

The Public Employee Long-Term Care Insurance Program Study



Prepared by Minnesota Management and Budget

In accordance with the Laws of 2009, Chapter 159, Section 108

February 1, 2010

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Introduction

This report is in response to Laws of 2009, Chapter 159, Section 108.¹ This provision seeks to reconsider the admission of local units of government into the Minnesota Public Employees Long-Term Care Insurance Program (M-PEL).

Created by the legislature in 1999 M-PEL offer state employees, retirees and certain dependents a fully insured group employee long-term care insurance (LTCi) program. Originally, this program included all local units of government but that provision was eliminated through legislation.

The legislation required the commissioner of Minnesota Management and Budget (MMB) to write this report in conjunction with a committee composed of representatives of prescribed organizations. The committee members appointed to carry out the terms of this statute are:

Melanie Ault: Association of Minnesota Counties / Anoka County
Joyce Carlson: representative of local government employees / AFSCME
Bob Haag: representative of state government employees / MAPE
Mark McAfee: representative of state government employees / AFSCME
Nathan Moracco: Minnesota Management and Budget
Erin Rian: League of Minnesota Cities

In addition to the committee members, these industry leaders attended meetings and provided expert information for this report:

Dale Branda: Continental Casualty Company, one of the CNA companies
Keith Carlson: Minnesota Inter-County Association
Bruce Kavenagh: Continental Casualty Company, one of the CNA companies
Tom Ochs: Ochs, Inc.

The cost of preparing this report is \$7,500. This includes staff time, printing, and supplies.

Executive Summary

The State of Minnesota began offering a fully insured long-term care insurance product to its employees as an optional benefit in January 2001. That offering was the outcome of a multi-year effort that began with the legislature instructing the Department of Employee Relations (DOER) to study whether the state should offer LTCi to retiring state employees. The legislature considered including Minnesota local units of government but ultimately decided to include only state employees, retirees and eligible dependents in the program.

This report considers the effect of allowing local units of government employees to join M-PEL at this time. It analyzes the effect adding new groups would have on M-PEL costs, whether local units are underserved and other options of obtaining coverage, and if M-PEL will be more cost effective than other available options.

Surveys of Minnesota local units of government conducted for this report did not indicate more than a moderate interest in joining M-PEL. Twenty-nine, or 33 percent, of Minnesota counties responded to the survey. Ten would consider purchasing through M-PEL if it were available. Eighteen of the counties responding already have a LTCi program. Eight percent of the approximately 550 cities surveyed responded. Fifteen of the responding cities indicated they would consider M-PEL and of those, five already offer LTCi.

Local units appear to provide employee LTCi at a rate comparable to employers nationally. At least 47 percent of Minnesota counties offer LTCi compared to nationally, 25 percent of all government employers with more than 500 employees. Minnesota cities are more difficult to compare because the survey response rate was relatively low. At least six percent of cities responding to the survey provide LTCi compared to nine percent of all employers nationally. Typically, larger employers are more likely to provide LTCi than are small employers.

Local units of government interested in obtaining LTCi have multiple points of access. There are 33 insurance companies selling LTCi in Minnesota. Some local unit employers use an insurance broker to provide advice and counsel on coverage and most brokers include LTCi in their product line. CNA, the LTCi underwriter for M-PEL, provides group coverage to individual employers and is available through the Municipal Pool (MuniPool), a privately administered pool currently providing this coverage to 81 local governments. The MuniPool's product line is based on the fully insured M-PEL plan design, at the M-PEL rate, but with a higher administrative fee.

Without knowing which local units of government will join M-PEL and completing an actuarial analysis, the exact effect on insurance premium costs cannot be identified. However, we are able to make educated predictions about the effect on premium costs, identify plan design issues and predict increased administrative costs.

There are adverse selection concerns raised by allowing new groups to join M-PEL. In the nine years since M-PEL first offered coverage, private sector vendors have marketed LTCi to local units. It is likely that groups wanting coverage and able to afford it have already purchased it. Groups wanting coverage but that have not yet purchased it, are likely to only choose M-PEL if it is more cost effective than other available options. This means the groups likely to join are either equal to or more costly than the

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existing M-PEL membership. Costs for plans that only attract new members who are more expensive than the current membership are difficult to manage creating a highly unstable program.

Several factors affect the administrative costs of providing LTCi to local units of government. These include the complexity of administering a statewide, multiple employer plan; the level of communication chosen; and the number of local units that choose to join. M-PEL's estimated cost to fully implement the program is approximately \$250,000 in addition to the \$126,000 it currently expends to administer LTCi for state employees. If little effort is made to enroll new groups and if few local groups join the annual base cost is approximately \$90,522.

