most of these plans were employee pay-all plans. However, at least 432 of these 1,800 employers paid part or the entire employee premium for long-term care insurance. Many of these employers were very small firms (under 100 employees) and were insured by one insurance company. Among the employee pay-all plans, employee participation rates varied widely by insurer and employer.

For employer-sponsored plans without any employer premium contribution, the average participation rate of active employees electing this coverage per employer group is about 6 percent. The highest participation rate reported in the 1997 HIAA LTC Market Survey was 46 percent. The lowest was less than 1 percent. As data shows, participation rates among employers vary widely. Many factors impact participation: employee age; salary level; job classification; corporate environment; and most importantly, the degree to which a sponsoring employer encourages participation and educates employees about the

program. Communication is the key to success in employer-sponsored LTC plans. The higher the input of the employer, the more likely that better participation rates will occur. Examples of employer and insurer activities that have enhanced participation are: holding frequent "benefit fairs" in different locations for all eligible employees; facilitating face to face meetings with insurers where potential insureds can ask questions they may have regarding their plan; offering toll-free numbers for both the employer and insurer so insureds and potential enrollees may inquire about the plan; developing integrated response systems for enrollment; and using technology (e.g., Internet Access), if available, for quick responses to plan inquiries and enrollments. Experience has shown that a mere announcement of the availability of a plan and distribution of plan materials are not sufficient to experience good participation rates. Follow-up communication is essential and has proven to be extremely effective in increasing participation rates.

Offering Long-Term Care Insurance to Federal Government Employees

Long-term care related expenses cost employers $29 billion a year in lost time, lost employees, and lost productivity. Many believe, therefore, that private long-term care insurance coverage can have its greatest impact in the employer-sponsored market. With the federal government, the nation's largest employer, offering this benefit to its employees, this impact would be magnified tremendously.

A Federal Employee Long-Term Care Insurance Program is particularly encouraging because of two main factors. First, such a program would be the clearest signal of government support for encouraging personal responsibility and planning for long-term care through avenues such as long-term care insurance. Second, the sheer size of the

federal government as an employer would assure an immediate and heightened awareness of long-term care financing issues among working adults.

HIAA supports the offering of long-term care insurance to all federal employees. However, it is imperative that the structure of a Federal Employee Long-Term Care Insurance Program allow for market competition and design flexibility. This would assure that the long-term care insurance policies offered to federal employees through this program would be affordable and allow for future product innovation. In this regard, below are some HIAA recommendations regarding the structure of such a program.

➢ ***Important Roles of the Office of Personnel Management (the "Office"):***

1. Authorization: The Office shall establish the program under which eligible group and individual long-term care insurance contracts are made available to federal employees, annuitants; and eligible family members.

2. Determination of Eligible Population: The Office shall determine the population of federal employees and annuitants eligible for this program. Such a population may also include eligible family members (i.e., an employee's or annuitant's spouse, children, parents, and grandparents) and such other individuals as the Office may specify.

3. Withholding: The Office will be responsible for withholding (either from the employee's salary or retiree's annuity) from each enrollee the premiums for eligible long-term care insurance contracts. Such withheld amounts shall be paid in a timely manner by the government to the carrier for each such contract.

4. Determination of Qualified Carriers: The Office will determine carriers that would be appropriate for the provision of long-term care insurance, taking into account the financial soundness of the carrier and its administrative capability to serve covered insureds.

5. Enrollment Season and Communications: The Office shall provide initially a period of not less than 4 weeks during which any employee or annuitant shall be permitted to apply for coverage with a carrier. In addition, employees may apply

for coverage any time during a calendar year. The Office shall, after consultation with the carrier, make available to each such employee and annuitant information as may be necessary to enable the individual to exercise an informed choice in selecting between eligible contracts.

6. Reports and Audits: As a condition of participation in the program, carriers must agree to furnish such reasonable reports as the Office determines to be necessary to enable it to carry out its functions under this program, and permit the Office and representatives of the General Accounting Office to examine records of the carriers as may be necessary to carry out the purposes of this program. In addition, each government agency shall keep such records and furnish the Office with such information and reports as may be necessary to enable the Office to carry out its functions under this program.

7. Review of Federal Long-Term Care Insurance Program: The Office shall determine appropriate time (i.e., 3 or 5 years) to review and evaluate successes and shortcomings of the program and recommend to Congress changes that could facilitate the program's success and remedy the program's shortcomings.

8. Regulations: The Office may prescribe appropriate regulations necessary to carry out this program.

- ***Standards for Eligible Long-Term Care Insurance Contract:*** Any group or individual long-term care insurance contract (including reimbursement and per diem type policies) must:

1. Be a qualified long-term care insurance contract (as defined in Section 7702B of the Internal Revenue Code).

2. Be a product that complies with the mandatory provisions of the July 1998 NAIC Long-Term Care Insurance Model Act and Regulations,

3. Be issued by a carrier that is licensed by the state or other jurisdiction in which the insured resides to issue insurance contracts,

4. Provide benefits and coverage that cannot be unilaterally changed by the carrier (except for nonpayment of premiums, and in the case of misrepresentation, that would permit a carrier to contest a qualified long-term care insurance contract), and provides premiums that are determined on a noncancellable or guaranteed renewable basis.

5. Be fully insured by the carrier or reinsured in all or part with other carriers.

- ***Continuation of Coverage:*** If an individual (whether or not an employee or annuitant) is covered under an eligible contract and withholding ceases to be available or sufficient (such as after a divorce), such individual shall be entitled to pay premiums directly to the carrier to continue the insurance in force.

- ***Jurisdiction of Courts:*** The district courts of the United States have original jurisdiction, concurrent with the United States Court of Federal Claims, of a civil action or claim against the United States founded under this program.

- ***Coordination with State Laws:*** Any requirements or standards relating to the Federal Long Term Care Insurance Program shall supersede and preempt any state or local law or regulation which relate to long-term care services or insurance contracts. This rule shall not be construed to alter the requirement that an eligible contract must otherwise constitute a qualified long-term insurance contract.

- ***Authorization of Monies:*** There should be sufficient funds appropriated to carry out this program, including amounts to cover administrative costs that may be incurred. In addition, there should be an authorization of future government contribution for a portion of the cost of any eligible contract covering an employee or annuitant or the spouse of any such persons as may be necessary to encourage the purchase of long-term care insurance coverage.

