

LONG-TERM CARE FOR THE FEDERAL FAMILY  
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# LONG-TERM CARE INSURANCE FOR THE FEDERAL FAMILY

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**A. INTRODUCTION.** In October 2002, a long-term care insurance plan will be available for federal employees, annuitants, and the military. The group plan will provide insurance coverage for the types of care needed when individuals are no longer able to perform the basic functions of daily living.

**1. Long-Term Care Security Act.** The Long-Term Care Security Act was signed into law on September 19, 2000 to provide the federal family with an employer-sponsored Long-Term Care (LTC) Insurance Program that will be a part of the government's overall compensation package. The Office of Personnel Management (OPM) drafted a proposed product design for an LTC program and submitted requests for proposals in June. During the summer, OPM received quality proposals from the insurance industry and expects to award a contract by October of 2001.

**2. Eligibility.** Those in the federal family who will be eligible to participate in the program will include current federal employees; federal annuitants who retired on an immediate annuity; survivor annuitants; individuals receiving compensation from the Department of Labor; members of the uniformed services; military retirees; military reservists at the time they qualify for an annuity; spouses and adult children (at least 18 years old, including adopted children and stepchildren) of employees and annuitants; and parents, stepparents, and parents-in-law of current employees and active duty uniformed service personnel.

OPM has the authority and may issue regulations to cover these other relatives: parents, parents-in-law, and stepparents of annuitants; unmarried former spouses of employees and annuitants who are receiving or are entitled to receive a portion of the employee/annuitant immediate annuity; adult foster children of employees and annuitants; and unmarried brothers and sisters of employees and annuitants.

**3. Type of Coverage.** The LTC program will provide coverage for several types of LTC that enrollees may need when they are no longer able to care for themselves—nursing home care, assisted living facility care, formal and informal care in the home, hospice care, and respite care. Keep in mind that LTC is not just for senior citizens—40 percent of people receiving LTC are under age 65. LTC is often needed at an early age because of incapacitation due to an accident, a stroke, a brain tumor, multiple sclerosis, Parkinson's disease, etc.

**4. When Coverage Will Begin.** Following the awarding of a contract in mid-October 2001, OPM will work with the contractor to develop educational and enrollment materials to help potential enrollees in making decisions. OPM will also work with the Department of Defense and other agencies to develop an implementation plan and prepare for an open enrollment period (open season). After the open season, LTC coverage will be offered to all who are eligible in October 2002. Although the government will make no contribution toward premiums, OPM expects the possible coverage of 20 million people to keep premiums 15 to 20 percent lower than those available in the open market (see section E).

**5. Medicare/Medicaid and LTC.** Medicare, the federal health insurance program for people 65 or older, will cover the first 100 days of care in a nursing home only if the patient requires skilled care and has had a hospital stay of at least three days immediately prior to entering the nursing home. The patient is responsible for some deductibles and copayments. Medicare also covers limited home visits for skilled care. Because of the following facts about Medicare coverage of LTC, it is best not to count on Medicare to cover probable LTC needs:

- (a) Most LTC is not skilled care.
- (b) Most LTC does not take place in a nursing home.
- (c) Most nursing home stays do not immediately follow a hospital stay.
- (d) Patients usually require more or different home care than Medicare provides.
- (e) Most people are not covered by Medicare until age 65.

Medicaid, the program that provides services to the poor and impoverished, might cover LTC services if a patient meets the state's poverty criteria. Usually a person must spend all except \$2,000 of assets and savings (except for house and car) to qualify. Care is also restricted to a limited number of state-approved caregivers that are willing to accept Medicaid payments. Because most people are reluctant to dispose of all of their assets in order to qualify, Medicaid cannot be depended on for LTC coverage.

**6. Continuing Care Retirement Communities.** Because LTC coverage may prove to be very expensive for many NARFE members due to age, and because many may also find it difficult to pass the underwriting qualifications because of preexisting conditions, some members may want to consider a Continuing Care Retirement Community (CCRS) as an alternative to enrolling in the LTC program.