This report discusses the administrative cost of providing LTCi in terms of cost and not as a percentage of premiums. Although M-PEL's size enables it to spread the relatively fixed administrative costs over a large group, this does not allow it to provide LTCi at a lower administrative cost than other entities. Current M-PEL membership is based on state employment. Expressing the increased administrative fee as a percentage of premiums assumes state employees should pay the cost of marketing LTCi to local units of government employees. By focusing on total administrative cost rather than administration as a percent of premiums, this report leaves to policy makers the question of who should pay for program expansion.

Two other methods of providing local units of government state sponsored LTCi have been identified. The establishment of a second pool within M-PEL for local units would eliminate the potentially negative effect on total premium costs for current M-PEL members. The second option is to offer LTCi through the Public Employees Insurance Program, an existing state insurance program for local units of government that already has the required infrastructure. Both of these options will likely result in a program with costs similar to the MuniPool and similar to that identified by M-PEL. All of these options are likely to offer the same fully insured product with the same administrative requirements and so will cost approximately the same.

Currently, at least two federal health insurance reform measures could affect LTCi. One provision will allow LTCi premiums to be paid with pre-tax dollars making the coverage more affordable. The other is the CLASS Act, which provides a federal LTCi program. Both of these programs could result in current LTCi options being more affordable.

Long-Term Care

Long-term care

Long-term care (LTC) addresses a wide range of services that provide assistance for individuals of all ages who are chronically ill, due to illness, disability or a cognitive disorder. LTC services consist mainly of non-medical assistance and are provided when an individual cannot perform defined activities of daily living (ADLs) or are cognitively impaired.² Care is provided by a wide-range of formal or informal caregivers in a variety of setting including private homes, adult day care facilities, and nursing facilities.

Long-term care insurance

Long-term care insurance (LTCi) pays for the services needed by individuals who have been determined to require LTC. LTCi allows individuals to protect their assets and maintain independence by being able to choose their care setting. Those entering a nursing home or needing living assistance often risk losing most of their financial resources to pay for these services.

LTC costs in Minnesota

LTC costs vary depending on the type of service and geographical region in which care is received. The cost of one year's stay in a nursing home in Minnesota averages over \$57,000³ and can exceed \$110,000 per year.⁴ The average daily cost for nursing home care in Minnesota is \$156 and in Minneapolis, it averages \$171.⁵ On average, an individual receives LTC services for two and a half years. These costs continue to rise each year.

Paying for LTC services

Approximately 25 percent of LTC costs are paid through private funds. Individuals pay 18.1 percent of LTC costs out-of-pocket.⁶ Private health insurance provides minimal LTC coverage and pays for only 7.2 percent of LTC in the United States.⁷ Another 5.3 percent is from other private or public funds.⁸

Federal and state governments pay for over 69 percent of all LTC in the United States.⁹ Medicaid, the joint federal and state government program that helps pay medical costs for some individuals with limited income and resources, pays for 48.9 percent of costs.¹⁰ To meet Medicaid eligibility requirements an individual may be required to "spend down" their assets. Medicaid usually does not allow individual's choice of where they receive LTC services.

Medicare, the federal health insurance program for the elderly and certain people under age 65, pays for 20.4 percent of all LTC costs in the United States.¹¹ It provides some skilled care services but does not cover LTC associated with ADLs. Medicare supplemental insurance may also provide some additional coverage but again not LTC services.

Individuals purchasing LTCi help reduce the financial burden on the federal and state governments by reducing the amount government pays in LTC costs. Therefore, it is in the best interest of the state to encourage individuals to purchase coverage.

M-PEL Highlights

May 1996 – The legislature directed the Minnesota Department of Employee Relations (DOER) to study the feasibility of offering fully-member paid, group LTCi to retiring state employees. Laws of 1996, Chapter 384, Section 8.

January 1997 – DOER issued a report that found a large group is required to affect the state's future LTC expenditures. The report recommended a feasibility study to determine the minimum size and content of the eligible pool, the interest and attitudes of the eligible pool, the impact on the state's elderly long-term care expenditures, the impact on the private long-term care insurance market, and the administrative framework of any long-term care insurance program.

July 1997 – DOER received an appropriation to develop a LTCi program.

September 1997 – DOER issued a request for proposal (RFP) soliciting expert assistance to develop a LTCi program for public employees, retirees, and family members.

May 1999 – Legislation provided a group LTCi program, administered by DOER, for all Minnesota public employees. Laws of 1999, Chapter 250, Article 1, Section 78 (M.S. 43A.318).

May 2000 – DOER selected CNA from a field of 12 insurers to underwrite the plan.

October 2000 – DOER conducted initial enrollment for state employees. Over 11,000 individuals enrolled, 75 percent of which were employees, 22 percent spouses and 3 percent parents.