Concerns with Specific Provisions/Requirements in H.R. 602, H.R. 110, and H.R. 1111 For Future Federal Long-Term Care Insurance Program:

HIAA has reviewed H.R. 602, H.R. 110, and H.R. 1111 that have been introduced to try to implement this program. HIAA strongly feels that the intent of these legislative proposals is to provide quality and affordable long-term care insurance to as many federal employees, annuitants and their families as possible. The success, therefore, of such a program is not in initially being able to provide "lower cost policies" to a few of the eligible individuals from a handful of carriers. Rather, the true measure of the program's success is offering high-quality products at affordable premiums and eventually experiencing high penetration rates. In this regard, it is important that the following points/concerns be raised to assure a viable and thriving Federal Long-Term Care Insurance Program.

- ***The key to a successful Federal Long-Term Care Insurance Program is an effective education and marketing campaign.***

  Successful employer plans that have experienced high participation rates are those that have invested in multi-faceted education and marketing campaigns. The federal government's involvement, in partnership with the participating carriers, is critical to the success of this program. Without substantial employer participation and commitment in educating employees about the importance of a long-term care insurance policy, this program will not be successful.

- ***It is essential that market competition determine availability, quality and affordability of long-term care plans that will be offered under the Federal Long-Term Care Insurance Program.***

  The current long-term care insurance market has grown and developed into a strong viable industry that offers quality products at affordable premiums. This has come about because companies have been allowed to freely compete with each other in the marketplace and not because of the imposition of federal or state requirements that would regulate premiums, hinder product development, and stifle market competition. HIAA studies have shown that for carriers to remain in this market, they continually need to design innovative products and keep their premiums competitive. Those who do not, have seen their market share minimized or have been forced out of the market. As a result, we now see many reputable and financially sound companies offering long-term care products that offer a wide array of benefits at premiums that have remained stable, if not decreased, through the years.

  To be fully viable and continually offer quality products, the federal program must learn from the successes of the current marketplace and follow this lead. Companies should be allowed to freely compete in a fair bidding process that is based on a level playing field. In implementing this program, HIAA would like to caution the federal government that the combination of limiting qualified carriers to only a handful, mandating "rich" benefit packages and requiring discounted premiums could have an opposite result from what we have witnessed in the current marketplace. Instead of having quality LTC coverage, Federal workers may need to look outside the program for coverage that is more affordable and of better quality.

- ***Using premiums as a major determinant of "good" LTC products is a dangerous route to take. "Low" or "discounted" premiums coupled with "rich" benefits and limited underwriting is a sure sign of disaster or failure for any LTC plan.***

  The main factors that determine premiums for long-term care insurance are the insured's age and benefit designs or options selected (i.e., type of coverage and daily benefit amounts, elimination or deductible periods, addition of policy features such as

inflation protection and nonforfeiture benefits). As age increases and benefits selected increase, so do premiums for long-term care insurance.

In today's marketplace, a policy with "rich" benefits at lower than usual premiums offered with minimal underwriting does not mean a better product and is a sure sign of disaster. Integrating such concepts within the Federal Long-Term Care Insurance Program signals a program with products that have very unstable premiums and a market that cannot be sustained. In addition, such a scenario would likely discourage responsible companies from participating in the program and attract companies that are willing to participate only to gain quick market penetration and with the intention of increasing premiums or reducing benefits in the near future.

- ***Mandating specific benefit provisions in Federal LTC products that conflict with current HIPAA standards may prove to be a disservice to Federal workers.***

HIPAA contains specific requirements for tax-qualified long-term care insurance policies. The generalization that tax-qualified policies are more restrictive than non-qualified policies has no basis. For example, the absence of a medical necessity trigger does not indicate a more restrictive policy. Tax-qualified policies will pay benefits through triggers such as the inability to perform ADLS and cognitive impairment, viewed by many as the more objective and appropriate measures for the need for LTC. The tax status of the particular policy one has chosen dictates how premiums and benefits are treated for these policies and is not the benchmark for how restrictive a policy is.

Policies that comply with HIPAA's requirements enjoy tax incentives such as tax-deductibility of premiums and non-taxability of benefits. The Internal Revenue Service has not ruled on the tax status of policies that do not comply or conflict with these requirements. Purchasers of non-qualified policies may face very serious consequences if the IRS determines that benefits from such policies would be considered income and therefore be taxable to the insured. Subjecting potential purchasers of Federal LTC insurance policies to possible unexpected tax liabilities will be viewed as a disservice, which is clearly not the intent of the proposed bills.

- ***Only carriers that are licensed to sell in all states can participate in this program.***

Given that the vast majority of companies are not licensed in all states, HIAA is concerned about the requirement that all carriers participating the program be licensed to sell long-term care insurance in all states. HIAA suggests that companies must be licensed by the state or other jurisdictions in which the insured resides to issue insurance contracts. Mandating a license in all 50 states may drive carriers from the program, reducing competition and consumer choice.

The regulatory or administrative body (i.e., Office of Personnel Management) of this Program should not be responsible for management and adjudication of claims for benefits.

HIAA opposes any type of independent third party involvement in claims management, determination and adjudication. HIAA is not aware of any private or public employer that adjudicates disputed long-term care insurance claims. HIAA supports the establishment of a fair appeals process for contested claims. HIAA also supports product requirements that assist consumers in understanding their coverage and policy requirements and that prevent carriers from unfairly denying claims payments such as: uniform terms and definitions; clear articulation of benefit triggers; disclosure of policy benefits and limitations; preexisting conditions limits of six months; prohibitions against prior level of care requirements or higher level of care requirements as condition of covering lower level; and prohibitions against post-claims underwriting.

HIAA also opposes the requirement that filing of claims would be available for extended periods of time (i.e., up to four years). Extending the time for filing claims invites fraud and abuse and exposes carriers to unexpected claim liabilities. For individuals that may be cognitively impaired (i.e., unable to file due to forgetfulness), HIAA supports the application of current NAIC Model provisions on Unintentional Lapse, where upon proof of cognitive impairment, the insured may request benefits or reinstatement of coverage within 5 months of claim or lapse. It is imperative that participating carriers be allowed to maintain their right to administer and manage claims to assure premium stability within the program.

