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Highlights

Highlights of GAO-11-630, a report to congressional requesters

Why GAO Did This Study

Since 2002, the federal government has offered long-term care insurance to its employees, retirees, and certain others through the Federal Long Term Care Insurance Program (FLTCIP). Enrollees pay the full cost of their premiums. The Office of Personnel Management (OPM) oversees the program. OPM has held two competitive processes to select contractors to insure enrollees and administer FLTCIP, although interest in and competition for these contracts has been limited. In 2009, soon after OPM's award of FLTCIP's second 7-year contract to John Hancock Life Insurance Company (John Hancock), 66 percent of enrollees were notified that their premiums would increase up to 25 percent in order to compensate for how the actuarial assumptions used to set premiums differed from the program's experience.

GAO was asked to review FLTCIP. In this report, GAO describes (1) factors affecting carriers' interest in FLTCIP, (2) how the actuarial assumptions used to set FLTCIP premiums have changed since the program's inception, and (3) OPM's oversight of actuarial assumptions and experience and program communications. To do so, GAO interviewed officials from six carriers that in 2009 insured over 60 percent of all long-term care insurance policyholders. GAO also interviewed officials from OPM and John Hancock and reviewed program documentation, including FLTCIP contracts.

View GAO-11-630 or key components.
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LONG-TERM CARE INSURANCE

Carrier Interest in the Federal Program, Changes to Its Actuarial Assumptions, and OPM Oversight

What GAO Found

A variety of factors influenced carriers' interest in FLTCIP. Carriers' business strategies had the most significant influence on their interest, though in different ways. Some carriers wanted to increase their market share and thus were attracted to FLTCIP. In contrast, some carriers wanted to grow their long-term care insurance business at a slower pace, which detracted from their interest in FLTCIP. At the time of FLTCIP's second contract, factors relating to the program's history had the second-most significant influence on carriers' interest, and generally detracted from it as a result of FLTCIP's need for a premium increase and concerns about transitioning a large, complex program from another carrier. A variety of other factors also affected carriers' interest. For example, the large number of eligible individuals and the lack of a requirement to guarantee coverage to them positively influenced carriers' interest, while the lack of a list of home addresses for the eligible population—which could have been used to market the program—and the relatively large portion of eligible individuals who were disabled detracted from carriers' interest.

Since FLTCIP's inception in 2002, John Hancock has revised the program's actuarial assumptions. When setting premiums for the second contract period, John Hancock updated FLTCIP's assumptions to reflect an expectation that a larger portion of enrollees will voluntarily maintain their coverage longer and will live longer than initially expected. The carrier also reduced the amount of claims costs the program expects for enrollees of any given age. Although FLTCIP yielded a lower-than-expected return on investment during the first contract period, John Hancock did not revise this assumption when setting premiums for the second contract period. Instead, it revised the investment strategy to include considerable investments in public equities—such as stocks—which the carrier said have a higher expected rate of return. Altogether, John Hancock expects that more enrollees will continue their coverage, reach older ages, and submit claims than initially assumed. As such, the carrier increased projections for the total amount of future FLTCIP claims.

As part of its assessment of carriers' proposals to insure FLTCIP enrollees and administer the program, OPM evaluated the actuarial assumptions carriers proposed for the program to ensure that the assumptions were reasonable and collectively supported the proposed premiums. Once the program's premiums were finalized with the award of the contract, OPM has monitored the program's experience by reviewing regular reports comparing the experience of the program to the actuarial assumptions used to set premiums. OPM's oversight has also included a review of all program communications for accuracy and clarity prior to their use.

OPM and John Hancock provided technical comments, which have been incorporated as appropriate.