CCRSs offer various housing options and services on the same grounds. Facilities are available for older people who are still active as well as for those with physical and mental disabilities. Residents can move from one type of housing choice (independent living apartment, cottage, or single-family home) to another (assisted-living apartment with kitchen or furnished one-room unit with nursing care) as needed. CCRSs are also expensive, but are usually a once-in-a-lifetime choice that offer residents a lifetime of shelter and care.

More information on CCRSs is available at any of the following: U.S. Department of Health and Human Services ([aspe.os.dhhs.gov/daltcp/Reports/ccrcrpt.htm](http://aspe.os.dhhs.gov/daltcp/Reports/ccrcrpt.htm)); Better

Business Bureau ([www.bbb.org/library/carecomm.asp](http://www.bbb.org/library/carecomm.asp)); Continuing Care Accreditation Commission ([www.ccaonline.org/aflist.htm](http://www.ccaonline.org/aflist.htm)); American Association of Homes and Services for the Aging ([www.aahsa.org/public/consumer.htm](http://www.aahsa.org/public/consumer.htm)). Members who do not have access to a computer should ask their Service Officer or any chapter officer to print this material for them or they can have it printed for them at any library.

**B. UNDERWRITING OPTIONS.** Insurance companies use a screening process, called underwriting, to determine those individuals who might have a need for services immediately or soon after enrollment. The underwriting process for LTC is designed to keep premiums lower than those in the private market for the majority of potential enrollees. Without medical underwriting, individuals with an immediate or potential need for services could purchase a policy with the intention of collecting benefits soon after their enrollment. This would drive up the cost of premiums for other policyholders and could affect participation in the program. All applicants for the LTC program will be subject to some form of underwriting. All retired NARFE members will have to qualify for the program under the full underwriting option (see section B1). OPM has asked the insurance industry for three underwriting proposals for active federal employees, members of the uniformed services, and their spouses: (1) guarantee issue, (2) modified guarantee issue, and (3) short form. OPM will select one of these three options depending on the impact on overall premiums.

**1. Full Underwriting.** All applicants except active federal employees, members of the uniformed services, and their spouses will be subject to full underwriting. Thus, federal annuitants, military retirees, and their family members will have to complete a questionnaire about their medical history, and they may be asked to provide medical records and to undergo a personal interview. This underwriting option is similar to that required in the private market.

**2. Guarantee Issue Underwriting.** Under this option, no health-related questions would be asked. Applicants would merely answer a question as to whether they are actively at work; for example, “Were you actively at work (not on annual, sick, or other leave) for at least one-half of the hours in your official tour of duty last pay period?” This option will probably not be available for spouses even if this option is chosen by OPM.

**3. Modified Guarantee Issue Underwriting.** Under this option, applicants would be asked a few health-related questions to determine current eligibility for covered benefits. They might be asked if they currently need help bathing, eating, dressing, etc; if they have been confined to a nursing home or custodial facility within the past 12 months; or whether they are currently receiving home health services. Spouses would be asked some additional information as a substitute for not being actively employed by the government.

**4. Short Form Underwriting.** Under this option, applicants would be asked several health-related questions to determine whether there might be an immediate need for benefits or whether they might be eligible for benefits within a short time. They would be asked the same questions as in the modified guarantee issue underwriting (section B3). In addition, they would be asked a few more questions: whether they (1) currently use any mechanical devices such as wheelchair, walker, crutches, dialysis machine, oxygen, stair lift; (2) have been diagnosed with or had any symptoms of Alzheimer’s disease, dementia, multiple sclerosis, muscular dystrophy, Parkinson’s disease; (3) have been diagnosed with or treated for AIDS or AIDS-related complex; and (4) have been diagnosed with any ongoing mental or nervous disorder.

**5. NARFE Questions Fairness of Underwriting Standards.** NARFE has questioned the fairness of using different underwriting options for annuitants and active employees. Although NARFE acknowledges that employees tend to be healthier than retirees, there would be many instances where employees and retirees of the same age might be subject to different underwriting criteria. NARFE believes that the two groups should be treated the same and that the proposed underwriting options will create inequity between employees and retirees.

