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## Session 88OF
## Group LTC Insurance Product Developments

**Track:** Long-Term Care


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**Panelists:** PHYLLIS SHELTON†
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*Summary: With the introduction of the federal long-term care program last year, group LTC insurance received greater attention. This session addresses some of the following questions:*

- *What effect did the federal program have on the design of other group LTC insurance policies?*
- *What effect did it have on group LTC insurance sales?*
- *What changes in product, underwriting and transfer provisions are occurring?*
- *What impact did the federal program have on individual LTC insurance sales?*


**MS. DAWN HELWIG:** The title of this session is "The Effect of the Federal Long-term Care Program on Long-term Care Sales," and we're going to be focusing on three different areas on the effect that the federal program has had.

Phyllis Shelton is actually going to be our first speaker and is going to start out talking to us about the federal program itself and what its results were. Phyllis was very actively involved in marketing that program and is going to be able to give us some details on exactly what the sales results of the program were.

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§Mr. Vestergaard, not a member of the sponsoring organizations, is director of LTC product and marketing at Aetna's long-term care division unit in Hartford, Conn.

Phyllis is the president of LTC Consultants, which is a Nashville-based company that specializes in long-term care (LTC) training and marketing materials. I'm guessing that any of you who work with an insurance company that had to deal with training a market course know of Phyllis. She is definitely the leading long-term care insurance trainer in the country, and as a result of that, her organization was hired to help train on the federal long-term care program. She has trained more than 40,000 agents. She delivered 2,020 employee education sessions for the federal long-term care plan, so she's been a very busy woman in the last year. In the meantime she's also doing some training on the state of Tennessee's long-term care program. She's also managed to update her book, *Long-Term Care: Your Financial Planning Guide*. It is a very informative and authoritative book on various aspects of long-term care. Phyllis has spoken at almost every major industry group, including the Million Dollar Round Table, LIMRA and the Society of Financial Service Professionals. She's been quoted by the *Wall Street Journal*. She was on that new show, "Thou Shalt Honor" in 2002. She just recently spoke to Lehman Brothers, so that maybe gave her a little taste of what it's going to be like to talk to a group of actuaries.

We'll then move on to Brian Vestergaard, who is currently with Aetna. Brian is the director of LTC and product marketing for Aetna's group long-term care division, focusing on new product development. Prior to that, he worked with CNA for seven years in their group long-term care area, focusing on alternate channel distribution and group long-term care marketing. Brian was also one of the lead project coordinators on bidding on the federal program, so he has some additional prospective from that end. Brian is going to talk to us about what he's seen since the advent of the federal program—the effects that it's had on group long term care plan designs, what other groups that are thinking about getting into long-term care have taken away from the federal plan and decided to implement for themselves.

Our third speaker then is going to be Art Stein. Art has a BA in economics from Tulane and an MA in international economics from John Hopkins and actually started out his career as a staff economist for the House Ways and Means Committee in the U.S. House of Representatives. He was an economist for the Ministry of Finance in Botswana and he was an instructor at Murdock University in Australia. From there, it's a natural progression that he's become a certified financial planner and a long-term care insurance salesman. In the past seven years since Art has been selling long–term care, he has sold the products to more than 10 insurance companies. He's a Million Dollar Round Table member. He has sold more than $1.5 million of long-term care insurance, and he also has been frequently quoted in the press including *Wall Street Journal*, *Smart Money* and *Washington Post*. Art is an individual long-term care agent and is going to talk to us about the impact the federal program has had on individual long-term care sales.

**MS. PHYLLIS SHELTON:** This was the most amazing project of my life. I was called and asked if I was interested in doing the employee education for the federal program in early March of last year, and it was presented to me that there would probably be a need to do 1,000 meetings in 26 states. Well, that took my breath away, and I had to think about it for two weeks, because I said, "You know, Moby Dick looks great in the water, but if you land him in your boat and he sinks your ship, what have you accomplished?" So ultimately I decided it would be a great contribution to the industry, raise the awareness so that our sales could go up. So I agreed to do it and they said, "Oh, that's wonderful. We made a slight mistake: It's not 1,000 meetings we need you to do, it's approximately 2,000 meetings." I said, "Right." So ultimately the thing grew and grew, and it has been Moby Dick from the very beginning and the wildest ride of my life.

Our universe was 20 million people that consists of active employees and retirees. It was civilians, postal workers and military and their eligible family members. That included adult children 18 and up, it included parents, so by the time you got everything in, it was about 20 million estimates. However, Met Life and John Hancock together as LTC partners could only physically touch 8 million people, and that was almost equally split between employees and retirees. How did they touch them? They had mailings—and I mean a lot of mailings: postcards, brochures, heavy-duty mailings, three satellite broadcasts. We did a video, which consisted of the same information that was in our employee education presentation. But we also put in some moving vignettes, three different vignettes, of caregiving situations, including a couple in their 20s. The guy was an engineer, had a great job, was in a motorcycle accident and woke up seven months later from a coma. His wife did everything for him over the next three years. It had a couple in their 50s and an older gentleman. So we covered all the ages in long-term care in that video. Ultimately 25,000 of those were distributed.

The webinar: This was a great thing for me to learn of. I never even heard the term. Since then I've used it again with another enrollment. That's where we put the PowerPoint presentation that we used in our employee education meetings on the Web. People could go on and if they didn't want to use sound, they could just read the information. If they had Flash, they could download that—free download—and hear the audio and see the bullets fly in and all that stuff. It was still another way to get the information.

Our seminars actually grew from 2,000 to 2,020. We wound up in 210 cities and 43 states—not 26 states. I will tell you that I personally had to do the Hawaii seminars—31 in two weeks—and that was very enjoyable. We were in 43 states and we were in front of 88,449 people. So from that effort, 1 million people requested information. From that about 215,000 people applied.

There was no guaranteed issue. It was abbreviated underwriting—five questions for employees, seven questions for spouses—unless they went for a lifetime benefit period, in which case there were 11 additional questions. It still wasn't full underwriting. Full underwriting was 41 questions, so it was just some additional for the lifetime benefit period.

Here are the questions:

1. Do you need nursing home or assisted living care?
2. Do you need home health care or adult maid care?
3. Do you need help with activities of daily living?
4. The knock-out list:
    - Alzheimer's
    - Lou Gehrig's
    - Diabetes (with complications)
    - Multiple sclerosis
    - Muscular dystrophy
    - Parkinson's
    - Schizophrenia
    - Multiple strokes
    - Stroke within five years
    - Stroke with a residual impairment
    - Multiple transient ischemic attack (TIAs)
    - TIAs within three years (You'll notice HIV is not in that knock-out list).

5. Do you use equipment like the hospital bed, dialysis, a motorized scooter, wheelchair or oxygen?
6. Do you need human help or supervision because of mental retardation with living independently, taking meds, transportation, financial decisions, so forth?
7. Have you been hospitalized for any mental nervous disorder in the past two years or had more than three hospitalizations of any kind in the past 10 years?

