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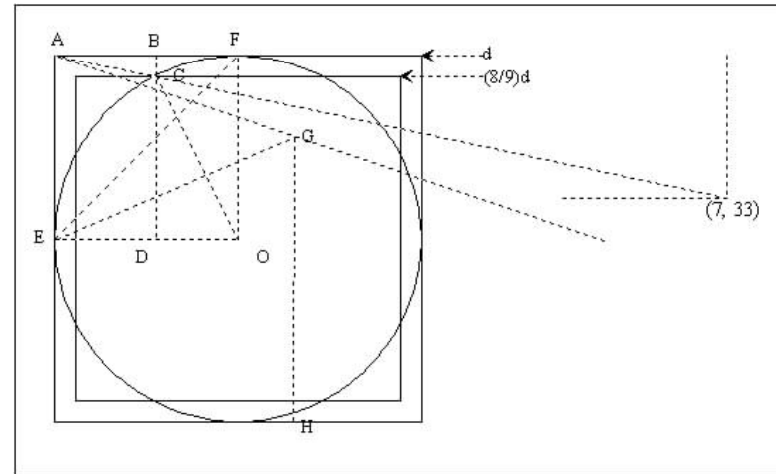
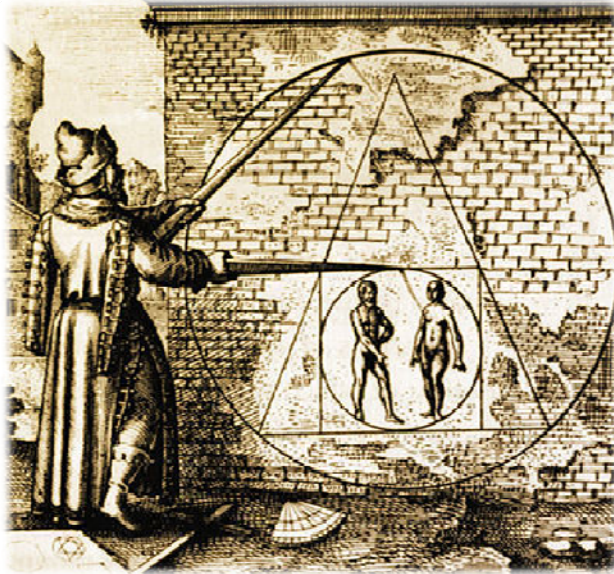
## **Presenter:**

- Paul E. Forte, Ph.D.\*  
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## **Panelists:**

- G. Lawrence Atkins, Ph.D.  
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*\* The opinions and positions voiced in this presentation are my own and do not represent the opinions of the other presenters or of LTC Partners, its parent company, John Hancock Life Insurance Company (U.S.A.) and subsidiaries, the Department of Health and Human Services (DHHS), the U.S. Office of Personnel Management (OPM), the Federal Insurance office (FIO), or any other entity. While I have received help from others, I alone am responsible for any errors or misjudgments it may contain.*



## Squaring the Circle:

### The American Long Term Care Insurance Program

A New Public-Private Model for Financing LTSS



14th Annual Intercompany Long Term Care Insurance Conference

## Statement of Problem

*Millions of Americans approaching retirement do not have basic LTSS/LTCI coverage. Private insurers have scaled back or exited the market altogether, leaving Medicaid to carry the national LTC burden. Social insurance would provide such coverage via government mandate, but this would require new income taxes or other levies. None of these are acceptable.*

## Proposed Solution

***A public-private, long-term partnership program that:***

1. brings together the expertise of the private sector and the accountability of the U.S. Government for the express purpose of LTCI financing
2. offers consumers streamlined and attractively-priced LTCI products through a new, online LTCI exchange
3. ensures accounting transparency for consumers via mechanism that recaptures underwriting and expense gains
4. provides insurers with relief from capital strain, increasing capacity, and lessening reliance on government programs