Furthermore, there is no proof of abuse in this area in the long-term care insurance market. Leading long-term care insurance sellers have claims paying experience in excess of 97% of claims filed. Benefit eligibility disputes more often result from consumers' misunderstanding of policy benefits than disagreements regarding their functional status. In addition, transferring the claims adjudication function to an outside party exposes the insurer to unpredictable claims liabilities. This is inconsistent with and would jeopardize rate stability in the marketplace. Such a requirement would also drive carriers from the program, reducing competition and consumer choice.

Program funds should not be maintained separate and apart from a carrier's other contracts or lines of business.

The requirement that program funds be maintained separate and apart from a carrier's other contracts and lines of business is unnecessary and may prove disadvantageous to the program. In general, insurance companies have diverse insurance lines and businesses. The financial stability of a company's individual products (i.e., long-term care business) is enhanced because of the stability and diversity provided by the entire company's business portfolio. Supporting funds with the carrier's other business

lines is especially important for the federal program during its initial stage, when its viability is still not proven. A more appropriate requirement would be that reporting of the program's experience be available and that this report be separate and apart from carriers' other long-term care or insurance businesses.

Challenges to the Long-Term Care Insurance Market

HIAA applauds the Administration's and this Congress' call for programs to encourage personal responsibility for long-term care, help people currently in need of long-term care, and increase educational efforts on long-term care. It is a welcome boost for what most consider to be the most pressing financial problem facing the baby boom generation. Administration and Congressional proposals all have an important common factor, the recognition that private long-term care insurance plays a vital role in helping the elderly and disabled, as well as baby boomers, pay for their future long-term care costs.

The heightened public awareness brought about by these proposals coupled with the passage of incentives for the purchase of long-term care insurance that were included in the Health Insurance Portability and Accountability Act of 1996 (HIPAA) have been essential first steps in solving our nation's long-term care crisis. These recent developments have improved the political climate for long-term care insurance. Nevertheless, they are not panaceas and will not, by themselves, achieve the optimum public-private partnership for long-term care financing. HIAA believes that several factors could hasten the development of private long-term care insurance and strengthen its ability to respond to the baby boomers' demand and need for long-term care protection.

Educating the Public is Essential -- The need for better consumer education is the responsibility of both the private and public sectors. It is virtually impossible to sell a product to someone who already believes they have it or they will never need it. However, this is where we often find ourselves with long-term care insurance. Education should begin early, so that working age people understand their risks for long-term care and can plan for their potential long-term care needs while they have the income to do so. HIAA commends the Administration for including a proposal to launching a $10 million National LTC Information Campaign to educate Medicare beneficiaries about the program's limited coverage of LTC and how best to evaluate their options. This educational effort would provide many people with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home- and community-based care services that best fit their needs.

Public Expenditures Should be Targeted – HIAA also recognizes that the private sector alone cannot realistically meet society's entire need. There will always be a significant need for public sector involvement. For those unable to finance their own long-term care services, a "safety net" program of public assistance must continue to be provided. This is true especially for the current generation of elderly and disabled individuals, who have not had the time, product availability, or financial resources to provide effectively for themselves. In this regard, HIAA supports initiatives to improve the current long-term care public assistance programs and research and demonstrations on innovative needs-based public long-term care programs.

Expansion of Long-Term Care Insurance Coverage Should be Encouraged through Tax Incentives - Federal and state governments have an important role in encouraging

the growth of the private long-term care insurance market. This could be achieved by enhancing tax provisions for long-term care insurance. Encouraging additional tax provisions for these products would reduce the cost of long-term care insurance for many Americans, would increase their appeal to employees and employers, and would increase public confidence in this relatively new private insurance coverage. Further, enhancement of tax incentives for the purchase of long-term care insurance would demonstrate the government's support for and its commitment to the private long-term care insurance industry as a major means of helping Americans fund future long-term care needs. It also reinforces the message to the public about individual responsibility.

These efforts will lead to an increase in the portion of the population who seeks to protect themselves against catastrophic long-term care expenses. Some examples of specific actions that could be taken are to:

- Enhance the deduction for long-term care insurance premiums, such that premium dollars are not subject to a percentage of income. The deduction should not be limited to situations where employer-provided coverage is unavailable. If an employer decides to provide premium contributions, employees should be entitled to deductions for the portion that they pay.
- Allow children to deduct premiums paid to purchase a policy for their parents and/or grandparents without regard to whether the child is providing for their support.
- Permit premiums to be paid through cafeteria plans and flexible spending accounts;
- Permit the tax-free use of IRA and 401(k) funds for purchases of long-term care insurance;
- Provide a tax subsidy for the purchase of long-term care insurance; and
- Encourage state tax incentives for the purchase of long-term care insurance.

These tax incentives would largely benefit two groups: those who did not have the opportunity to purchase such coverage when they were younger and the premiums were lower, and as a result, now face the greatest affordability problems because of their age; and those younger adults, our current baby boomers, who need incentives or mechanisms to fit long-term care protection into their current multiple priorities (e.g., mortgage and children's college tuition) and financial and retirement planning. Further, the educational effects of such tax incentives could far outweigh its monetary value by educating consumers about an important issue and, as a result, would help to change attitudes as well.

Encouragement of Delivering Quality Long-Term Care Services and Focus on Research Affecting Long-Term Care Use and Costs is Critical – Rather than spending tax dollars to provide long-term care to those who can afford to protect themselves, HIAA believes it is a higher priority to devote public expenditures toward encouraging the delivery of quality long-term care services. Reimbursement policy under public programs must be adequate to ensure high quality patient care and deter cost shifting to private-paying patients. Public expenditures should also focus on research affecting long-term care use and costs and support of budget-neutral demonstrations involving public-private financing partnerships. In addition, more resources are needed in basic and applied biomedical aging research to facilitate the management of chronic disease and disability. Treatments that ameliorate or control conditions such as Alzheimer's disease, incontinence, and osteoporosis will greatly enhance the quality of an older person's life and significantly reduce or delay the need for costly long-term care services.