The first five were really to the employees, and the last two were the additional questions that spouses tend to answer.

So who bought this stuff? Well, the average age of the civilian is 51, 45 for uniformed services and 65 for annuitants. Now their word for retirees is annuitants. When you see that word, just know we're talking about retirees. Age 63 would be the retired uniformed services. The group was 55 percent female, 45 percent male. No surprise there.

Now, in that mix, two-thirds—let's just say that—came through with that modified underwriting, so that would be the active employees or the spouses. One of those came through modified underwriting. Full underwriting: One-third, that's the retirees, plus the other family members. Even a 20-year-old adult child would still have to go through full underwriting. The age of the person had nothing to do with it.
So out of that one-third that went through full underwriting, that one-third is made up of 43 percent retirees, civilian and postal; 16 percent military retirees; 16

percent spouses of the civilian or postal annuitants; 11 percent spouses of military retirees; 8 percent surviving spouses; 4 percent parents, in-laws; 2 percent adult children.

I guess of that whole list I was probably most disappointed that the parents figure was the lowest, because we certainly tried to emphasize parents. We really emphasized it's your lifestyle you're insuring, and if you have to quit your job to take care of a parent, then you're the one that's really going to be affected. So if I had a disappointment in the program, that would be it.

**Prepackaged Plans**

We offered four prepackaged plans. This is a reimbursement program. You can certainly still buy it.

The most popular one up there was a $100-a-day, three-year benefit period, comprehensive plan. Of all the selections, I personally liked it because the first selection was a facility-only plan. I think it's good to have an economy version available for those people who need it and also for those people who don't have a strong family support system. That plan would also cover assisted living, as well as nursing home.

The other three contained benefits for home health care and adult day care. So you're either going into $100-a-day, three-year benefit period or $150-a-day with a five-year benefit period or the top-of-the-line with a lifetime benefit period.

**Details.** With all of these, if you bought a prepackaged plan, you got a 90-day elimination period, every single one of them. If you bought a comprehensive plan, you got a 75 percent home health care benefit. There were three options on the program: If you wanted to get a 30-day waiting period, you could; if you wanted to make that home health care benefit weekly, you could, versus the daily benefit; and the inflation was optional. You could either take the compound inflation or the future purchase offers.

**Futures Look Bright.** Now, what is really wonderful—and I think Dawn has something to do with this choice—about the future purchase offers is that I am probably one of the most vocal people in the industry against future purchase offers, and I'm particularly against it in the group setting, because I think people don't understand it; they're not educated about it and they don't make an informed decision.

What was great about this future purchase offer is that every two years people had an option to switch over to compound inflation, as long as they weren't on claim. So it gave us an out. For people who would come to us and say, "Hey, I'm 40 years old, I've got kids in college. I want lifetime benefits here. I want a Cadillac plan, but I can't afford it." Then that was a great way to say, "OK, understand that you can't switch if you're on claim, but you could start in at the future purchase offer now while that's more affordable for you.

"Get all the other benefits you want, but don't wait too long. Maybe four to six years from now, whatever, try to switch over as quick as you can. It's at attained age, but go ahead and switch over to the compound inflation as soon as you can so that you can get on that effort." It made it a little easier to sell that. It's like renting a house for a while until you save up for a down payment and you can buy the house.

Although we told the people that they could go to the Web site, get the premium calculator, customize the plans any way they wanted to, still—I guess the path of least resistance—64 percent—chose a prepackaged plan. The most popular was the number two plan, comprehensive—$100-a-day benefit and it had a three-year benefit period.

I guess what I'm proudest of in this whole effort is that 70 percent of the enrollees took compound inflation. That was all the enrollees, not just the active employees. That was everybody. And we emphasized it in several ways. There was a 500-person calling center for the federal program. They took Web-based training and then they had a live teacher whom I've worked with for several years. All that emphasized compound for the calling center.

We certainly emphasized it in our employee education meetings. They had a pre-unit calculator, online enrollment, toll-free number and paper apps, so in other words, there were three ways to enroll. You could go online to enroll. Even the family members could go online and enroll, but they had to print it out, and they wanted a signature from those people. Toll-free number and paper apps as well, and half of the abbreviated underwriting enrolled online.

**Selling the Compound**

Now, how did we really get this compound inflation option across? What really helped is that the deeper we got into the program, the Office of Personnel Management really, really got on board with this compound inflation thing. We said, "You can start over here where you have compound inflation, there are your premiums staying the same unless there's a class rate increase, and your benefits continue to grow. If you go over here and you accept all the benefit increases that come your way—and both of these are 30-year snapshots—then look what's going to happen to your premiums." I

It was quite a challenge working with the federal government and two large insurance companies at the same time. They were sending us revised presentations almost every 10 days, and I told them I felt like a trapeze artist, because we had almost 20 people going around the country delivering these meetings. I said, "They're all stuck on my shoulders." These are people that in the whole interviewing process, it didn't occur to me to ask, "Are you technologically efficient?" It got to the point where we had a couple who didn't know what a CD drive was, and I was trying to send them new presentations. So let me just say that it was very challenging.

We even had to change the slides, because OPM didn't like the colors, didn't think they were outstanding enough. It was that important to them to make a point about this inflation that we had to get the colors exactly right. We were audited to make sure that we would use this replacement slide when it was available. So that was pretty interesting.

**Impact on Private-Market Benefits**

Dawn asked me to explain what impact I see on the benefits in the private long-term care insurance group market.

Let me just say that the biggest reason that I was very excited to take this job—and it certainly was the hardest thing we've ever attempted—was I had an article published back in 1991. I said group will be the fuse to the long-term care insurance market. Now we call it employer-sponsored, whatever you want to call it, but offered through the employer market. Because my background is group health insurance, and I could just see this thing coming. It's been a lot slower than we thought it would be, but I'm thrilled to be a part of this, because I believe that it certainly was a catalyst to see this kind of effort happening.

I was noticing in the LIMRA report for 2002 that including the federal program, the growth of the group market over the last five years, from 1998 to 2002, was 48 percent. Without the federal program, it was 27 percent. The average premium bumped up from like $500 to like $817. Well, that's that compound inflation in the federal program making a difference. We're just completing the employee education for the State of Tennessee this week, and that average premium is $1,000. The federal average premium is more than $1,000. So that compound inflation, I believe, will always make a difference in the coverage and the revenue. It's just going to be a driving force.

I'm really, really hoping to see the private market pick up the future purchase option (FPO) with the two-year conversion if not on claim. Again, it's at attained age. It does give people a graceful way to get started on the plan. Without that two-year conversion, the chances of people accepting all those offers are very slim. The chances of them switching over are even slimmer, and you're going to have a generation of people that at claim time, the benefit is here and the actual charge is here. People say, "That's good, you sold them *something*." But the thing is, if they can't make up the difference between the benefit and what the actual charge is, they can be on Medicaid immediately, because Medicaid looks at the benefit as income and adds it to whatever they have. Everything goes to the nursing home, and Medicaid makes up the difference. So I'm challenging you to realize how important it is to make that benefit meaningful at claim time. If people like to buy shorter benefit periods, so be it. But they need something that will drive at claim time.