**6. Nonstandard Policies for Individuals with Disabilities.** OPM may offer nonstandard policies for those employees who fail the underwriting options, including those with disabilities. The nonstandard policies might cover only nursing home facilities or they might offer no coverage at all but provide discounts on LTC services. The premiums for nonstandard policies would be significantly higher than those for standard coverage. NARFE has asked that OPM make federal annuitants who fail the underwriting options eligible to apply for nonstandard policies.

**C. BENEFIT CHOICES.** Enrollees will be able to customize their policies to suit their individual needs by selecting a weekly benefit and the length of the policy. Together, the weekly benefit and length of policy will form a “pool of money” (see section C3) from which benefits will be paid. The choices selected will affect the amount of premiums. The higher the weekly benefit and the longer the length of the policy, the more premiums will cost (see section E).

**1. Weekly Benefit.** A maximum weekly benefit from \$400 to \$2000 a week in multiples of \$20 will be available. Before purchasing a LTC policy, potential enrollees should research the cost of LTC in their area to determine a reasonable weekly benefit amount. A recent study found that the average cost of a nursing home nationwide was \$980 a week or approximately \$51,000 per year.

**2. Length of Policy.** Enrollees will have the option of selecting a 3-year policy, a 5-year policy, or lifetime coverage. Enrollees can extend the length of the policy by using services that require less than their maximum benefit level (see section D) and by participating in the care coordination program (see section D3).

**3. Pool of Money.** The maximum weekly benefit and the length of the policy will determine the pool of money from which covered services will be paid. Selection of a \$700 weekly benefit and a 3-year policy would create a \$109,200 pool of money ( $\$700 \times 52 \text{ weeks} \times 3 \text{ years}$ ). Benefits of either \$700 or \$350 a week would be paid from this pool of money depending on the type of care being used (see section D). As benefits are paid, the money remaining in the pool is reduced. When the pool is exhausted, the insurance ends unless lifetime coverage was selected. Plan participants who spend less than the maximum weekly benefit can extend the number of years coverage beyond that originally selected by using less expensive types of services (see section D).

**4. Waiting Period.** The waiting period (or deductible) is the number of days of covered services that the insured must pay (possibly with other insurance) before LTC coverage begins. The standard policy will have a 90-day waiting period, but the option of a shorter 30-day waiting period will be available. NARFE was pleased that OPM included the 30-day waiting period since the combination of Medicare and some FEHBP plans cover only the first 30 days of skilled care in a nursing home (see section A5). After Medicare pays the first 30 days in a nursing facility, the insured must pay a copayment of \$99 a day.

The waiting period is counted in days that services are actually used rather than in calendar days—so a 90-day waiting period will last longer than 90 calendar days unless services are received every day. The waiting period also affects the cost of premiums; the shorter the waiting period, the higher the premiums (see section E). When choosing a waiting period, potential enrollees should consider whether they prefer to pay the initial out-of-pocket expense of the waiting period rather than the higher premiums for a shorter waiting period.

**5. Inflation Protection.** Under a compound inflation option, benefits will automatically increase every year, probably by 5 percent. Premiums will remain the same for life even though benefits increase.

Policyholders who decline the compound inflation option when they purchase their policy will be asked periodically if they want to purchase future inflation protection. If they then choose to purchase future inflation protection, their benefits will increase every two or three years based on the consumer price index (CPI), but their premiums will also increase. Those who repeatedly decline the future purchase option for inflation protection will eventually not be allowed to purchase inflation protection until they prove their insurability—that means the enrollee will have to undergo medical underwriting to requalify for the future purchase option. The underwriting necessary to requalify will not affect the coverage originally purchased.

**D. BENEFIT LEVELS.** There will be two benefit payment levels—either 100 percent or 50 percent of the maximum weekly benefit chosen. Enrollees who spend less than the maximum weekly benefit may extend their policy beyond the length of years originally intended by using less expensive types of care. Assisted living facilities and home health care can be less expensive than nursing homes and are preferred by most people because they can remain in familiar surroundings while receiving care.