January 2001– Group long-term care insurance program for state employees took effect.

May 2001 – Enabling law amended to include retirees and their spouses but eliminated employees of local units of government. Laws of 2001, Chapter 94, Section 1.

July 2004 – Existing members offered opportunity to purchase additional inflation protection.

June 2006 – M-PEL held an Open Enrollment in which state employees could join without evidence of insurability provided they were actively at work. Eligible spouses and parents could join with evidence of insurability.

August 2006 – Separate retiree LTCi plan discontinued but future retirees were allowed to participate in M-PEL. Existing retiree members retained their coverage.

January 2008 – M-PEL converted existing policies to long-term care partnership coverage where allowable.

Winter 2010 – M-PEL anticipates an Open Enrollment period in which employees can join without proof of eligibility, provided they are actively at work. Retirees, spouses, and parents may join with evidence of insurability. Options for enrollment/conversion to partnership programs will be made available.

The State Employee Long-Term Care Program

Introduction

The state employee LTCi plan, the Public Employees Group Long-term Care insurance Program (M-PEL), is offered to current and former employees, their spouses and parents.¹² This fully insured plan is available to the same group of employers that are eligible for the other SEGIP offerings, including those in all three branches of government, Minnesota State Colleges and Universities (MnSCU) and certain quasi-state agencies such as the Minnesota Historical Society.

Membership

LTCi is available to employees and retirees as well as their spouses and parents. New employees may enroll without showing evidence of good health provided they are actively at work and enroll within 35 days of becoming eligible for other state-sponsored insurance benefits. Employees may also enroll after the 35-day deadline provided they show evidence of insurability. Retirees, spouses and parents may enroll but must always show evidence of insurability.¹³

Because the plan is portable, employees enrolled in M-PEL may continue their coverage upon termination or retirement on the same terms as an active employee. Retirees who are not M-PEL members may apply if they were at one time eligible for state-sponsored insurance but must always show evidence of insurability to be accepted.

Certain family members of both employees and retirees may also enroll in M-PEL. Spouses and parents under the age of 90 may apply but must always show evidence of insurability to be accepted. Parent includes a natural parent, an adoptive parent, or any other person who is legally married to a natural parent or adoptive parent. Spouses and parents may participate even if the eligible employee or retiree does not.

By industry standards, M-PEL is a large group LTCi plan with a current membership of 9,395.¹⁴ Of those, 5,739 are employees, 1,743 are spouses, 1,466 former employees, 382 are retirees, and 65 are parents.¹⁵ It is one of the 10 largest groups in the nearly 700 groups served by CNA nation-wide. The industry average enrollment is between 5 and 8 percent of an eligible group compared to M-PEL's 20.4 percent enrollment.¹⁶

The average age at initial enrollment in M-PEL is 48.9 years of age.¹⁷ This compares to an industry average age for group LTCi of 43 years of age.¹⁸ The average age of purchasers in the individual market in 2005 was 61 years of age, down from 68 years in 1990.¹⁹ Buyers of group LTCi tend to be younger than those purchasing individual coverage and this holds true for M-PEL members.²⁰

Underwriting and administration

M-PEL provides a fully insured product from CNA Group Benefits, which is part of Continental Casualty Company. The program is community rated so the risk is spread across the entire community regardless of age, health status or claims history.

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SEGIP, CNA and a third party administrator jointly administer the program. Employees on the state's central payroll system pay their LTCi premiums through payroll deductions. Employers not on the state's central payroll have established interfaces with the vendor to provide payroll deductions.

Tax incentives

M-PEL offers a tax-qualified plan allowing both federal and state tax advantages. The policyholder may be able to deduct all or part of the premium from itemized tax returns and long-term care benefits are not taxable as income. Minnesota taxpayers are eligible for the Minnesota tax credit of up to \$100 per year. LTCi premiums may not be deducted from pay on a pre-tax basis.

Partnership plan

The Minnesota Department of Commerce has approved certain M-PEL plans for Minnesota Partnership status. Partnership plans are a public/private arrangement between long-term care insurers and Minnesota's Medicaid program. It enables Minnesota residents with Partnership plans to retain more of their assets should they require state help to pay for their long-term care needs. To qualify as a Partnership plan the policy must have a lifetime inflation protection feature (Automatic Benefit Increase).

Cost

LTCi through M-PEL is an employee paid benefit. Premiums are based on the employee's age at the time coverage becomes effective. Although the premium does not increase as the member ages, it can be increased for an entire age class. Premiums vary because coverage may be purchased at any age and because members may choose from a variety of features.