**Young People.** We told our people in employee education meetings, "If you're over 18 years old, you are not too young to think about long-term care insurance." I believe that with all my heart. Having sat with that couple in their 20s that went through that horrible accident, the wife was 23 years old when it happened. She said to me, "You cannot have enough insurance at a time like this."

We also had a slide, and we repeated it in our State of Tennessee enrollment, that shows if you buy at 35, 45 or 55. We demonstrate that for every 10 years you wait, you're going to have a buy a bigger daily benefit, probably another $100. Plus you're 10 years older, and you pay a lot less the younger you start— say, over the next 30 or 40 years—because people don't think about the longer they wait, the bigger the benefit they're going to have to buy. But the biggest question is, are they still going to be insurable? So we've really, really made a big deal about preaching that message for younger ages.

**Informal Home Care**

The federal program had a benefit that I don't think a lot of people realized. It got criticized because it was a 75 percent home care benefit. But what you don't realize is that informal home care is always covered.

What is informal home care? It's not a benefit like the disability model. You still have to have services, but what the name means is you can hire anyone. Let's say you bought a lifetime benefit period. Unless it's an immediate family member, this policy would pay a neighbor, a friend, whatever, the *entire* time, even for a lifetime benefit period. The immediate family members are limited to 365 days, but the definition of immediate family member is parents, children, siblings, grandparents. Cousins are not in there. So there you can take in a lot of people that can be paid over the lifetime. The funny thing is, that's exactly how we explain it, and they got that right away.

**Coverage, Rates**

The Office of Personnel Management (OPM) exempted this whole process from filing with the state for rate increases, benefits and all of that stuff. They did have us explain in a very heavy-duty way that their intention is certainly to keep the coverage current. In fact, we had an example—and believe me, this thing was pretty descriptive—we had to say that if robots wind up taking care of us, who's going to take care of Rosie—you know, from "The Jetsons?"

We had a pretty big explanation about rate stability. The General Accounting Office audits the numbers. OPM is really on top of it, and they're very, very concerned about the rates and the benefits and value for the federal families. So these were things that we made sure that the federal families heard loud and clear.

**Enrollment Process**

What about the enrollment process? Probably the one thing I do well is communicate insurance benefits, because I have learned to make them very simple and convince people that long-term care insurance is very important.

It's not right for everybody. In fact, in these federal meetings we certainly let them know Medicaid was an option if they have low assets, low income. But we also mention the possibility of kids buying it on parents, because they didn't want their parents on welfare, and they wanted their parents to have more choices. But we really went out of our way to make sure that they understood that financial protection is secondary in this program. The main reason you even think about long-term care insurance is that it's the way you take care of your family in this century.

We spent time on lifestyle insurance and insurance choices for your family members. It's a different approach than just talking about the financial perspectives, because we found that not everybody can identify with that financial perspective, believe it or not. But they can identify with taking care of their family.

**Communication**

The two most important things, I believe, that constitute success in group long-term care insurance are an extended communication process and management support. All the surveys that I've read certainly bear those things out. So we had a number of pre-meeting mailings, because there was an early open season with limited benefits that ran March, April, May, June. July 1 was really the kickoff for the open season. So there were mailings going on all during the spring getting people ready for the meetings, and then the meetings actually started in D.C. on July 15.

The total Web support, I think, was really important. That webinar was great, because people could go on and hear the presentation and see the information completely. There was a frequently asked question list. During the whole time, as the 20 of us that were out there doing the meetings got new questions every week, I sent a new list of frequently asked questions with new questions in there—and there were some pretty intricate questions on this project—to our presenters so that they would be up on it and be able to answer the questions.

The benefits of course were all on the Web site: the premium calculator, the online enrollment, which we heavily encouraged, 25,000 of these virtual seminars on video were distributed and three satellite broadcasts. So the communication was very, very well-orchestrated.

**Other Major Efforts**

I mentioned management support. Well, utilize internal champions. These people were called implementation coordinators. They're the liaison between the government benefits office and the rest of the population. We utilized them to set the meetings and encourage people to come.

The people that we used to do the employee education meetings were all licensed agents, and I was really, really blown away when I put out a call to action that I wanted to hire people to do this. I had no idea that people who were successful agents stepped up to the plate and said, "Yes, I'd like to do this. I'd like to step outside my life and do all these meetings all over the country for four months and make $1,000 a week," because that's all we could pay them. They wanted to be part of the program. We called them the Federal Navy Seals, and we had training geared around that the whole time, so it was a pretty motivational thing.

The people who actually made the cut—and we had a couple of training classes—were all successful agents. I had tried to incorporate some diversity. I tried to bring in some people from the provider side, some retired military, some people familiar with consumer counseling programs like CHIPS. None of those people made it. It was only the people who were the successful agents. We videotaped them. We made sure they could deliver the program with passion, with conviction, sincerity and that they grabbed the information. Plus they had to be a team player and do it in the way that it was presented to them.

We used the long-term care insurance dedicated calling center, as well, to answer the questions. There were several frequently asked questions. This is all on the Web site. These questions are the same that we've gotten in our State of Tennessee enrollment. These are the common questions that people get when you do any type of group enrollment. They want to know if they can start low and upgrade later. The benefit period thing is always a mystery, and they want to know if open enrollment is happening all the time, which of course it's not. Spouse discount premiums increase as we get older, the licensed person for home care. The biggest question we get, and I want to mention this at the end, is the value. What if I pay premiums for 30 years and die without needing long-term care? Where does my premium go? We would always say. "It goes to you, it goes to the person sitting next to you. This is insurance, the premium is not coming back to you, it's not coming back to your state. It's insurance." But then we would go right into the big mistakes—little mistake. And every meeting, infallibly, this comes out. We would just say, "You know, it's what kind of mistake you want to make. You can take the plan and never need it and you're going to be saying to yourself, "You know, we're making a $3,000-a-year mistake because we're not using this, we're not getting our money's worth.'"

Or you can not take the plan, then you need it. Then you've made a $60,000, $70,000, $80,000, $100,000 mistake. Which mistake would you rather make? The big mistake? Little mistake? You want to say two things will happen: You'll take the policy and you'll need it, you'll always be glad you had it. Or you'll take the policy and you'll never, ever need it as long as you live. But guess what? You'll die first, and you'll never know you didn't need it, so you'll still always be ahead. (laughter)

How many of you worry you haven't had a house fire, you haven't had a car wreck, so you're not getting your money's worth out of your homeowner's or car insurance? If you're worried about that, I'll be glad to back in your car today, but we don't worry about that. We hope we don't have house fires, and we hope we don't have car wrecks. But I can tell you the odds of you needing this stuff are much greater than either one of those and can cost you more than replacing your house. So the downside of doing nothing is a much greater risk than taking the policy and protecting yourself.