# “The LTC Archipelago”



# ALTCIP: Proposed Structure and Flow of Funds

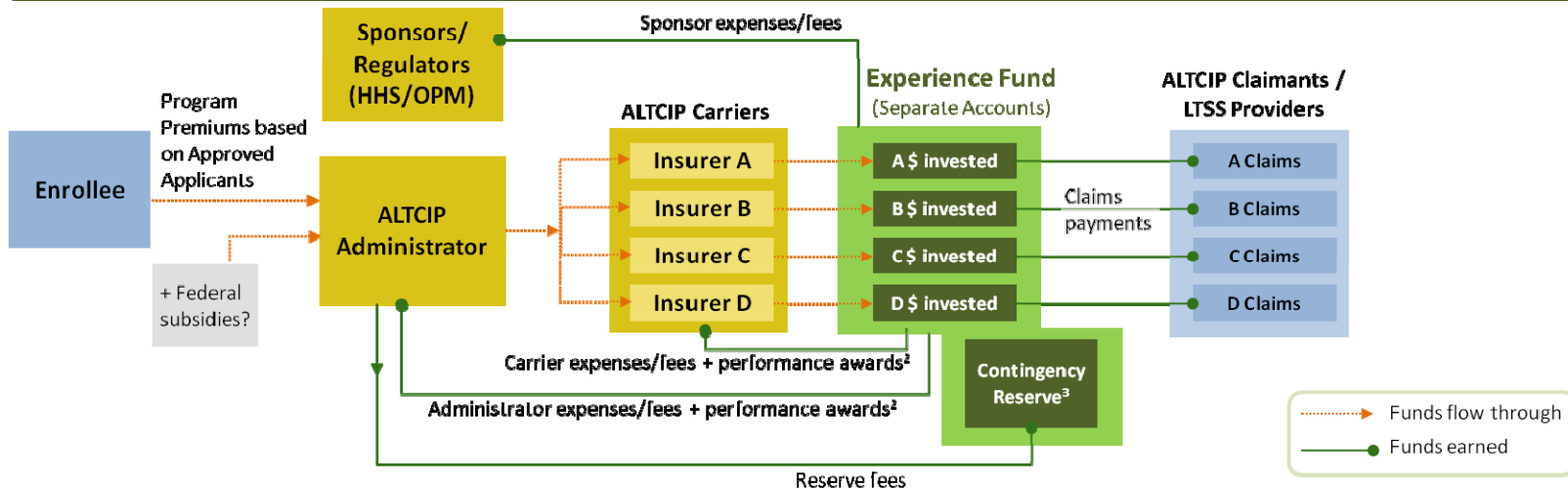


## Single Administrator<sup>1</sup> / Multi-Carrier Model

### SPONSORS / REGULATORS



### FLOW OF FUNDS (FOR THOSE ACCEPTED AFTER UNDERWRITING)



### STAKEHOLDERS

Consumers	LTC & Senior Advocacy Groups	LTC Service Providers	US Taxpayers
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#### Notes:

- 1 The ALTCIP could accommodate multiple administrators. The model shown here uses a single administrator for the sake of simplicity.
- 2 Awards are earned based on fulfilling CRM metrics and must be approved by plan sponsor. Performance award funds not earned by administrator/carriers remain in the Experience Fund as surplus.
- 3 Used for special risks or reinsurance.

# State vs. Federal Regulation of LTSS/LTCI



	Federal	State
Strengths	<ul style="list-style-type: none"> <li>• Uniform approach simpler, better for mobile population, less expensive</li> <li>• Better at dealing with non-traditional activities of traditional insurers like AIG (e.g., derivatives trading/CDS, securities lending)</li> <li>• Advantageous for development of international insurance supervisory standards (IAIS/ComFrame)</li> <li>• FLTCIP Experience</li> </ul>	<ul style="list-style-type: none"> <li>• Many products tailored to and delivered at local level</li> <li>• Agreements among states to achieve some uniformity (Interstate Compact, NARAB II, SMART Act)</li> <li>• State Guaranty Funds</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Attention, commitment to insurance vs. banking, other financial products</li> <li>• Expertise may be lacking</li> <li>• Total size of insurance industry problematic, but LTCI industry relatively small</li> </ul>	<ul style="list-style-type: none"> <li>• 56 independent jurisdictions; duplicative, inconsistent</li> <li>• Expensive to maintain</li> <li>• Entities whose businesses span multiple jurisdictions</li> <li>• Dealing with reinsurers, captives, other special entities</li> <li>• Prone to arbitrage</li> </ul>

Sources: “Financial Regulatory Reform / A New Foundation: Rebuilding Financial Supervision and Regulation,” U.S. Department of the Treasury white paper, June 2009; “How to Modernize and Improve the System of Insurance Regulation In The United States,” Federal Insurance Office, U.S. Department of the Treasury, December 2013, and McKinsey & Co., April 2009

# Premium and the Experience Fund



## Premium

- ▶ 100% voluntary, set at market rates with margin for rate stability
- ▶ Unisex, HIPAA Tax-Qualified
- ▶ 10% discount for first three years; five-year rate guarantee



## Experience Fund

- ▶ Each carrier establishes separate account or Experience Fund
  - ▶ Each carrier establishes investment policy for Experience Fund
  - ▶ Disabled reserves, claims
- ▶ Administration expenses, performance awards, and reinsurance