Summary and Conclusions

We all agree that solving the nation's long-term care problem is vitally important. The flexibility and versatility that private long-term care insurance could offer federal employees and their families make it the preferred approach to pre-funding catastrophic long-term care costs. In addition, private insurance also provides maximum flexibility to present and future informal caregivers. Many of us have experienced or will soon experience, either needing or providing long-term care for our loved ones. Over time, HIAA fully believes that private long-term care insurance will give millions of people an opportunity to be financially independent throughout their retirement years. Recognition of the private long-term care insurance market in this hearing is a solid step in this direction.

The public and private sectors must combine their efforts and knowledge to create a solution that will benefit most Americans today and in the future. This Subcommittee's consideration of offering long-term care insurance to all federal employees is an investment that will pay off many times over as our population ages and will help our nation avoid placing an insupportable tax burden on our children.

Thank you Mr. Chairman and Members of the Subcommittee. We look forward to working with you to provide further assistance in this area.

Mr. SCARBOROUGH. Thank you, Mr. Grubb. We appreciate your testimony.

Mr. Cavanaugh.

Mr. CAVANAUGH. Thank you, Representative Cummings and Chairman Scarborough, for asking us to be here. I am Dave Cavanaugh and I am representing Wright & Co. in Washington, DC. We are a national firm. We have been providing administration, consultation and insurance benefits to the Federal and private sector over the last 35 years. And because of time, I will make my comments brief, but you did ask us to come and see if we couldn't provide you with some information as far as the linked benefits concept, that being where we take a universal life insurance policy and put long-term care riders on there and see if we cannot come up with some benefits. That is what we have done.

The need for the linked benefits approach teaming the universal life and long-term care is becoming more evident every day. From your Civil Service Employee Benefit Association members to our various Federal association members, such as SEA—the Senior Executive Association—the message is clear. Long-term care is an integral need for all Americans. Besides relieving the U.S. Government of an increasing burden, the linked benefits concept will serve numerous purposes to the individual and family members. Purposes that include awareness, flexibility, cost savings, asset protection, and even one area which has been addressed today, and that is, an appeal to younger people. We feel that is an imperative.

Because of the advancements in medical science, they are creating a longer living American population. This ever increasing and aging population needs to protect themselves and their families from the financial burdens imposed by nursing home or at home confinements. Not only is there the consideration of money factors, but also the dignity and integrity during the aging process of the individual and the family members. Clearly this is a financial and peace of mind issue.

With the creation of linked benefits, the pairing of universal life insurance and long-term care addresses the aforementioned problems in a very efficient manner. Not only is long-term care and life insurance provided, but they are provided on a sound economic basis while giving various options during the completion of the aging process. These options include the long-term care coverage, a cash accumulation fund, death benefits and, if necessary, a recapture of dollars laid out.

In further clarification of these points, we have put attachment A into our testimony for the linked benefits, and you can refer to it as necessary.

You also asked for assistance in areas of how the product is typically sold, what the options are that are available, and what classes and categories the Federal employees might find for the product to be attractive, and so we will do that. In an attempt to save time, again we have listed all of those items for you and they are in our written testimony.

Finally, what we would like to say to you is that you've requested modifications on the bills, and we believe that attachment B will

provide you with the necessary wording for each of the bills that have been recommended, and we would like to make ourselves available for any further information and help that we can provide you. In light of the time factor, I hope that I have done a good job and haven't made this the old FedEx commercial.

[The prepared statement of Mr. Cavanaugh follows:]

TESTIMONY BY

DAVID E. CAVANAUGH

OF

WRIGHT & CO.

BEFORE

CIVIL SERVICE SUBCOMMITTE

OF THE

HOUSE COMMITTEE

ON GOVERNMENT REFORM

JUNE 14TH, 1999

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My name is David Cavanaugh and I represent Wright & Co. of Washington, DC. We are a national firm providing administration, consultation, and insurance benefits to the Federal and Private Sector. Because of the importance and widespread public interest in the linking of Long-Term Care and Life Insurance (Linked Benefits), we are pleased and privileged to offer the following testimony:

In our letter of invitation, we were advised that this "Subcommittee would benefit greatly from [our] experience with products that offer the benefits of life insurance and long-term care insurance in a single policy". We are here to help clarify and simplify the need and advantages of linking Universal Life Insurance and Long Term Care Insurance together.

We (Wright & Co.) have been providing voluntary benefits to Federal employees for over 35 years. Our success has come from listening to needs told to us by the Federal employee. We then work with insurance companies to have policies specially designed to meet these needs. A prominent example of this process and its success, is the Professional Liability Policy for Federal Employees and the Military.

The need for the "Linked Benefits" approach of teaming Universal Life and Long Term Care is becoming more evident each day. From our own Civil Service Employee Benefits Association members, to other various Federal Association members, such as SEA, the message is clear. Long-Term Care is an integral need for all Americans. Besides relieving the U.S. Government of an increasing burden, the "Linked Benefits" concept will serve numerous purposes to the individual and family members. Purposes that include awareness, flexibility, cost savings, asset protection, etc.

Advancements in medical science are creating a longer living American population. This ever increasing and aging population needs to protect themselves and their families from the financial burdens imposed by Nursing Home or At-Home confinements. Not only is there the consideration of money factors, but also the dignity and integrity during the aging process of the individual and other family members. Clearly, this is a financial and peace of mind issue.

With the creation of "Linked Benefits", the pairing of Universal Life Insurance and Long-Term Care addresses the aforementioned problems in a very efficient manner. Not only is Long-Term Care and Life Insurance provided, but they are provided on a sound economic basis while giving various options during the completion of the aging process. These options include the Long-Term Care coverage, a cash accumulation fund, death benefits and, if necessary, a recapture of dollars laid out.

In further clarification and detail to the "Linked Benefits" concept, please refer to Attachment A.

You also asked for assistance in the areas of how the product is typically sold, what options are available and, what classes and categories of Federal employees might find this product attractive. The information follows:

1. How is this product typically sold? Employees learn about the product initially through various forms of announcement letters, brochures, information days, web sites, 800 numbers, association newsletters, and e-mail. The web sites and 800 numbers are available to conceptually explain the product and enrollment options and to answer general questions. A "Linked Benefit" policy can be totally customized to an employee and his/her family. Employees who are interested will meet individually with a local representative, who will help the employees select benefits specifically tailored to the employee's personal and family insurance needs. Enrollment and premium authorization forms are completed and signed. A personalized insurance illustration highlighting the benefit options selected is provided the employee.