We just did the State of Tennessee enrollment, and we had very little support from the Benefits Office of the State of Tennessee—very little. We were able to get in front of about 3,600 people, and about 53 percent turned in their evaluation forms. Thirty-seven percent of those said yes, we intend to enroll; 11 percent said no; 52 percent were undecided. But guess what? That 37 percent indicator that said yes—43 percent of the number of people we were in front of enrolled. So that tells you what kind of success you have if you get them to come to the meetings, but if you have to do an education effort to get them to come to the meeting, that means lots of pre-education, because most employees still think it's a nursing home for the elderly. So when we get that education that it's very little in a nursing home, and it happens to all ages, then we can make a difference.

**MR. BRIAN VESTERGAARD:** I'm very happy to be here to talk to you today about the effects of a federal long-term care insurance program on the rest of the group long-term care industry. I wanted to start off by saying that I feel very privileged to be here today as a first-time SOA speaker and to be among this particular group of respected individuals.

My own experience with the federal long-term care insurance program was very intimate. I previously worked for CNA Insurance, and there I coordinated our joint Prudential-CNA long-term care group there for the federal long-term care contract. I spent the better part of one year on that effort, that very mammoth effort you might say, but it was a very enriching experience.

Like all good losers, in due time, we would catch up with each other and talk on the phone or get together especially around the time of the open season enrollment for the federal program. We'd say things to each other like, "Aren't you glad we lost that day?" That's how relaxed we are now.

Then this past October, I accepted a new role with Aetna within their long-term care division, so I bring kind of a two-carrier perspective or insight as to the effects of the federal long-term care program and what effect it has had since its initial enrollment period.

**Long-term Care Survey Overview**

For a broader or richer perspective, and strictly in preparation for this session, I conducted a written survey among leading group long-term care carriers and the long-term care product area. My survey was designed as more of a primer on this, a topic of the impact of the federal program. I collected rather subjective and anecdotal data and opinions from the leaders at various carriers.

The survey measured the impact of the federal program on plan designs, employee awareness of long-term care issues, increased RFP activities that came about and enrollment results since the inception of the federal program. It also looked at some of the geographic variations of the impact.

I provided the survey to leaders in their respective companies on long-term care units, either the long-term care head or the product development leader. I'm grateful to the many people who contributed their feedback in this survey.

There was a very good blend of responses overall. Some felt the federal program had a very significant impact on the business they do; others felt they had little or no impact overall. Overall the responders represented more than 90 percent of the group long-term care market.

**Survey Questions**

Let me just get into some of the particular questions that were on the survey: One of the questions was, "In your opinion, has the existence of the federal program had an impact on building greater awareness among U.S. employers and the issues related to long-term care and the need for private long-term care insurance?" Here 80 percent responded that it has significant or some impact. There was unanimous response that it at least had some impact overall on building greater awareness among employers. So that certainly did some good for all of us in the industry.

The next question was, "Do you believe your group long-term care request for a proposal volume has increased due to the existence of the federal long term care program; and if so, by how much?" Two-thirds of the responders responded 10 percent to 24 percent: again, very subjective reasoning overall. From my own employer, we've seen a tremendous increase in the RFP volume over the past several months, but part of that is geared to a new focus on the product, increased marketing attention and more aggressive marketing for the product. At the same time we felt that at least 15 percent to 20 percent of that growth was due to the extra awareness brought on by the federal program.

The overall average of the responses, was just over 12 percent. Later, I'll attempt to put some financial figures or financial projections around what this means in the group industry.

The next question: "In your opinion, did the existence of the federal program have any impact on the enrollment success of any of your new accounts since the inception of the program—for example, because of increased awareness or media attention?" Here two-thirds answered yes, it has some impact; one-third said it had little or no impact. On the yes's, several responders clarified that much of the impact was related to one or more particular accounts, and, safe to say, from my own carrier also, it was certain accounts that were highly affected, and those were typically accounts in the D.C. area.

**Examples of Impact**

Here are some of the examples of the enrollment impact related to that last question, because several carriers gave some interesting feedback.

One carrier had a case: It was about 11,500 lives in the D.C. area. They would have anticipated about 5 percent participation—that was based on SIC code, demographics of the group and other characteristics. But they found their actual participation was 9.5 percent. The higher-than-anticipated premium was just more than $450,000 on that single account. That seems like a high premium, but this particular carrier had offered a couple of unique features there—a 10 pay or a 20 pay option and some interesting things that were more expensive and seemed to have a very high-take upgrade for that particular group.

At Aetna, we recently finished an enrollment with another group. It was similar size, about 11,000 lives. We would have expected there to be about a 5 percent to 6 percent participation with that particular group too—similar characteristics overall. The enrollment just finished up about a week to 10 days ago, and we found we actually had 9 percent participation. So we forecasted from that one that it was an additional $175,000 premium. I don't know if I mentioned that was also in the Washington, D.C.-Maryland- Virginia area. So we truly believe there was a lot of impact on the additional attention, the media, the awareness, the education that was done so aggressively on the federal program.

Then there are the comments from other responders, other carriers: You can see up here, we've enrolled a few plans in the D.C. area that have achieved higher participation rates; so that theme seems to be consistent. Another carrier said some impact on re-enrollment activity on one large employer, in particular.

**Overall Impact**

This is not a survey question—this is based on some assumptions that I made going from information on the previous questions. The overall impact was an estimated $10.6 million. Where that comes from, the RFP activity was based on that previous question of how much are you seeing in each carrier? The average increase was 12.3 percent. That was multiplied by the new business premium that was generated in 2002, which was $73.6 million. That was the new business premium 2002 excluding the federal long-term care program. So 12 percent of that was $9.1 million.

Then there were a lot of loose assumptions around the enrollment effects. The D.C. area accounts were based on examples that were given by carriers and based on the extra use of auto inflation, which you'll see was a big characteristic that took place.

Again to this $10.6 million: When you compare that to the 2002 premium, it's about a 14 percent effect, which seems rather large. That's in addition to the other organic long-term care growth, which is about 27 percent in 2002 as compared to the previous year.

I believed strongly in these numbers until LIMRA just released their first-quarter 2003 group results. As has been reported, there was a tremendous downturn in the first quarter of 2003, excluding the federal long-term care program. With the federal program of course, there was a tremendous increase overall. But outside of that one case, there was quite a downturn in the first quarter of 2003.

Some of these numbers might be easily refuted, but what is not arguable is just the changes that were effected by the federal program overall in terms of plan design, the greater awareness and the strength of the D.C. area enrollments. So those things did have some impact, and this is just a fair estimate of what those may mean to group carriers.

I asked if the various group carriers also did plan design elements or if features of the federal program have influence on any of the proposed plan designs for your prospective clients. A small majority answered yes, agreeing that the federal program did impact the plan designs that were quoted. Another representative from a carrier made an interesting side comment that she did notice that the nature of RFPs has really changed since the federal program, especially among some of the major consultants and large brokers.