Members choose a plan that best meets their needs. They may choose between two plans and several additional features. The chart below illustrates the monthly premium for two plan options at two different ages.²¹ An example of the monthly premium, including its administrative fee, is:

M-PEL – Monthly Premium Example		
Member's age on effective date	Value Plan 1250 x daily benefit lifetime maximum Choice A \$100 daily benefit	Select Plan 1825 x daily benefit lifetime maximum Choice B \$150 daily benefit
45	\$14.35	\$27.42
65	\$74.04	\$145.46

Minnesota tax credit applied in these premiums but no federal tax credits were included

In 2009 there were approximately 9,395 individuals covered by M-PEL's fully insured products. These individuals paid \$6,544,567 in total premiums. Of these, 7,373 were active employees and their spouse who paid \$4,772,711. Former employees, retirees and their dependents paid the remaining dollars.

Plan features

Members choose among a selection of daily benefit options and lifetime benefit maximums and optional features. Each plan contains an underlying set of features.

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Members select from four different plans:

Select Plan: Equivalent to a minimum of 5 years of coverage

Choice A - \$100 Daily Benefit \$182,500 Lifetime Maximum

Choice B - \$150 Daily Benefit \$273,500 Lifetime Maximum

Value Plan: Equivalent to a minimum of 3.4 years of coverage

Choice A - \$100 Daily Benefit \$125,000 Lifetime Maximum

Choice B - \$150 Daily Benefit \$187,500 Lifetime Maximum

(The lifetime maximum benefit is a pool of money the member may use for all eligible LTC expenses over their lifetime.)

These plans include two additional options that members may choose:

Automatic Benefit increase: This feature helps the coverage keep pace with inflation. The amount of the daily nursing home and home health care benefits are automatically increased each year by 5 percent of the prior year's amount.

Benefit Account (non-forfeiture): Under this option, a member may discontinue the plan and stop paying premiums without losing coverage and the premium dollars already paid into the plan. The lifetime maximum is reduced to the greater of either an amount equal to the premium paid or 30 times the nursing home daily benefit. This feature is available after three consecutive years of participation.

Benefit features available in all four plans include:

Care assist benefit: Up to 14 days of the eligible expenses per calendar year to an individual who has provided the covered member informal care for at least six months in a private residence.

Waiting period: Members must satisfy a waiting period before the benefits begin. The Comprehensive plan requires a 60-day waiting period for nursing home care and alternate facilities care and 15 days for Community Based Care and Assisted Living Facilities. For the Facilities Only plan, the waiting period is 60 days for nursing home care, alternate facilities care and assisted living facility care.

Hospice: Provides hospice care to alleviate pain and provide comfort during the final stages of illness. A physician must certify that the member has less than six months to live.

Refund at death: The plan will refund the total premium a member paid, less any benefits paid, if the death occurs on or before the age of 65. After age 65 the benefit is reduced 10 percent each year and no benefits are paid after age 74. Death must occur while coverage is in effect.

Worldwide Coverage: Benefit feature reimburses the member when care is received while living or traveling outside of the United States. The reimbursement is equal to 75 percent of the member's maximum daily benefit provided in the plan option they chose.

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Caregiver training benefit: The plan will pay a limited amount of actual expenses for caregiver training.

Temporary bed holding benefit: The plan will pay to hold a nursing home bed during an absence.

Emergency alert: Monthly or rental lease fees for home emergency alert equipment up to a limited dollar amount.

Guaranteed benefit option: On a member's third anniversary of the plan, the maximum daily benefit they may increase, this automatically increases the lifetime maximum, according to a premium based on the member's current age.

Local Units of Government LTCi Options

Local units of government may obtain quotes from 33 insurance companies selling LTCi in Minnesota.²² These 33 insurance companies offer a wide variety of products and services. Some sell individual policies only, others only group policies and some sell both. In addition, many local unit employers have an insurance broker who provides advice and counsel on coverage and most include LTCi in their product line.

CNA, the LTCi insurer for M-PEL, also sells its products to local units of government through a private broker, Ochs, Inc. Ochs, administers the Municipal Pool (MuniPool), which was formed in 1955 specifically to provide small and medium sized local units of government the same insurance buying advantages as large employers. It currently serves over 30,000 employees and their families. In addition to LTCi, it provides a variety of insurance products including life, short and long-term disability, dental and vision.

The MuniPool began offering LTCi to all sizes of local units of government in 2002. It currently provides LTCi to over 80 local units of government, including 39 counties.²³ The MuniPool provides a CNA product based on the M-PEL plan design at the M-PEL rate with a higher administration fee.

Since the MuniPool began offering LTCi, the plan design for it and M-PEL has diverged in several ways. Each offer slightly different eligibility parameters. The MuniPool has broader eligibility parameters than M-PEL, as it is open to employee's parents-in-law, grandparents and grandparents-in-law. The hours an employee must work per week to be eligible varies from employer to employer. M-PEL added worldwide coverage while the MuniPool has not added that feature.