2. What options are available? The employee can purchase life Insurance and Long-Term Care on him/her self, a spouse, and/or dependent children. Dependents can be insured through separate (individual) policies. The employee can select life insurance with long-term benefit riders that will prepay the life insurance amount for long-term expenses for two years, four years or for a lifetime. Separate policies providing life insurance and long-term care benefits can also be applied for on other family members, such as a spouse, parents, or parents-in-law. Since the employee owns and controls his/her policy, all coverage is fully portable upon termination of employment at the same benefits and the same costs.

3. What classes and categories of federal employees might find this product particularly attractive? Linked benefit policies are as appealing to a 75 or 60 year old as they are to a 30 year old, but for different reasons. Younger, actively-at-work employees appreciate the life insurance benefits of

the product because it enables them to insure themselves and their immediate dependents in a convenient and economical manner, as well as build cash values on a tax-deferred basis. They appreciate the long-term care benefits for several reasons:

- People of all ages can need Long-Term Care. Of the people reporting some need for LTC services, 40% are working adults between the ages of 18 and 65.
- Benefits are paid directly to the employee to help pay for any covered Long-Term Care policies because Long-Term Care benefit riders are packaged along with Universal Life insurance.
- The "gamble" aspect of paying premiums for Long-Term Care coverage is eliminated. Common objections form younger people about purchasing traditional Long-Term Care insurance is that premiums are an on-going expense that becomes a "use it or lose it" proposition. A linked benefit product eliminates this concern because: 100% of the life insurance benefit can be paid as a tax-free benefit to a beneficiary, or 100% of the life insurance benefit can be paid as a combination. What's important is that some one receives the benefit!

Similarly, the more senior employees – in their 50's and 60's – are starting to plan for retirement. They're evaluating how to best reallocate assets to provide income and security throughout retirement. Few people question that it's critical to save for retirement - whether in their Thrift Savings Plan, annuities, or a 401(k), IRA, pension plan, and other vehicles. However, it's equally important to protect and maximize those savings. For people nearing retirement, a linked benefit policy is a sound retirement planing tool that helps protect assets and prevent erosion of savings in the event of a Long-Term care need.

Finally, you requested any "modifications of these bills that [we] believe would be necessary to allow such products to compete". To that end, we offer Attachment B. This attachment will show suggested ways to amend the bills of all three members of this subcommittee. We know you do not want to preclude any Federal employees from having the benefits and options these riders will provide.

Please feel free to contact us for any further information.

Attachment A:

Description of LTC Riders to Life Insurance Contracts.

Coverage provided by riders. The types of insurance coverage offered under long-term care ("LTC") insurance riders to life insurance contracts are similar to those offered by "stand-alone" LTC insurance contracts. LTC riders may, for example, cover costs associated with nursing home care, assisted living facility care, and home health care. LTC riders differ from stand-alone LTC insurance contracts, however, in that such riders are issued with and partly depend upon an associated life insurance contract.

Types of LTC riders. There are two ways in which LTC insurance benefits can be provided in connection with life insurance contracts:

- *Acceleration LTC riders:* Under so-called "acceleration" LTC riders, life insurance contract death benefits are "accelerated" and paid to chronically ill individuals in the same circumstances as under stand-alone LTC insurance contracts. (Just as under qualified stand-alone contracts, for example, benefit payments under a qualified rider may only be provided to an individual who has been certified as a "chronically ill individual.") When benefits are paid under a rider, there is a dollar-for-dollar reduction in the death benefit of the related life insurance contract. The contract's cash values also are reduced.

- *Non-acceleration LTC riders:* Non-acceleration LTC riders pay LTC benefits in the same circumstances as stand-alone LTC contracts. However, they differ from acceleration riders in that they do not affect the values, including the death benefit, of a related life insurance contract. One type of non-acceleration LTC rider, referred to as an "extension LTC rider," is issued as a companion to an acceleration LTC rider. The function of an extension rider is to continue LTC benefit payments after the death benefit of the life insurance contract has been exhausted by the acceleration LTC rider.

Benefit payments under all such riders are made periodically, either in reimbursement of actual LTC expenses incurred (subject to limits set forth in the rider) or as a stated percentage of the life insurance death benefit (*e.g.*, 2% per month). There are several methods by which insurance companies are compensated in connection with acceleration LTC riders, but, in all cases, the cost is only the time value of money cost associated with paying the death benefit prior to death. The cost is typically assessed through stated charges imposed prior to the chronic illness, *e.g.*, through a monthly rider charge.

Advantages for policyholders. LTC riders offer advantages that are attractive to many policyholders:

- Simple and inexpensive: Because acceleration LTC riders simply advance (and offset) policies' death benefits, they generally are inexpensive. The low cost is due to the fact that the insurer only needs to charge for the time value of money cost associated with early payment of the life insurance policy's death benefit.

- Extending LTC coverage broadly: The simplicity and low cost of LTC riders, together with the wide-spread ownership of cash value life insurance, makes this form of LTC coverage readily available -- hence the riders' potential to advance the goal of more wide-spread LTC coverage (particularly among younger individuals).

- Efficient use of resources: People often purchase life insurance to protect against loss of income during their working years. As this need declines, however, the need for LTC

coverage typically grows. The life insurance benefit, with the rider, avoids the need for separate funding of the LTC coverage, dramatically reducing its cost. These riders thus substantially complement an individual's insurance protection after retirement, recognizi that one of the greatest risks, or emergencies, that individuals can face at this time is the financial crisis that arises upon an insured's chronic illness.

- Fairness to beneficiaries: LTC expenses can consume assets that would otherwise be pas along to beneficiaries. The LTC rider benefit can offset those expenses and preserve esta assets. In any event, to the extent the LTC benefit is not needed, the beneficiary of the lif insurance contract will receive the remaining death benefit upon the insured's death.

Tax treatment: The Federal income tax treatment of LTC riders was addressed b the Health Insurance Portability and Accountability Act of 1996, Pub. L. No. 104-191 ("HIPAA" In particular, section 7702B(e), as added by HIPAA to the Internal Revenue Code of 1986 (the "Code"), clarifies that a LTC rider may constitute a "qualified long-term care insurance contract" under Code section 7702B if the requirements of that section are otherwise met. Thus, benefits fr a LTC rider are excludable from income to the same extent as under stand-alone LTC insurance contracts.