Many of them really paid attention to the federal program and some of the unique elements that Phyllis pointed out, so the nature of those RFPs and the types of questions and language and plans they're asking for did change.

Then carriers reported the types of change that were influenced. Five out of the nine responding carriers started offering a lot more auto inflation after recognizing the 70 percent election rate of automatic compounded inflation protection. Then three of them began offering higher home care percentages. As you may be aware, in the group market, traditionally we offered 50 percent home care, 50 percent of your daily maximum benefit, slowly rising to 60 percent over time and then 75 percent and, in some cases, 100 percent as an option. A couple of carriers started offering richer informal care, and one carrier mentioned they are now offering a lot more choices at the individual level. Another carrier responded they were actually offering less, so those answers were a little bit mixed.

There was another choice I had put on the list that I was surprised no one had taken advantage of at all. The federal program had modified guarantee issue of those few underwriting questions, so I was trying to see if any carriers were taking advantage of that factor that it was quite acceptable, and people were willing to go to underwriting. That way you could provide some type of price break to the risk selection. Surprisingly to me, at least, no carriers were leaning that way at all. In the group carriers, their niche behavior is offering guaranteed issue, and often the employers don't want to discriminate against any of their employees, so the guaranteed issue still tends to be important.

A few final comments from carriers: They heard comments that reflected that people were aware of the federal plan and now were more open to discuss LTC. That's reflected in the higher RFP volume that they felt they had.

Someone else said, "We have not seen any real changes from the introduction of the federal long-term care plan other than the heightened awareness. The level of interest in the employer market for auto inflation as an option for the certificate holder has increased substantially." We've definitely seen that across the board, where group carriers are typically offering that as an option all of a sudden.

Then, "Because of the high period of auto inflation, we have begun to include this feature." Again, just reiterating that same point. Those are all the comments I have from the carriers.

**MR. ARTHUR STEIN:** Thanks very much for coming by today and listening to me. I sell long-term care insurance. That's how I make my living.

I live in Maryland, I work in Virginia and all suburbs of the Washington, D.C. area. Three or four years ago, when we first heard that the federal government was going to offer a voluntary group policy to its employees and retirees, my colleagues and I were all very worried about how this was going to affect our business, because the Federal Family as it is called, is such a large part of our market.

Well, it turned out not to be that way. When they finally did introduce the federal program, what I found or what my colleagues found in the Washington area was that it was a huge boom for us. Our sales increased tremendously.

There are several reasons for this. One is that the publicity of the federal program encouraged people who were not even eligible for it to consider and often purchase long-term care insurance. It became cocktail party conversation. People were buying because their friends were buying.

The second reason is that a lot of the people who were eligible for the federal group policy actually could find a cheaper policy in the private sector. This is particularly true for those who are between the ages of about 45 to 65, especially if they were eligible for a spousal discount or a preferred health discount or both. It happens that, at least from my practice, people between the ages of 45 and 65 encompass about 80 percent of the people that I end up selling policies to anyway. The average age of the people that buy policies from me is 55.

Federal Family, if you're not familiar with it, is what the Office of Personnel Management calls those who were eligible for this program. It was federal employees, retirees, their spouses, parents and parents-in-law and their kids. That was called the Federal Family, and that group was approximately 20 million people.

So a large number of those people were going to find a cheaper policy in the private sector. Many of those people felt that the individual policies were better than the federal group policy, so they were attracted to it for that reason. There are a lot of other people who felt that they'd rather get a policy that had the blessing of the federal government, but of course, they tended not to come in and see me.

In addition, a lot of the federal agencies hired long-term care insurance experts to come in and do workshops for their employees and their spouses, in addition to the official workshops that Phyllis was doing. I was one of those people. That gave me contact with an enormous amount of people who I would not otherwise have met, and a large percentage of my business comes from people who meet me in workshops. This greatly expanded the number of workshops I was doing, and I was doing it for people who were there for only one reason—they were interested in buying long-term care insurance. One of the questions in their mind was whether to buy an individual policy or the federal group policy.

Finally, 2002 was a great year, especially compared to 2001. One of the reasons is that any member of the Federal Family who was thinking about purchasing long-term care insurance in 2001 had a lot of incentive. They felt that they had a lot of incentive to wait six or eight months or a year, whatever it was, to see what the federal program looked like. Once the federal program was introduced in May of last year, then they were ready to go ahead and make their purchases. That wasn't holding them back.

When I do my workshops, typically the slides on the federal group plan or those that are just relevant to it are really only about a third of the slides that I show. I start out talking about what long-term care is. How does it differ from health care? How does it work? How likely are you to need it? What does it cost? Then I would blend into that information about the federal group program and how it compared to individual policies.

I had an introduction to the federal plan, and what surprised people was that I told them that the federal government does not provide the insurance, they don't subsidize the premiums, they don't guarantee the benefits—their only role in this has been to authorize two insurance companies to sell to the Federal Family and to help them design and to help regulate that program.

Federal employees and retirees are kind of used to being coddled by OPM, and many of them thought that the government was either providing the insurance, guaranteeing it or subsidizing it.

### Decisions People Need to Make

I explain to people the nine decisions that they need to make when they're buying long-term care insurance. This is true of any policy. Now, for the groups that were eligible for the federal plan, I would point out the differences between what was available with individual policies and the federal group policies.

**When to Buy?** I start out talking about when to purchase the policy. Well, because of underwriting concerns and because the policies go up in cost based upon your age, you're better off buying now than waiting. There's nothing unique about the federal policy in that respect.

**Benefit Periods.** The individual policies have more choices for benefit periods, but the federal policy did include the option of getting an unlimited life time benefit period. You know, there was no problem with the federal policy based upon that. A lot of group policies don't give you that option, and a lot of people want that option. The federal plan had benefits from $50 to $300 a day. That covers almost everybody who buys policies from me, so that was not a problem.

**Amount of Coverage.** Now, the amount of home care coverage with the federal plan was either 75 percent home care or no home care. That's something that disappointed people. A lot of people would like the option to purchase a policy with 100 percent home care. I find that for people buying policies and people that receive long-term care, staying at home when they get the benefits is really a priority for a lot of them.

**Maximum Levels.** Then we have the question, "Is your maximum home care benefit going to be a daily maximum, a weekly maximum or a monthly maximum?" Again, the federal policy gave the option of getting a weekly maximum benefit for home care, so that was great. People who worry about that issue of having some days where you spend less than your maximum at home and some days where you spend more, could get the weekly benefit. Monthly's a little bit better than weekly. To me that's not a significant difference.