The daily nursing home benefit differs between the two plans. While both plans shared the same daily benefit rates at the MuniPool's inception, the rates diverged in 2006 when M-PEL introduced a new daily benefit set. Currently M-PEL offers its members the option of a daily nursing home benefit of \$100 or \$150 per day, while MuniPool offers three daily rates of \$80, \$120 and \$150.

The differences in the daily nursing home benefit rates affect two other plan features. The daily assisted living facility rates for both plans are 80 percent of the daily nursing home benefit rate. Both plans offer an optional automatic inflation protection feature. While M-PEL offers it on all daily nursing home rates, the MuniPool limits it to only the \$80 and \$120 daily nursing home rate options. The MuniPool's \$150/day plan does not currently have inflation protection available but individuals may opt to increase their benefit level every 3 years without evidence of insurability.

As with M-PEL, local unit employees pay a premium based on their chosen plan design and age at the time the coverage becomes effective. Other than the above described plan design differences, the two plans are substantially the same. The difference in the rates is based on the difference in the cost of administering the plans to their respective member groups.

The MuniPool is open to approximately 1,528 local unit employers throughout the state. Staff must periodically travel to each employer site and provide various administrative duties including communicating plan information to new employees, describing plan design changes to all employees, attending annual Open Enrollment meetings, and providing billing and enrollment functions. M-PEL can

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provide all these services as a single entity, which reduces the administrative complexity found in the MuniPool.

Simply put, it takes less time to service 2,000 employees for one employer than it does to service 2,000 employees working for 10 different employers. The chart below illustrates the monthly premium for two plan options at two different ages and includes the administrative fee.²⁴

The Municipal Pool – Monthly Premium Example			
Member's age on effective date	1250 x daily benefit lifetime maximum \$80 daily benefit	1250x daily benefit lifetime maximum \$120 daily benefit	1825 x daily benefit lifetime maximum \$150 daily benefit
45	\$12.41	\$18.60	\$30.31
65 \$62.83		\$98.43	\$157.77

Minnesota tax credit applied in these premiums but no federal tax credits were included

The 2009 annualized premium for the MuniPool (through December 1) was \$1,180,683 paid by 2,214 insureds.

Surveys of Minnesota Local Units of Government

The committee requested a survey of local units of government to help understand if local units of government are underserved or face barriers to obtaining LTCi for their employees. The Minnesota Inter-County Association surveyed Minnesota counties. The League of Minnesota Cities surveyed Minnesota cities.²⁵

County results

Eighty-seven counties were surveyed and 29 responded (33 percent). Of these 29:

- 18 offer LTCi for their employees
 - 11 do not offer LTCi
- 16 purchase through the MuniPool (39 counties currently participate in the MuniPool)
 - 2 purchase elsewhere
- 10 would consider M-PEL if it were offered
 - 2 of these 10 currently purchase through the MuniPool

The 11 responding counties that currently do not offer LTCi for their employees listed four factors that impeded offering the benefit:

1. Employees bought into the idea of participating in the State's plan and keep asking for it
2. County does not have sufficient interest from employees
3. Administrative cost and time, budget restrictions
4. Budget concerns

City results

Approximately 550 cities were surveyed and 44 responded (eight percent). Of these 44:

- 11 offer LTCi for their employees
 - 33 do not offer LTCi
- 9 purchase through the MuniPool (31 cities currently participate in the MuniPool)
 - 2 purchase elsewhere
- 15 would consider M-PEL if it were offered, 22 might, 2 would not
 - 5 of the 11 responders that currently offer LTCi will consider M-PEL, 2 might
 - 10 of the 33 responders that currently do not offer LTCi will consider M-PEL, 20 might consider; 2 would not

Twelve of the 33 responding cities that currently do not offer LTCi for their employees listed the following factors as impediments to offering the benefit:

1. Would consider offering this as long as it was a voluntary benefit paid by the employees
2. Highly organized; no union group has brought the benefit forth as an issue they want to include in their proposals
3. Have found individual policies that offer what I think is good affordable coverage, but have not liked the group coverage found
4. Staff time to determine options, set-up and administer this as an additional benefit option are initial obstacles; have not had a lot of requests or interest expressed by employees

5. Too cumbersome to offer at this point
6. Administrative costs and not enough staff to administer
7. Mostly it's the start-up research, determining which plan best suits our staff needs/desires, presentations to staff to explain the plan, writing newsletter articles to promote the plan, time in an employee orientation to explain "yet another benefit" when their eyes have already glazed over after flex, high deductible health care, EAP, etc
8. There are so many voluntary benefits out there; we want to offer only a limited number for administrative purposes and have yet to define the ones that are most valuable to employees
9. Have not done a lot of research of this benefit as of yet
10. Concerned this would become something employees would want to negotiate as a city paid option
11. Due to budgetary concerns, the City has not offered long term care insurance to its employees
12. Cost, staff administrative time for implementation and administrative fees