Attachment B:

Suggested amendment to H.R. 602, as introduced by Chairman Scarborough: Section 9002(b) of Subpart G of part III of title 5, United States Code, as proposed to be added by section 2(a) of H.R. 602, should be amended to read as set forth below (suggested changes are indicated by underscoring):

> "(b) GENERAL REQUIREMENTS.-- Long-term care insurance may not be offered under this chapter unless --
>
> > "(1) the only long-term care insurance protection provided is coverage under qualified long-term care insurance contracts; and
> >
> > "(2) the only insurance contract under which such coverage is provided is issued by a qualified carrier.
>
> For this purpose, coverage under qualified long-term care insurance contracts includes qualified coverage provided by a rider on or as part of a life insurance contract (as described in section 7702B(e) of the Internal Revenue Code of 1986).

Suggested amendment to H.R. 1111, as introduced by Representative Morella: Section 9004(a) of Subpart G of part III of title 5, United States Code, as proposed to be added by section 2 of H.R. 1111, should be amended to read as set forth below (suggested changes are indicated by underscoring):

> "(a) IN GENERAL.-- Benefits under this chapter shall be provided under qualified long-term care insurance contracts, within the meaning of section 7702B of the Internal Revenue Code of 1986. For this purpose, a qualified long-term care insurance contract includes qualified coverage provided by a rider on or as part of a life insurance contract (as described in section 7702B(e) of the Internal Revenue Code of 1986).

Suggested amendment to H.R. 110, as introduced by Representative Cummings: Section 9002(a) of Subpart G of part III of title 5, United States Code, as proposed to be added by section 2 of H.R. 110, should be amended to read as set forth below (suggested changes are indicated by underscoring):

> "(a) The Office may, without regard to section 5 of title 41 or any other statute requiring competitive bidding, purchase from one or more qualified carriers a policy or policies of group long-term care insurance to provide benefits as specified by this chapter. The Office, however, shall ensure that each resulting contract is awarded on the basis of contractor qualifications, price, and reasonable competition to the maximum extent practicable. A policy of group long-term care insurance includes long-term care insurance coverage provided by a rider on or as part of a life insurance contract.

Mr. SCARBOROUGH. Mr. Cavanaugh, you are ruthlessly efficient.

Mr. CAVANAUGH. I take that as a compliment.

Mr. SCARBOROUGH. That is meant to be a compliment. You represent your company well. I want to ask all three of you to answer a couple of questions that I have. Obviously you all are experts in this field. You have studied it extensively, and know it better than 99 percent of people not only across America, but especially in Congress.

The first question has to do with something that Mr. Grubb actually touched on, but it was a question that I asked our last panel, and it had to do with relaxed underwriting. The argument has been made by some, and I suspect as this debate gets more political, it will be made by many others on the House floor that we must relax underwriting so much that just about everybody can get into the plan.

While I have no objections to being extraordinarily inclusive, I do think that we need to have experts testify as to what the downsides of basically letting everybody in with no underwriting requirements, especially for a plan that seeks to do two things: one, to keep costs low for Federal employees and, two, get as many people into the plan as possible, and doing that through lower costs.

Let me ask you all to testify as to what impact that would have, a very lax underwriting standard on long-term care. Mr. Grubb, you have already testified to it, and if you would like to restate your position.

Mr. GRUBB. As we have described it in the past, guaranteed issue works if you have the entire population as part of your risk pool. Given that this plan is voluntary, you would have a high risk of anti-selection if you just said we will take anybody.

So the downside is that guaranteed issue would certainly increase the cost of the program. We do have some guaranteed issue programs in our portfolio, but all employees are part of it, so you can spread the risk. Everything I have heard about the Federal program is that it is going to be voluntary. So the downside would be increased cost.

Mr. SCARBOROUGH. So there would be marginally or substantially increased costs?

Mr. GRUBB. Substantially increased costs. There is a way to mitigate the risk a great deal. We have programs which we call simplified underwriting. They allow us to ask several simple questions which basically determine that the person applying is not already eligible to go on benefit. You spoke to that yourself a moment ago. If you do that, the risk goes down dramatically, as would the potential impact on cost.

So my recommendation in a voluntary program would be to go with simplified issue as opposed to guaranteed issue. That way you keep the people out of the program who would drive the costs up initially.

Mr. SCARBOROUGH. Mr. Carver.

Mr. CARVER. The anti-selection, and if I may, I am going to relate it to what we currently experience on our life insurance program. We have a voluntary life insurance program also, and basically what happens is when you allow everyone in, employees will look at both the program that you are sponsoring and the program

that may be available individually or somewhere else. So what happens is your good risks that can pass underwriting will go somewhere else, and you will end up with the bad risks because you are accepting all comers. That is why the rates will go up. We wanted to accept as many as we possibly could. We felt it was reasonable that we were trying to provide an employee pay all plan for our employees. So we tried to minimize the amount of activity that needed to take place in the underwriting, and I do agree with Mr. Grubb you are going to experience a program that is considerably higher in costs to those employees that are going to pay for it.

Mr. CAVANAUGH. I am probably going to echo the words already said, but when you have a simplified issue program where you can get a little bit of a peek under the tent of the group of people that you are looking at, you are going to get better results.

I know politically it would be a wonderful situation where you would be able to say everybody is in the pool, but the problem with that is at some point in time you are going to create a bigger political problem, and that is are the insurance companies going to be able to be financially solvent and meet all of the risks that they have.

So there are ways that you can negotiate with the underwriting departments and fool around with the design of the policies as well as the individual being able to meet some type of an underwriting process. But I definitely commend you for addressing this problem so that it doesn't become a political football or a bigger problem than you already have.

Mr. SCARBOROUGH. The second question that I have, and it will be my last question for all of you to answer before I turn the mic over to Mr. Cummings, is a question that to me seems very obvious, but maybe I am missing something.

OPM has suggested that the best and perhaps the only way to ensure the lowest premiums for employees is to basically have a monopoly, have one carrier. I personally believe that the more qualified carriers we can have in there, the more competition we can have, the more choice we will have, and the more the prices will go down, especially as more and more Americans learn about long-term care and the universe of those that are insured expands.

I don't want to ask too much of a leading question, but I am going to anyway.