## Carrier Incentives and Profits

- ▶ % Profits guaranteed with additional % paid out in accordance with successful fulfillment of program customer service metrics; additional fees available from AUM
- ▶ Experience gains from UW/ investments/ expenses not incurred stay in accounts as surplus and are reinvested for future program use

# Voluntary vs. Mandatory Approaches



	Voluntary	Mandatory
Strengths	<ul style="list-style-type: none"> <li>• Allows for greater flexibility and choice</li> <li>• Higher benefit packages available to meet all levels and sites of care</li> <li>• Minimal costs to taxpayers</li> <li>• Adequate size for economies of scale</li> <li>• Not subject to means testing or freezes</li> </ul>	<ul style="list-style-type: none"> <li>• Higher participation</li> <li>• Less anti-selection</li> <li>• Administration expense spread over wider base</li> <li>• Will help large numbers of working people who are disabled</li> <li>• Could reduce Medicaid dependency because many more people covered</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Medical underwriting</li> <li>• Smaller risk pools, never reaching 100%</li> <li>• Anti-selection risk high</li> <li>• May not help working people who are already disabled</li> <li>• May not reduce Medicaid dependency significantly</li> </ul>	<ul style="list-style-type: none"> <li>• Eligibility requirements</li> <li>• Long vesting periods</li> <li>• Supported by tax revenue/subsidies</li> <li>• Subject to change (budget cuts, freezes)</li> <li>• Daily benefit modest</li> <li>• Increase could require tax increases</li> </ul>

Source: Tumlinson, et al, "Insuring Americans for Long-Term Services and Supports: Challenges and Limitations of Voluntary Insurance," Avalere Health, March 2013.



## Reinsurance Mechanism

- ▶ Automatic mandatory participation by carriers
- ▶ Built into cost of annual premium
- ▶ Standard reinsurance agreement
- ▶ Carriers may opt out, but benchmark reinsurance premiums stay in Experience Fund unavailable for any use except claims

## Federal Action

- ▶ Federal backstop in lieu of reinsurance or in addition to reinsurance (with sunset provision)
- ▶ Reinsurance as a percentage of losses in excess of certain levels, or as bank indemnifying losses and then recouping them with interest through future policy
- ▶ Federal subsidy offered to drive enrollment (limited time offer)

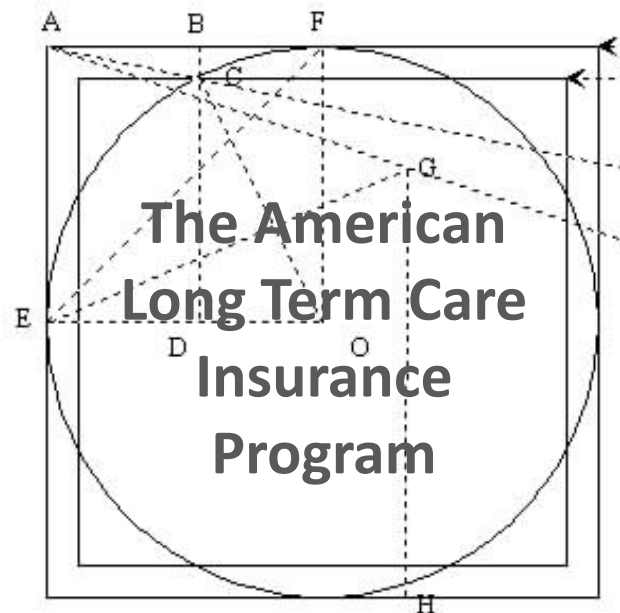
## Other Measures for Stability

- ▶ Could use alternative step-rate premium structure
- ▶ Federal subsidy to program for initial marketing costs
- ▶ State Partnership plans: ALTCIP could comply OR develop alternative federal regulatory mechanism for cost-efficiency

- ▶ Terrorist Risk Insurance Program (TRIA/TRIPRA), 2002, 2005, 2007
- ▶ Crop Insurance, 1930's, USDA, 15 private insurance companies, est. \$7.3 billion in premiums for 2013
- ▶ Citizens Property Insurance Corporation (CPIC) and Florida Hurricane Catastrophe Fund (2002)
- ▶ Government National Mortgage Association (GNMA or "Ginnie Mae")
- ▶ UK Flood Insurance
- ▶ Catastrophes Naturelles (CatNat) France

## for Consumers

- ▶ Affordability
- ▶ Program scale could mean reduced UW standards/ increased access
- ▶ Choice of site/type of care (vs. Medicaid)
- ▶ Care Coordination
- ▶ High customer service standards (profit tied to satisfaction ratings)
- ▶ Preferred provider discounts
- ▶ Federal oversight offers confidence in stability, longevity of program