**Inflation Adjustment.** On the inflation adjustment, I'm with Phyllis 100 percent. I think everybody should get the 5 percent compound inflation adjustment. With the federal policy, they call that the Automatic Compound Increase Option. But you know it's the federal government, they cannot have the same terms or something that everybody else does; it has to be sort of a longer term. Or if you wanted it, you could get the future purchase option. I urge everybody, whether they bought an individual policy or the federal group policy to get the 5 percent compound inflation adjustment. This was an excellent range of choices for a group policy, and I think it did well as a result, because it offered people these options that many of them wanted to get.

**Nonforfeiture Rider.** Now, there was no nonforfeiture rider available with the federal policy. You could not make that choice. To me, that was unimportant. I just don't see why people would spend extra money for the nonforfeiture rider.

**Elimination Period.** On the elimination period, the only choices with the federal policy were 30-day elimination or no elimination. That was fine. That's enough choice, I think, for most people.

**How Often to Pay.** How often do you pay your premium? With the federal policy, the only choices are to pay the premium every two weeks, have it withheld from your paycheck or to pay monthly. With individual policies, with most individual policies, if you pay annually, you're going to save about 6 percent over paying monthly. This is an important difference for a lot of people, especially at a time when interest rates are so low. If people have money in a savings account and it's earning 1 percent or 1.5 percent and that's taxable, before taxes, to be able to take money out of a savings account to pay annually for a long term care policy and save 6 percent on the premium, that's equivalent to a 6 percent after-tax rate of return. That financially makes sense for people who have money in a savings account and can afford to do that. Federal policy did not give you the option to do that. Of course, most group policies do not.

**Underwriting Explanation**

The explanation of the first group is conditions you could have and still get a policy if you were an employee or the spouse of an employee during the open season. You could actively have cancer or AIDS or sclerosis of the liver or these various other conditions. You could weigh 800 pounds and still get it during the open season.

**Futures Versus Automatic Increase**

I compare the future purchase option to the 5 percent compound inflation adjustment. I calculated the cost of insurance for every age using the calculator on the long-term care Web site. Then I show people what would happen to their premiums if they got the future purchase option—if inflation were 5 percent a year and they took every single increase in their daily benefit.

For a 50-year-old in the beginning, the premium for the automatic compound inflation option is 3 percent more than the future purchase option, but after 17 years the premiums have caught up, and then you get these huge differences in premiums.

I did the same thing for a 70-year-old. Here, the only difference is that the crossover point when the premiums from the future purchase option are more—it happens much more quickly; it happens in only nine years.

One of the arguments made for the future purchase option was that although your premiums would be going up every year, your pay would also be going up every year. So hopefully the two would match up. Well, they're never going to match up. I went through and calculated percentage increase in premiums every two years if inflation were 5 percent, and in only one instance, and this was for a 70-year-old, was it less than 15 percent . Federal employees are not getting 15 percent pay increases every two years—nothing even close to that.

**Dare to Compare**

There really is a lower level of legal guarantees in the federal policy than there is in individual policies.

In comparison, it's between individual contracts having an individual policy whether you get it through a group or just buy directly from an insurance company. Or are you going to get a certificate policy, which is what the federal policy was?

With an individual policy, each insurer has a binding legal contract with the insurance company. They can never cancel it; they can never reduce benefits; they can never increase individual premiums. The only change that can be made, as you know, is they can petition state insurance commissioners for a premium increase.

With a group policy, the people who get that coverage don't have a legal contract with anybody. The only legal contract is between OPM and the insurance company. It could be changed at any time; the benefits and premiums can be changed at any time. All the insureds receive is a certificate of coverage, which was called a benefit booklet with the federal program, and that can be changed. The benefits you're actually going to receive are going to be the ones that are in the benefit booklet that is relevant at the time you receive benefits.

What happens when the insureds leave the group? It's no problem with an individual policy. With some group policies when they leave the group, they get an individual policy. As far as I can tell, it doesn't seem like it's going to happen with the federal program. It seems like people will always just have a group policy.

Can benefits be reduced? Well, never with an individual contract. It's completely different with the federal program. Benefits can be reduced any time OPM and the insurance companies agree to do so. They can be reduced for just a group of people that have the coverage. They don't have to reduce the benefits for everybody. There is what's called the catastrophic coverage restriction, which says that if they're losing money on any group of people that have the policy, they're going to reduce their benefit period until they start making money on that group.

Can premiums be increased? For individual policies, only by petitioning state insurance commissioners. With the federal policy, at any time, subject to negotiation. It's, as far as I can tell, an experience-rated policy. It's only a seven-year contract. Met Life and John Hancock who have it now only have a seven-year contract to provide the coverage. At the end of seven years, they don't have to renew the coverage, and even if they do renew the coverage, it doesn't have to be at the same premium level, it doesn't have to be with the same group of benefits. It's going to be subject to negotiation.

Now, if the insurance companies don't renew the contract or if OPM doesn't renew the contract with the insurance company, they're going to go out and find another company to provide coverage. Clearly the new company doesn't have to provide the same level of benefits or the same premiums as what existed at the time. The new company does not have to pick up the existing coverage if they don't want to —people that bought during the first seven-year period. If they don't, then Met Life and Hancock have to continue that coverage, but as far as I can tell from the reading of the contract and the benefit booklet, they can then change premiums without getting OPM's permission. I don't know if at that point anybody regulates them, because at that point, they're not subject to state regulation in any way.

Can the insurance company refuse to renew the coverage? Yes, at the end of the contract period.

These latter points—the fact that it was a seven-year contract, the fact that premiums could be changed—really bothered a lot of people when they heard it.

The catastrophic coverage restriction comes out of the war provision that's in individual policies. All policies, including the federal policies, are going to refuse to pay benefits if you need them because of alcoholism, drug abuse, participation in a felony or a riot, attempted suicide—things like that. Those same restrictions are in the federal policy.

What's not in the federal policy is a war restriction. It does not say, as it does in at least all the individual policies that I see, that you're not going to be eligible for benefits if you need the benefits because you were injured in a war. OPM made a big point of the fact that they didn't have the war provision, and I think politically, it was impossible for them to have the war provision, because they're trying to sell this to the armed forces. It would be unpatriotic to restrict their benefits because they were injured in a war.

What they had instead was the catastrophic coverage restriction, which says that if any event or series of events threatens to undermine the financial stability of the federal program, they are going to reduce the benefit period of that group of people who suffer from that event. For some reason they don't have war in here, but it says terrorism, epidemics, plagues, any kind of health crisis, natural disaster or any occurrence that reaches the significance of a catastrophic event. So it's very open-ended.

They can do it for seemingly any reason. The insurance company has a right to do this. It's in the contract. They define a catastrophic event in a certain way that maybe you as actuaries would understand, but I can never quite figure out the mass of what they're talking about. It is a formula that defines when a catastrophic event has occurred, and they say, "For that group of people who suffer the catastrophic event, we're going to reduce their benefit period until we start making money on that group again."

Maybe I'm missing something, but as far as I can tell, the only reason you're going to be losing money on any group of people is because you're paying them benefits.

I mean, it's not going to apply to people who aren't getting benefits. I consider this to be much more open-ended, much more troublesome, than the war exclusion.