Does anybody on the panel believe that a monopoly will provide lower prices for long-term care participants or having more insurance companies in there for more competition? And I am sure you will say a monopoly if it is your company.

Mr. GRUBB. No, I wouldn't. And I think there is another risk here, and that is whether a single company can really handle this. A single company in an employer group can do it because of the economies of scale and the critical mass, but one company covering the entire Federal population, potentially 10 million people, becomes unwieldy from an administrative perspective.

So I am not advocating a single carrier. My answer to your monopoly, I think, would be 10–10–326, or whatever it is.

My wife has just placed on every telephone in our house a 10–10–326 sticker, which we use, and I don't think that we would be getting 5-cents a minute telephone rates if we had monopolies on

the telephone. I don't believe that a monopoly would result in lower prices. I think free competition clearly drives down prices, as the new generation of lower price products demonstrates.

Mr. SCARBOROUGH. Mr. Carver, you don't have to respond to that AT&T part of his answer. He is saying monopolies and phone companies are pretty good things.

Mr. CARVER. No, we believe in competition. The way that I look at it from an employer's perspective, you have to break it down into competition for the selection process. We had nine carriers. We broke it down to four carriers. When you get down to a model where you are looking at four carriers, there is an easy way of adopting a solution, and that is to say tell me what your prices will be if you are the only one selected, and tell me what your prices would be if there are going to be three carriers selected.

You will see that their prices will be considerably different given those two models, and they will be lower in the single carrier situation. A carefully constructed one will allow flexibility where you may have a limited number of carriers given the size of what you are talking about.

But I think the point is to say the single carrier model would be the least expensive model as far as what the carriers will offer during the bid process. That doesn't necessarily mean that it would be a model that you would be satisfied with as only taking the lowest cost because once it is in place, the cost to remove that model also must be considered, and you may say two would be appropriate, but you can actually incorporate that into the process and that way you can determine with the facts of what the carriers are going to offer in product as to what the differentiation is in cost.

Mr. SCARBOROUGH. Thank you.

Mr. Cavanaugh.

Mr. CAVANAUGH. I want to take a little bit of testimony from today and throw it right back. Mr. Carver himself said we need to eliminate the do-nothing aspect of employees, whether Federal or private sector. Mr. Atwater said we need to sell, which means that we need to educate people on what the problem is and how to solve it and we need to do that on an affordable basis.

There is no way in the world one insurance company is going to be able to go through all of the capital expenditures that are needed to be able to do that and still wind up with an affordable product for the individual. That is a strong consideration that needs to be taken into consideration.

The other aspect is along the lines of what Ken said, a 10–10, whatever that number is, that kind of assistance from the Federal Government in educating or letting the Federal employee know that it is available and out there in conjunction with whatever companies provide the coverages is going to be an important factor. I say that from an insurance broker aspect dealing with a number of companies, not just with one particular company in my particular sights. So affordability is going to be an important factor from both sides of the spectrum.

Thank you.

Mr. SCARBOROUGH. Mr. Cummings.

Mr. CUMMINGS. I just want to get this concept, just following up on Mr. Scarborough's questions. If you have a consortium and if

you have a group of insurance companies working together but basically one policy, is that what you are talking about or are you talking about something else?

Mr. GRUBB. It certainly could be that. As we have discussed how this might take shape, one of the things we have talked about is having a core group of benefits. AT&T does that. We do that in our group offerings, where the suggested plans are 3-year, 5-year, and unlimited with amounts up to $300 a day.

However you go through that appropriate selection process, the consortium could offer that core set of benefits maybe even at a standard rate. Employees whose needs are different could select from a wide variety of offerings that the companies in the consortium could offer. So you would have a standard group of benefits at potentially standard rates as well as a wider variety if the standard benefits don't meet the needs of that particular individual.

Mr. SCARBOROUGH. Mr. Carver, why did you offer long-term care insurance? Why did your company offer it?

Mr. CARVER. Essentially it was circumstances that the company had identified areas where employees felt there was gaps in our coverages with regard to our medical, really. We had circumstances within the company where we had a number of employees, I think that had basically written into benefits administration and had said that here was the problem.

They were an AT&T employee, yet they had a spouse or they were a retiree that had a spouse and the medical coverage that was provided by AT&T was not covering the circumstances in which the employee's spouse was experiencing their medical difficulty, which ended up being the custodial care, a specific exclusion under our medical plan, and that is what the long-term care was being classified as. And so we saw it as a gap in our coverage.

Mr. CUMMINGS. In your written testimony you talked about when you all initially offered the insurance, you had projected a certain percentage of employees would take advantage of it and, overall, a higher percentage than what you projected took advantage of it. And I take it that you all were surprised by that?

Mr. CARVER. Actually I was very surprised by that. I felt very comfortable with our projections going out, and I really do believe the way that we presented it in our communications where the employees were in a situation that our company had created with the introduction of other programs where they had to look at their package of benefits and they had to investigate certain options, put them at a much more higher level to investigate things like long term care and to take the time and effort to understand it.

I hadn't really related that when I was putting the package together, and I really felt that was what really drove the increased participation.

Mr. CUMMINGS. I know you had an open enrollment period, but did you do a lot of pushing on the long-term care piece or was it just part of the package?

Mr. CARVER. It really was just part of the package. We did have specifically the ability for our employees to call a separate 800 line. They could get other information for the long-term care product through that 800 line, and it was a separate brochure that de-

scribed long-term care because it was a totally new product that was included in the open enrollment package. We didn't send out great notices of this impending new product coming down the line.

Mr. CUMMINGS. You talk about the ADLs. You spent some time in your written testimony talking about how people would be able to take advantage of the policy. What is the triggering mechanism for the policy?

Mr. CARVER. When we designed the plan, one of the things that I discussed with not only AT&T, the people on my project team, but also with the carriers, was that when you are looking at the activities of daily living, it is fairly clear that when you are talking about an elderly population, that it is a matter of degree when you do the evaluation. And then eventually the deterioration would be expected to continue.

So when we talk about claims and claims denial, it is not really claims denial, it is claims delay. When a person has started to lose function in particular activities of daily living, they are not expected to next year all of a sudden have improvement in those activities of daily living. The propensity would be as they grow older, they are going to continue to deteriorate in the activities of daily living. So the point is to be able to measure their functionality and at some point in time trigger the benefits.