Prevalence of LTCi

The total number of Minnesota public employers who provide LTCi is unknown. However, at least 41 of the 87 Minnesota counties were identified as providing this benefit. Nationally, 25 percent of governments larger than 500 employees provide employee LTCi compared to 47 percent of all Minnesota counties.²⁶

Minnesota city organizations are more difficult to compare because there was limited data to the number of cities providing their employees with LTCi. At least 33 cities offer LTCi. This equates to six percent of cities polled compared to nationally, nine percent of employers of all sizes offer this product.²⁷ It is likely that more cities offer the benefit than were identified through the survey.

Private sector reasons for not offering LTCi

A recent survey of businesses identified reasons employers did not offer LTCi that were similar to those identified in these two surveys.²⁸ John Hancock, a major LTC insurer, conducts an annual business survey and found that 66 percent of small employers do not offer LTCi for their employees because they thought it cost too much to implement, 63 percent believed their employers were not interested in the benefit, and 33 percent thought it would be too time consuming to implement a plan.²⁹ Some LTCi commentators believe that LTCi is not more prevalent because of negative press about premium hikes and concern that it is a product that people just do not want to buy.³⁰ Overall, the reasons local units of government do not offer LTCi is very similar to that of other employers.

Typical results

The findings of these surveys meet the expected results. Typically, large employers are more likely to provide this benefit than are small employers. Minnesota counties are generally larger than Minnesota cities and they provide LTCi in numbers much greater than cities. The reasons both counties and cities gave for not providing the coverage are in line with results of national employers with the major reasons being lack of employee interest, too costly to implement, and too time consuming to implement. None of these reasons for not offering LTCi is resolved by the state offering LTCi to local units of government employees.

Effect of Adding New Groups to M-PEL

Introduction

Allowing local units of government to participate in M-PEL may affect the total premium cost of the existing M-PEL program. Total premium is a combination of the insurance premium, the cost of the risk, and the administrative cost (often called the load). Decisions made about eligibility, plan design and administration will have an impact on the total premium cost.

A major concern with allowing new groups into an existing group insurance program is its impact on the total premium. Allowing new groups to join an existing group program creates other concerns such as administrative procedures, a plan design that meets the need of the newly configured group, and control over the administration of the program.

Without knowing which groups will join and completing an actuarial analysis, the exact effect on total premium costs cannot be identified. However, we are able to make educated predictions about the effect on premium costs, identify plan design issues and identify the increase administrative costs.

Insurance Premiums

Effect of adverse selection

All group insurance plans are designed to prevent adverse selection, to ensure that less healthy individuals do not join in large numbers or become a larger percentage of the group than anticipated due to the availability of insurance.

Since the decision to include only state employees in M-PEL was made, private sector vendors have marketed LTCi to local unit employees. Consequently, it is likely those groups wanting LTCi and that are able to afford it have already purchased coverage. Groups or individuals who are more expensive to cover may be waiting to purchase insurance through a group whose costs are lower than what they have found. The local units choosing to join M-PEL are likely to be more expensive to insure than the greater population of local units of government employees. The addition of groups more costly than current M-PEL members could negatively impact claims and put pressure on the plan's premium structure which may ultimately cause an increase in insurance premiums.

If too many high cost individuals enroll, the plan will become unstable and enter a downward spiral. Under this scenario, healthy and less costly individuals will not enroll while sicker and more costly people will continue to view the plan as affordable. Plan costs may be more difficult to manage creating a highly unstable program.

It is also possible that some local units can afford LTCi but have chosen not to purchase it. Groups that could have afforded coverage but did not purchase it over the past ten years may be no more costly than the current M-PEL population. It is likely that if these groups do choose to purchase coverage, they will only purchase through M-PEL if they cannot find cheaper coverage elsewhere.

Another factor that controls adverse selection in a group insurance plan is the flow of members through the program. The more new members joining a plan, the more likely it is there will be enough healthy members to offset the sicker and more costly members. The more groups with high participation rates

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that join the plan, the more likely it is that premium costs will be held level. The fewer individuals purchasing coverage, the more likely it is that the sicker population will join, causing the premium to increase. It is also possible that if lower costing members join, the insurance total cost could decrease.

Guarantee issue or evidence of insurability

An important factor is whether new groups will be brought into the program with a guarantee issue or if individuals will need to show evidence of insurability. Under a guaranteed issue, members join without evidence of insurability, or good health, and all applying members will be covered. M-PEL allows new employees to join with a guarantee issue.

