



Pension & Health Benefits Committee

Agenda Item 6b

June 11, 2024

Item Name: Prospective Long Term Care Program Rates

Program: CalPERS Long-Term Care Program

Item Type: Information

Executive Summary

This agenda item provides the Pension & Health Benefits Committee (PHBC) information on the California Public Employees' Retirement System (CalPERS) Long-Term Care (LTC) Program's Valuation, historical rate increases, LTC Fund Margin, and implications for the future of the program. This information is provided within the context of promoting program objectives of stability and sustainability and exploring options to reach those goals.

Strategic Plan

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

Background

The CalPERS LTC Program was established in 1995. As of April 1, 2024, the LTC Program membership stands at approximately 81,300 policyholders.

From inception, the LTC Program has experienced lower than expected investment income, worse than expected morbidity, better than expected mortality, lower than expected policy lapse, and higher than expected claims incidence.

Combined, these items have adversely impacted the financial status of the LTC Fund. Accordingly, CalPERS has implemented various corrective actions, including increases to policy premiums, which was a strategy deployed across the commercial long-term care insurance industry. These premium increases were implemented on policies in 2003, 2007, and 2010. Since these efforts were not sufficient to address the structural defects indicated above, the Board approved 5% annual increases for LTC policies with lifetime coverage and inflation protection beginning in 2011 through 2014. These 5% ongoing increases were halted, and an 85% increase was implemented over 2-years in 2015 and 2016 for LTC policies with lifetime benefits and/or inflation protection. There were no premium increases from 2017 through 2020, however the June 30, 2019 Long-Term Care Valuation Report indicated the program was 69%

funded with a shortfall of approximately 2.1 billion. That precipitated another premium increase of 52% in November of 2021 followed by a second increase of 25% in November of 2022.

Analysis

The Long-Term Care Valuation Report as of June 30, 2023, was presented to the Finance and Administration Committee on April 15, 2024. The Report indicated funded status and margins for the past 5 years:

5-Year History of Funded Status and Margin		
Valuation Date	Funded Status	Margin/(Deficit)
June 30, 2019	69%	(85.46%)
June 30, 2020	101%	1.34%
June 30, 2021	108%	10.51%
June 30, 2022	95%	(7.40%)
June 30, 2023	90%	(19.01%)

The 6/30/2023 Valuation indicated the LTC fund was 90% funded with a margin of negative 19.01%. The contributing factors are the same ones mentioned in the background section above. Program has collaborated with the CalPERS Actuarial and Investment Offices to review various options to maintain the integrity of the LTC fund and to ensure its sustainability going forward. This may necessitate two additional rate increases of approximately 10% in each of years 2025 and 2026.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

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

- Increase the solvency and sustainability of the LTC Fund.
- Achieve a targeted Funded Status and Margin.

The risk of implementing future premium increase(s):

- Increase policyholder hardship.

Attachments

Attachment 1 – Long-Term Care Valuation Report as of June 30, 2023

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