## for US Gov't & Taxpayers

- ▶ Raises public awareness of LTSS as serious financial issue
- ▶ Premiums 100% funded by enrollees
- ▶ Strengthens LTCI industry
- ▶ More self-insured Americans means reduced strain on public sector
- ▶ Could work in conjunction with social LTSS program

## for Insurers

- ▶ Access to huge prospect base
- ▶ Brand promotion and awareness
- ▶ Positive PR (with public and government)
- ▶ Federal regulation reduces red tape
- ▶ Assistance from administrators with eligibility, websites, data management
- ▶ Cross-promotional opportunities
- ▶ Access to reinsurance
- ▶ Reduced capital strain

# Appendices

# Appendix I: ALTCIP Players: Roles and Responsibilities



## Sponsor/Regulator

- ▶ Select administrator, carriers via public bid under FAR
- ▶ LTCI plan qualification and review of carriers
- ▶ Conduct market oversight/discipline
- ▶ SLAs and performance awards
- ▶ Audits
- ▶ Investment review
- ▶ Rate increase review and approval

## Administrator(s)

- ▶ Eligibility
- ▶ Enrollment
- ▶ Website management
- ▶ UW decisions (with carriers)
- ▶ Premium administration
- ▶ Claims adjudication (w/carrier agreement)
- ▶ Performance award administration
- ▶ Reinsurance facility
- ▶ HIPAA, HITECH, FISMA compliance
- ▶ Financial reporting & auditing

## Carriers

- ▶ Plan design and pricing
- ▶ Underwriting policy
- ▶ Policy issuance
- ▶ Establishment of reserves
- ▶ Investment of assets (with direction from sponsor/regulator)
- ▶ With Administrator:
  - ▶ Marketing
  - ▶ Online application processing
  - ▶ Inflation adjustment offers
  - ▶ Plan upgrade offers
  - ▶ Claims and invoice management
  - ▶ Care Coordination

### Broad Governance

- ▶ Dodd –Frank Act (2010), pl 111-203, Wall Street Reform and Consumer Protection Act
- ▶ Federal Insurance Office (FIO), Title V
- ▶ U.S. Department of the Treasury



### Statutory

- ▶ Federal legislation in form of congressional bill required (if passed, bill becomes statute)
- ▶ U.S. Congress exercises oversight
- ▶ Federal government as stakeholder



### Sponsorship/ Regulatory

- ▶ Department of Health and Human Services (DHHS), U.S. Office of Personnel Management (OPM), or both
- ▶ Regulation by federal government, not states; carriers still licensed to do business by states
- ▶ Regulations set forth in *Federal Register*



Sources: “Financial Regulatory Reform / A New Foundation: Rebuilding Financial Supervision and Regulation,” U.S. Department of the Treasury white paper, June 2009 and “How To Modernize And Improve The System Of Insurance Regulation In The United States,” Federal Insurance Office, U.S. Department of the Treasury, December 2013.

### Marketing and Distribution

- ▶ Direct sold via web with online support
- ▶ Online self-education and account tools: rate calculators, online quotes, cost-of-care tool, personal account information, including claims
- ▶ Trained customer-service reps offering professional support in decision-making
- ▶ Email marketing campaigns
- ▶ Special event webinars (live and archived)

### New Business/UW/Billing

- ▶ Introduction of new plan designs
- ▶ Applications online
- ▶ Auto-adjudication (where possible)
- ▶ Set up for billing (Direct, ABW, EFT)
- ▶ Ability to offer non-forfeiture, major modes of inflation adjustments

### Ongoing Customer Service Support

- ▶ Multiple customer service channels available: email, IVR, online chat, live trained phone operators
- ▶ SLAs for customer satisfaction, sec 508 and other compliance
- ▶ Plan upgrades and rate increases/benefit reductions

### Care Coordination & Claims

- ▶ Care coordination (basic)
- ▶ Benefit eligibility determination
- ▶ Claims adjudication (by carrier or by Administrator with carrier policy guidelines)

### Preferred Provider Discounts

- ▶ Large national pool puts program in position to negotiate discounts with providers (LTSS and/or aging/assistive products)

### Security and Failover

- ▶ Compliance with FISMA, HIPAA, HITECH, and other security standards. Failover capability for business recovery due to natural, technical, or man-made disasters

### Misc. Administrative Support

- ▶ Carrier on-boarding and support
- ▶ Carrier terminations and transfers
- ▶ Financial reporting in aggregate for entire program
- ▶ Audits