Evidence of insurability requires individuals to show proof of their physical condition and then the issuer makes a determination as to whether they will be accepted into the group. Some adverse selection could be avoided by requiring all new members, including state employees, to show evidence of insurability. Currently, state employee benefits are offered to new employees on a guarantee issue basis. Some of labor union members representing state employees on this study group were concerned with how a change in enrollment practices would affect members and may be reluctant to support insurability changes in the LTCi program.

Allowing retirees and dependents to join

Another factor affecting the premiums is who will be allowed to participate. Currently, M-PEL allows retirees, spouses, and parents to join with evidence of insurability and if they are within certain age limits. Limiting membership to those who show evidence of health will control costs because the program can limit the admission of those who are the sickest. It is also possible to close the program to certain classes and avoid those costs. Again, some of the labor union members representing state employees on this study group expressed concern with the effect on their members now enrolled and may be reluctant to accept such a change in the LTCi program.

Administrative Costs

Administrative procedures affect total premium costs

The success of a group LTCi program depends largely on how well it is communicated to employees. Employees must understand the need for LTCi or they will not purchase it. Successful education and marketing can increase administrative costs but without it, adverse selection and its effect on plan performance may occur.

Failing to educate members adequately about LTCi can result in low enrollment. A large percent of the population participating means a balance of healthy and less healthy people have joined thus spreading the risk over a larger number of people. A low enrollment means those most needing the coverage will enroll creating adverse selection and higher total premium costs.

There are several reasons LTCi is more complex and harder to understand than other types of employee benefits. The variable plan design can be confusing, but is important to communicate because it ties into an understanding of how much coverage an individual might need. Members must understand their exposure and not buy more coverage than they need or can afford. It is also difficult because most people do not want to believe they will require a LTC program.

M-PEL's success is credited to a well-planned and executed implementation that featured a significant employee education campaign. M-PEL is considered a highly successful program because it has a

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participation rate of 20.4 percent, which is significantly higher than the industry average participate rate of 5 to 10 percent. To continue the success of the program local units will need an equally strong program rollout.

Administrative costs for M-PEL to administer a local program

The second part to the total premium cost is the administration fee. M-PEL will face increased administrative costs because it will need to create and maintain a new administrative structure. M-PEL costs less to administer than a multiple-employer plan because benefits are administered through one electronic human resource system and employee premiums are paid through payroll deduction. The addition of local units of government will require a new and separate benefit communication and payment systems that are costly to establish and maintain.

How much it will cost to administer the new program will depend on how much emphasis will be placed on encouraging enrollment and on how many employer groups choose to enroll. However, the program will experience increased fixed costs regardless of how many employer groups enroll.

The number of new staff will depend on the emphasis placed on communication and the number of local groups that choose to enroll. M-PEL will need three new full-time equivalent (FTE) staff members to manage a statewide LTCi program at an annual cost of approximately \$249,722. If little effort is made to enroll new groups and if few local groups join the annual base cost is approximately \$90,522.³¹

The duties of the new staff include organizing and facilitating enrollment meetings, serving as project management between M-PEL and the insurer, facilitating communications, administering payroll deductions for each local employer and remitting premiums to the insurer, coordinating enrollment, and providing other general administrative support.

M-PEL will also experience increased communication costs. Staff will contact approximately 1,528 public employer groups, inviting them to consider participation in the M-PEL program.³² This mailing will introduce the program to human resource directors or other authorized representative. This cost could be one-time or ongoing if the goal is to encourage participation.

Once interested units of local government are identified, M-PEL will introduce the program to their employees through direct mailings.³³ M-PEL staff will hold regional informational meetings throughout the state. Once local units have joined M-PEL, staff will need to attend open enrollment meetings statewide.³⁴ To supplement these meetings staff will offer webinars for individuals unable to attend a meeting.³⁵ These webinars will require periodic updates and M-PEL will incur some ongoing maintenance cost.

Fully implemented statewide administration cost summary:

Two M-PEL staff – support level	\$ 134,000
M-PEL staff – professional level	92,000
Mailings to employers – postage and supplies	842
Mailings to employees – postage and supplies	15,180
Open Enrollment meetings	5,500
Webinar 2,000	
Total annual administrative cost	\$ 249,722

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The difference between the full program and the base cost is the number of employees. The full program costs \$249,722 and is substantially higher than \$126,000 spent annually to administer M-PEL.³⁶ The annual base cost of \$90,522 includes only one staff member at \$67,000 as well as all the other costs listed above. The cost of administering to local units is driven by the multiple employer sites that will need to be managed on an ongoing basis and the goals of the program.

This report discusses the administrative cost of providing LTC in terms of cost and not as a percentage of premiums for two reasons. The first is that although M-PEL's size enables it to spread the relatively fixed administrative costs over a large group, this does not allow it to provide LTCi at a lower administrative cost than other entities.