**1. Up to 100 Percent.** Up to 100 percent of the maximum weekly benefit will be paid for (1) nursing home care; (2) assisted-living expenses; (3) hospice care expenses, whether in an institution or at home; (4) up to four weeks respite care—care given by informal caregivers to relieve family caregivers; and (5) care received while living at home when provided under the care coordination program (see section D3).

**2. Up to 50 Percent.** Up to 50 percent of the maximum weekly benefit will be paid for care received while still living at home (home care, home health care, and adult day care) if the policyholder does not participate in the care coordination program (see section D3).

**3. Care Coordination Program.** Enrollees and their families will be offered the services of professional care coordinators to help them make appropriate care choices, locate quality services in their area at discounted rates, and develop a cost-effective plan to extend their pool of money (see section C3). The care coordination program can arrange for care received at home to be reimbursed at 100 percent of the maximum weekly benefit chosen (see section D1).

The purpose of the care coordination program is to control the possibility of fraud and overcharging in home health care. When NARFE questioned OPM as to whether care coordinators could prevent benefits from being paid to informal caregivers, especially in rural areas where there are no other options, NARFE was assured that care coordinators would not limit benefits in that situation.

**4. When Benefits Start.** Policyholders will be eligible for benefits to begin when they (1) can no longer perform two of the activities of daily living (listed in the next paragraph) and their doctor certifies that the condition is expected to last at least 90 days or (2) have a severe cognitive impairment. In either case, the waiting period must also be met before eligibility begins.

The activities of daily living (ADLs) are the common activities that people perform every day: eating, transferring from bed or chair, bathing, dressing, and using a toilet and remaining continent. The LTC program may include other definitions for ADLs: “standby assistance” where the insured could perform the ADL but would need someone standing by to help or “hands-on assistance” where the insured could not perform the ADL without assistance. Cognitive impairment is any impairment in (1) short- or long-term memory; (2) orientation as to person, place, and time; (3) deductive or abstract reasoning that places a person in jeopardy of harming himself or others. The most common form of cognitive impairment is advanced Alzheimer’s disease.

Policyholders will no longer pay premiums once the waiting period (see section C4) is satisfied and they begin to use covered services. If they participate in the care coordination program, they will not pay premiums during the waiting period.

**E. PREMIUMS.** LTC premiums will be based on the age of the policyholder at the time the coverage is purchased and the choices selected. Because this is a group plan sponsored by OPM, it is expected that premiums will be 15 to 20 percent lower than in the private market.

**1. Age When Coverage is Purchased.** Age will be particularly important to many NARFE members because policies are cheaper at younger ages when services are not expected to be needed for many years. The chart below (taken from a Worldwide Assurance for Employees of Public Agencies bulletin) shows the typical increase in LTC premiums according to age (the lower figure is the marital discount and the second is the group-sponsored discount). Members who find that it is not cost-effective for them to participate in the LTC program may consider alternative types of care such as Continuing Care Retirement Communities (see section A6) or other group plans (see section G4).

Age	Annual Premium (\$)
60	850 – 1167
62	972 – 1307
65	1208 – 1642
70	2112 – 2441
75	3351 – 3770
79	5492 – 6178

\$120 daily benefit, 4-year policy,  
 100 percent home health care,  
 100-day waiting period  
 5 percent inflation protection

**2. Type of Benefit Choices.** Besides age, premiums will vary depending on the weekly benefit, the length of the policy, the waiting period, and the inflation protection chosen. The larger the weekly benefit, the longer the length of the policy, and the shorter the waiting period, the higher the premiums will be (see section C). Inflation protection will also increase the premium initially, but premiums will remain level for life if inflation protection is selected at the time the contract is purchased. If inflation protection is chosen in the future, premiums will increase as benefits increase (see section C5).

**3. Method of Payment.** Policyholders with a federal or military salary or annuity can pay premiums through payroll or annuity deduction. Those who do not receive a federal or military salary or annuity (or relatives) must authorize a debit from a bank or credit card.