I rarely sell to somebody below the age of 45 or 40. These are not people who are going to be in a war, and as far as I can tell—you all know better than I—the insurance companies seemed to agree after Sept. 11 that terrorism is not war. War is between states. It's unlikely that one of my clients is going to be injured in a war and need benefits as a result. If they were previously injured in a war, they're much less likely to get the policy if they have a war-related injury.

Any of my clients could suffer from terrorism. I mean, we're in the Washington, D.C. area; you could have a health crisis such as SARS, if it did cause disability instead of mortality. The fact that it says, "Any other occurrence that reaches the significance of a catastrophic event ..." then to me, maybe that could be defined that we didn't charge a high enough premium for older people or younger people or people that had certain conditions or whatever.

Which provision would you rather have in a policy? I'd rather take the standard war provision than this catastrophic coverage restriction. The people that I spoke to usually agreed with that.

**Premium Comparison**

I don't name individual companies. Keep in mind there's no preferred health discount or spousal discount with the federal program.

What you're going to see is that for a 40-year-old, the federal program is only cheaper for Company A if you're not married and getting the preferred health discount. In this other company, it's cheaper for everybody buying at age 40.

For a 50-year-old, even Company A is cheaper; and of course, Company A only has a six-year policy. We're comparing it to a five-year policy for the federal program. It's 100 percent home care with Company A; only 75 percent with the federal program. So even if the premiums were close—within 20 percent, for instance—you'd rather have Company A, because it's got a 20 percent longer benefit period.

Then Company A is competitive for everybody except a single person in average health. Company H is cheaper at every level.

Let's go straight to 70. For older people, especially people over the age of 70, the federal program gets to be a big deal. I mean, if you look at people in their late 70s, the federal program's going to be about 20 percent to 30 percent cheaper than an individual policy from anybody.

I would point out the federal program for a group program is very competitively priced. I mean, these happen to be two of the most cost-effective companies I represented. This policy is not available anymore, but it was last year. Still most people could find, if they shopped appropriately or dealt with a broker who was doing a good job, a cheaper individual policy. Everybody needed to decide whether it was a better policy.

My opinion is that the federal policy wasn't cheaper than individual policies. Then I would go through and try and summarize what the advantages and disadvantages of the federal policy were.

Of course, it's got fewer choices, the key ones being 75 percent home care (you can only pay monthly or twice a week); no spousal or preferred health discounts. Then it also doesn't offer things like shared care, restoration of benefits, survivorship. To me, that's not as important. A lot of people like those options, but I think they're more marketing in a lot of instances than a really important benefit.

**Disadvantages of Federal Policies**

This is the type of policy, like a lot of group policies, in which the insurance company hires most of the decision makers, as opposed to the individual policies, in which the insured can hire a health care practitioner to do all the work. That's something that people relate to a lot. We've gone through the fewer guarantees in the federal policy.

**Advantages of Federal Policies**

One advantage is full international coverage with the federal policy—you can live anywhere in the world while receiving benefits. Last year there were only three individual policies that offered that option.

There's a third-party review of disputes. You've got the informal caregiver benefit that Phyllis already described. If you're in a nursing home or assisted-living facility, the policy will also pay for drugs, medical supplies and laundry.

It *sounds* great. Understand that federal employees have great drug coverage with their health insurance. They have great health insurance. And because so many people were buying $100- or $150-a-day policies in the Washington area, with that level of benefits, if you're in a facility, you're spending all your money just paying for the facility; you're not going to have money left over to pay for drugs or medical supplies and laundry.

There's an alternate plan of care, my personal opinion, and what it says is that we'll let you do other things if we agree to let you and if it saves us money. I don't know why that needs to be stated in a policy. I think any insurance company would say, "If we let you do something else like put a ramp in your house or an elevator and it's going to save us money, we'll go ahead and do it, whether we have an alternate plan of care written into our policy or not." There are several other things I would then mention.

Usually, when people come into my office to consider individual policies, I compare at least three, usually four, policies to the federal policy. The main differences, in terms of the advantages and disadvantages that I would then point out, is that Company E has 100 percent home care. These two companies allow you to buy 100 percent home care. I'm only showing 75 percent home care, because I'm trying to compare it to the federal policy.

Here I'm talking about unlimited benefit period. I always just show the 5 percent compound inflation adjustment, 90- or 100-day home care. What you'll see is for this couple who are 58 and 57 living in Virginia, the federal policy is more expensive than either of the three individual policies.

Now, there are two rows of monthly premiums for the individual policies. Don't add them together. One row is what they would pay every month if they both received the standard premium, the other row is what they would pay each month if they both received the preferred health discount. Of course, maybe one gets preferred, maybe one gets standard, but it doesn't matter, because in all instances, it's cheaper than the federal policy—and they save another 6 percent if they paid annually.

Their care coordinator with the federal policy does most of the decision making. With the individual policies, you hire the practitioner. This company has a provision that during the elimination period if you're receiving benefits at home, as long as you get at least one day of paid benefits per week, they're going to take all seven days off your elimination period.

We've mentioned the informal caregiver, the drug supplies and laundry reimbursement and facilities.

**Financial Ratings**

These three companies are in the top 15 percent of U.S. insurance companies. The financial ratings are not relevant to the federal policy. Met Life and Hancock, which are providing the coverage, have great ratings, but the ratings don't apply to the federal policy because they are never paying benefits with their money. In the federal policy, the only money available to pay benefits is going to be an investment fund. It's solely going to consist of premiums paid for the federal policy and earnings on those premiums minus expenses. If they run out of money, the insurance company's under no obligation nor are they ever expected to provide any money to pay benefits. The federal government has said, as a matter of law, that they are never going to pay a dime of expense for the federal group long-term care insurance program.

Again, this is something that bothered people a lot. Not only is the federal government not guaranteeing their benefits, the insurance companies are not guaranteeing their benefits. That's why they have the catastrophic coverage restriction.

**Mental Exclusions**
Company E doesn't have one. The federal policy didn't have one. The other two policies do exclude mental and nervous disorders. Some people care about this, other people don't care about it.

Is a home care agency required? Now, again this is an issue that some people care about and other people don't. The issue is, when you need home care, do you have to give it to a home care agency or do you have an option of getting a licensed home health aid directly and paying them directly? The federal policy does not allow you to do this, but as Phyllis pointed out, they do have this informal caregiver benefit, which is an even better benefit in this instance.

You also have international coverage and the disadvantages of the lack of legal guarantees. Many people felt that they would rather have an individual policy. Other people felt they'd rather have something that OPM was looking after. But most of us found that we were making a tremendous amount of sales.

The one conclusion that I came to as a result of this experience—and I'll point it out, although it may not be completely relevant—we spend a lot of time thinking about it as an industry and worrying about whether the federal government is going to pass a better tax break for long-term care insurance premiums. The one we have now is pretty worthless; almost no one can use it.