So you may have denial at one point, but it is not a denial to say that we are never going to see this claim again, it is a denial of delay, and eventually that person is going to achieve benefit status. So when we did the ADLs, that is how we tried to set them up.

When you first get contact, somebody may not qualify because they may not understand all of the different things that occur. But when they get evaluated they should have a file on them because eventually I should expect that person is going to deteriorate into claim status.

Mr. CUMMINGS. You said a little earlier that you all upped the daily benefit level at some point. How did that come about?

Mr. CARVER. Which one?

Mr. CUMMINGS. You said there was a time when it was $60.

Mr. CARVER. $60, $100, $140.

Mr. CUMMINGS. Then you bumped it up.

Mr. CARVER. Absolutely.

Mr. CUMMINGS. I'm asking how did that come about. I assume you saw a need. I'm just trying to figure out how do you come to the conclusion. Is there a group of people that say we need to move this up a little bit; is it your office working with the insurance company? I mean what happened there?

Mr. CARVER. OK. Well, what happened there was that the general survey of nursing home costs across the country, we were doing that evaluation, because we have an inflation increase that is more of a flexible inflation increase, not an automatic. So we did on our evaluation, because we wanted to give an inflation increase offer to employees, and during that evaluation, it was found that nursing home costs had increased sufficiently enough that we felt the $60 one was—would be inadequate, and that there needed to be higher limits, because the nursing homes costs, in particular cost areas, had increased rapidly.

So we wanted to expand our offerings on the top level. And also during that time, we offered employees that had originally participated the option to increase their coverages under the inflation increase, under the plan provisions. So it was a total evaluation in the marketplace to reassess where we needed to be as far as the average daily benefits were concerned.

Mr. CUMMINGS. So I take it that you feel very strongly that this is something that is needed, say, with regard to what we're trying to do with Federal employees then?

Mr. CARVER. Yes, I do.

Mr. CUMMINGS. Mr. Cavanaugh, I just have one question. The linked benefits, does that—I take it that that is more of—you see that as something being more attractive than them not being linked?

Mr. CAVANAUGH. Yes, for two reasons. When you just have the long-term care benefit, it's going to meet strictly and solely that need, and the focus of that particular need is in an older age group, which is going to limit the number of people that are going to participate, which is going to limit your pool. It's also going to limit the number of dollars that the insurance company is going to be collecting.

When you get a wider span of appeal, then you're going to get a wider participation. When you get a wider participation, you get a bigger spreading of the risk, you get more people in the pool, et cetera. So it just seems to be more of a logical appeals situation, and it also solves more needs.

And no matter what, in the linked benefits concept, there is going to be someone, whether it's the insured or whether it's the members of the family that are going to derive any benefit or some benefits out of the policy.

Mr. CUMMINGS. You know, as I read the various testimony, I think a dismal picture is being painted of the future with regard to—I mean if we don't do things like this, would you agree?

Mr. GRUBB. Absolutely.

Mr. CAVANAUGH. Absolutely.

Mr. CARVER. Absolutely.

Mr. CUMMINGS. I was wondering what you all see. Someone once said people act on the basis or motivated on the basis of two things or a combination of them, one of two things or a combination; either they're trying to avoid pain or gain pleasure. And I think here it's probably a combination, we need to avoid some pain, and we need to make sure that we gain as much pleasure as we can by allowing people to live in dignity.

And I'm just wondering, what do you all—my last question is, what do you see happening if we don't have these kinds of insurance policies available on a pretty wide basis, ranging basis? I guess, with your population getting older, and you're living longer and the health care costs are going up. I was just wondering what do you all project? We will start from left to right.

Mr. CARVER. Your left?

Mr. CUMMINGS. My left, I'm sorry.

Mr. CARVER. Without the expansion into the long-term care marketplace, what AT&T sees is that many of our employees and our retirees who felt that they had saved and had sufficient assets will

find that those assets may be being utilized for long-term care expenses that aren't being paid for under any insurance policy, and that they will have less of an inheritance to pass to their children. And they will also have a reduced quality of life in the remaining years unexpectedly.

Mr. GRUBB. I couldn't agree more. There's a term I heard recently at a conference about the "eccho generation." We talk a lot about the boomers and then you have the decline and now the "eccho generation" is coming behind it. The "eccho generation" is bigger than the boomers ever thought about it being. If we don't take care of this trend now, how many people can afford using the numbers that were mentioned in testimony today, of $100,000, or $400,000. It's amazing numbers for what the costs of long-term care is going to be.

The government doesn't want to pay those bills. I go back to my parents' situation. The most important thing is what you just said, Mr. Cummings, and that's dignity. My parents saved their entire lives, and it was the dignity that they wanted to retain, the control over their own destiny. Long-term care insurance allows and provides for that. That's why we bought long term care insurance for our kids who were in their 20's. We did it so they would know that they will always have that dignity, and we know, as their parents, that we've taken care of it, so they don't have to face the same situations we did.

Another thing that is critically important and as an H.R. professional I'm sure the gentleman to my right is going to speak to this too. Adult day care is very quickly going to pass child care as the No. 1 issue that human resources people have to take care of. That day is coming very, very quickly. When we're no longer caring for our children, we're caring for our aging parents. That is a very big issue. So if we don't take care of this, I think the entire economy is in big trouble.

Mr. CAVANAUGH. I think you can maybe make one analogy, and that is we all need to get the stitches now on the wound, or we're going to have some major surgery in the future, real major surgery. We have to address the problem. And we have to do something about it, because otherwise it's going to get much bigger than any of us can ever imagine. And Dr. Kevorkian may become a very, very popular individual.

Mr. CUMMINGS. I want to just thank all of you for your testimony. I want to thank everybody for being here. And I want to also thank the people here at the War Memorial facility here for doing such a good job, we really appreciate it.

And Mr. Chairman, again, thank you and your staff and my staff for all they've done to make this happen.

Mr. SCARBOROUGH. Mr. Cummings, I want to thank you for making this hearing possible, for working so hard to bring us up here and make it work. I thank you and, gentlemen, thank you for testifying today. I would like to thank everybody in attendance.

We are adjourned.

[Whereupon, at 3:09 p.m., the subcommittee was adjourned.]

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