**4. No Matching Government Contribution.** There will be no matching government contribution in the LTC program. Although participants will pay 100 percent of the premiums, the cost is anticipated to be 15 to 20 percent below standard premium rates because this is an employer-sponsored group plan. OPM also expects to provide better value and stability because it will select the best insurance carriers available and monitor the program over the years.

**5. Coverage Guaranteed Renewable.** Coverage will be guaranteed renewable. The insurance carrier cannot cancel an enrollee's coverage unless the enrollee stops paying premiums.

**6. Coverage Fully Portable.** Coverage will be fully portable. Participants who leave federal employment or the uniformed services can keep their policies at the same premiums. Enrollees who divorce a spouse who is a federal employee can also keep their policies at the same premiums.

**7. No Premiums After Benefits Begin.** Enrollees in the plan will no longer pay premiums once they begin using covered health services and benefits begin to be paid. If the enrollee uses the care coordination plan, premiums are not paid during the waiting period (see section D4).

**F. TAX TREATMENT.** The LTC insurance will meet the requirements of the Health Insurance Portability and Accountability Act (HIPAA). This gives policyholders the important consumer protections of full portability (see section E6) and the advantage of deducting premiums from taxable income (see section F1). It also means that benefits paid once health care services begin to be used will not be considered as income for tax purposes.

**1. Premiums Deductible as Medical Expenses.** Premiums can be itemized as a deduction after total qualified medical expenses exceed 7.5 percent of annual adjusted gross income.

**2. Congress Considering H.R. 831 and S. 627.** Congress is considering legislation that would make LTC premiums tax deductible. The Long-Term Care and Retirement Security Act of 2001 (H.R. 831 and S. 627) would amend the Internal Revenue Code of 1986 to allow individuals to deduct qualified LTC premiums, use such insurance under cafeteria plans and flexible spending arrangements, and receive a tax credit for long-term care needs.

**G. OTHER OPTIONS.** OPM has asked the insurance industry to offer proposals that consider additional options such as limited payment plans, spousal discounts, and policy downgrades.

**1. Limited Payment Plans.** Participants may be offered the option of paying higher premiums for a limited number of years so that they would have a paid-up policy after several years.

**2. Spousal Discounts.** Spouses may receive a discount if both apply for and receive coverage at the same time. Another option being considered for spouses is a joint policy, where spouses could each have their own pool of money and also share a pool of money with each other.

**3. Policy Downgrades.** Enrollees may be offered the option of downgrading their policy rather than have to abandon it should circumstances arise where they can no longer afford to pay the original premium.

**4. Other Group LTC Plans.** NARFE members who find that the LTC plan offered by OPM is too expensive because of their age or who may be unable to qualify due to the underwriting restrictions, may want to consider other insurance plans. Plans worth investigating are available from the Worldwide Assurance for Employees of Public Agencies (WAEPA @[www.waepa.org](http://www.waepa.org)) and the American Association of Retired Persons (AARP@[www.aarp.org](http://www.aarp.org)).

**H. OTHER PROGRAM FEATURES.** The key advantage to the LTC plan is that it is sponsored by OPM as part of the government's overall compensation package. Thus, the plan will stay contemporary with the best policies offered by other employers. OPM will constantly monitor the program to assure that it keeps abreast of changes in LTC services and will make appropriate changes as necessary.

**1. Advantages of LTC for Federal Family.** OPM will select only those insurance carriers that are reputable in the insurance industry and will provide the best customer service and financial strength and stability. Experts from a number of government agencies and the insurance industry will be involved in the selection and premium setting process so that enrollees can be confident that they are getting excellent value for their premium dollars.

**2. Third Party Review of Claims Disputes.** A policyholder who disagrees with a claims decision of the insurance carrier may request an independent third party review of the carrier's decision.

**3. Open Season.** OPM will hold an open season shortly before October 2002. Employees and annuitants will automatically receive information about the program during the open season. A toll-free number will be available for qualified relatives to call for information. OPM will also conduct an extensive educational and marketing campaign in 2002, which may include satellite broadcasts, cable TV shows, CD-ROMs, website calculators, etc.

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