I think we don't need that better tax break. What we need is the federal government to be talking in a meaningful way to the American people about the need for them to look at long-term care insurance and to consider buying long-term care insurance. If they did that with a stronger voice—or with any voice, because I really don't hear it from the federal government—I think that we would see a tremendous increase in long-term care insurance sales, even without a better tax break.

**FROM THE FLOOR:** I know, Brian, your survey is not statistically valid. But have you seen any movement toward smaller employers being interested in group long-term care? I know it's been primarily a large employer phenomenon.

**MR. VESTERGAARD:** Yes, absolutely, especially in the past few years. As you know, on the group side in the '80s or early '90s, it was strictly a large national account-type product. But in the past few years there has been tremendous interest from the small and middle market.

In fact, we at Aetna and several other carriers have been through kind of the core buy-up concepts that allow you to purchase in smaller employer groups, so you can guarantee some minimal level of premium. We find that we often have to fight back against quotes in some very, very small groups, because today lots of very small employers are interested in the product.

**FROM THE FLOOR:** There was a lot of discussion about the automatic inflation. I think that most people would agree that if people could afford automatic inflation, it's the way to go; it makes sense.

There is a substantial actuarial question associated with automatic inflation and that has to do with its pricing. We know that our product is lapse–supported, and if you just think about it for a minute, then you'll realize that the automatic inflation is more lapse-supported than the non-automatic inflation.

If you look at typical premiums between the automatic and the nonautomatic, the buy-up is 3 to 1 or 4 to 1 . But if you really collapse the lapses on the automatic inflation, and you assume that there are virtually no lapses on the automatic inflation—because someone who is spending that kind of money on buying a policy is not going to be quick to lapse it—then probably the ratio should be closer to something like 6 to 1, yet nobody's really charging that. Or at least not too many companies are charging that amount.

So you start to worry, because when you're dealing with most products, the automatic inflation is not the big seller. So you can put it aside and not spend a lot of time worrying about it. But under the federal program where you're selling so much of it, you start to worry about what it means in terms of financing of the program. By the way, I should mention that I don't happen to agree with Mr. Stein's remarks—it's just a personal thing about what's more secure—private insurance or federal insurance. But that's a separate subject.

**MS. HELWIG:** Well, being the only actuary sitting up here, I actually don't disagree with you at all. That obviously is a risk that you have with any of the group plans in which you start to get a large percentage of them choosing compounded inflation. That happens to be the riskiest area of pricing, the ones that we actuaries are most worried about.

Interestingly, I think in both the federal program and in most group long-term care programs that we've seen, the loads for compound inflation are much closer to where they should be than they are on individual. Many individual policies, particularly at the younger ages, kind of ignored what the right relativity between inflation and non-inflation should be, because they don't have very many sales at the younger age and just don't worry about it. I mean, you quite often see inflation factors on individual policies in which it's one factor for ages 55 and under.
You don't see that on the group products. I mean, they realize that they're selling inflation down to age 20 or age 30 and they need to keep scaling those inflation factors up. I think they're a lot closer to the right level. There are probably still some subsidies going on in the group market between the inflation and the noninflationary business.

**FROM THE FLOOR:** I have two questions. The first is a clarification on international coverage. I believe in your presentation, Art, you might have mentioned full coverage and then said something about 80 percent. So I want a clarification on that.

The second question is for Phyllis. Under frequently asked questions, "Does the spousal discount apply to both spouses?" And if there's no spousal discount, I wonder why that might have been a frequently asked question.

**MS. SHELTON:** Let me speak to that. To answer your question on the international, it's 80 percent. That's the benefit. If they are in another country, the lifetime benefit period would be cut back to 10 years. Then if they move back to the states, they might pick back up with their full benefits. That's how it works on the federal program.

When I did that list of frequently asked questions, I was just coming off the State of Tennessee enrollment with the spouse discount, so I probably put that in there because I hear it all the time. There's one other thing I want to correct. I misspoke when I said on the federal program that the family members could answer the questions on the Web site and still print it out and put a signature. That's not true, either. On the federal program it was the actives—the employees and spouses—that could enroll online.

**MR. STEIN:** Let me just say that when I said there was full coverage internationally, what I meant was you could live anywhere in the world and receive the benefits from the policy. No, you cannot receive 100 percent of your maximum daily benefit. With the federal program, it's 80 percent. With one of the companies it says it's 75 percent; the third company is 50 percent.

**FROM THE FLOOR:** I'd like a little bit more explanation from Mr. Stein about the financial ratings are not relevant. Are you saying then that really Hancock and Met Life don't have any skin in the game? Is this just a fund? I'm wondering why everybody didn't get in on this project if there wasn't any downside risk? I can't believe that's actually the case.

**MR. STEIN:** That's actually the case. The only money available to pay benefits is a fund that consists of premiums paid and earnings on those premiums minus expenses. The insurance companies have nothing at risk in terms of paying benefits. I mean, I don't know in terms of their expenses.

The federal government, when they passed the authorizing legislation, not only said that they would pay none of the expenses of the program, they said, "We'll pay none of the expenses to administer the program," and that the insurance companies or in this case this investment fund have to reimburse the federal government for OPM's expenses to administer the program.

Now, I don't know how far that reimbursement goes. My understanding is that it at least goes to reimburse the cost of salaries for certain individuals in OPM. So they have said, "We're never putting any money in, and the insurance companies have no obligation to." I don't know, Phyllis, if you would disagree with that in any way.

**MS. SHELTON:** I'm going to ask Dawn to speak to the actuarial side. I know that in the meetings, one of our main questions was what happens if John Hancock or Met Life go out of business? The answer we were carefully instructed to provide was that this fund that Arthur's referring to would simply transfer to the new carrier and the benefits and premiums would stay the same. So we were told to explain it in that fashion. Now, as far as the financial side, Dawn?

**MS. HELWIG:** I guess I'd have to go back and look. I worked on the transfer provisions for the federal contract, and I know that there's an experience fund that's accruing. If there's not enough money coming from the premiums, it's the responsibility of Met and Hancock to put more into the partnership and pay them. I don't think that they say that just because the premiums weren't sufficient ... I mean, there's always the back-up that they can always raise the premiums, or they can make modifications to the benefits. But I think the claims are going to be paid.

**MR. STEIN:** Actually what it says in the contract between OPM and the insurance companies is that if they're losing money, then the catastrophic coverage provision comes in, and they reduce benefits. There is no provision in the contract for the insurance companies to ever contribute any money.

**FROM THE FLOOR:** Or it may not even be a catastrophic situation.

**MR. STEIN:** Well, anything that affects the financial stability of the fund is automatically defined as a catastrophic event.

**MS. HELWIG:** I think there's a lot of federal oversight going on in the sense that that the experience fund and the way it's changing is being reviewed very carefully and constantly. They're doing comparisons of how it's developing to what they expected, and I think there will be probably quick action on the part of OPM if they felt there was any deficiency there.