The second reason the administrative fee is discussed as a cost and not a percentage of the premium is that the current M-PEL membership is based on state employment. Expressing the increased administrative fee as a percentage of premiums assumes that state employees should pay the cost of marketing LTCi to local units of government employees. By focusing on total administrative cost rather than administration as a percent of premiums, this report leaves to policy makers the question of who should pay for the program's expansion.

Other Effects

Local input on M-PEL plan design and administration

The degree of control over plan design and administration given to local government employers will also affect the administrative costs. The more control given to local units the more costly the program will be to develop and administer. A board of local employer/employee representatives formed to oversee the plan design and administration will be an additional cost that has not been included.

Increasing M-PEL's insurance premium can effect more than state employees

Raising the insurance premium may have consequences beyond its impact on current M-PEL members. M-PEL purchases a fully insured policy that is community rated. The community rated group is comprised of all CNA policyholders with the same policy. Community rating is a system of setting insurance premiums (not including the administrative portion of the total premium) by which anticipated total claims of members within a geographic area or "community" are pooled together. Legally, insurance premiums on plans that are guaranteed renewable may only be raised on a class or community basis. Further, all aspects of such a rate increase are subject to state regulatory review and approval. It is likely that other group policyholders in Minnesota will be included in a rate increase that affects M-PEL. Some of the other employer groups covered by the same policy as M-PEL include the University of Minnesota, the MuniPool, and 3M.

Difficult to raise LTCi premiums

Raising the premiums of existing members is more difficult with LTCi than other types of insurance. One of the key features of LTCi is that the member's premium is meant to remain unchanged for the life of the policy. Although, a premium cannot increase in price due to the age or health status of the insured individual it can be increased for an entire class of individuals, such as all consumers with the same policy. To increase a premium an insurer must demonstrate to state regulators that the experience under the policy is significantly worse than anticipated.³⁷

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Because LTCi purchasers buy the product with the understanding the premium will not increase they react negatively when it does. Raising an existing premium can cause members to drop coverage, develop a negative impression of the insurer, and lose confidence in the employer for sponsoring a substandard employee benefit. When other insurers have raised their rates on existing participants there has been significant negative outcry. M-PEL does not represent that its premium will never increase but does state that its premiums are stable and have never been raised during the history of the program.³⁸

Alternative Methods of Providing Local Government Employees with State Administered LTCi

This section explores potential options for providing LTCi to local government employees without a negative effect on M-PEL.

Provide coverage through a separate program within M-PEL

A separate risk pool specifically for local unit of government employees could be formed. It is illegal to sell the same coverage at a different price to different employees within the same policy. M-PEL may not establish a program in which state employees pay a lower rate than local unit employees could for the same LTCi plan. However, it is possible to implement a second and different plan within M-PEL that is available to local units of government.

A separate pool would avoid the pitfalls of attempting to increase the premiums for existing M-PEL members. It would also afford local employers and employee union representatives a greater opportunity to ensure the product would meet the specific needs of local unit employees. It is expected the administration and cost would be substantially the same as the MuniPool because it will provide virtually the same product and service to the same population. However, the cost will not be known until actuarial work is completed.

Provide coverage through PEIP

An alternative to allowing local units of government to participate in M-PEL is to allow the Public Employee Insurance Program (PEIP) to offer LTCi. PEIP is a group insurance purchasing program that was created by the Minnesota State Legislature and is administered by MMB. PEIP provides uniform high quality, affordable employee insurance benefits to local unit of government employee groups regardless of their size or location. Currently PEIP is authorized in statute to offer medical, hospital, dental and life insurance coverage.³⁹

PEIP is better poised to provide LTCi to local units of government than is M-PEL because it already offers insurance programs to local unit employees. PEIP develops its own plans, provides them through insurance carriers and contracts with third-party administrators. As with the MuniPool, PEIP already has in place a communication system for local units. While adding the administration of LTCi to PEIP's menu of available benefits would be relatively easy, it does not necessarily result in different administrative expenses compared to the MuniPool.

Federal health care insurance reform

The federal government has a stake in helping individuals pay for their own LTC costs because it expends a significant portion of its annual budget on these services. There are provisions in the current federal health care reform bills that seek to improve the LTCi climate.

Most versions of the health care reform bills currently under consideration by Congress provide that LTCi premiums may be paid on a pre-tax basis. Currently, LTCi premiums are paid with post-tax dollars. This change will save employees money and make the benefit more affordable. Of equal

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importance, employers will be able to treat this benefit as all other insurance benefits because it will be perceived as a common and expected benefit.

Another provision included in both the Senate and House health care reform bills creates a national, voluntary program that will provide individuals who have functional limitations a cash benefit to purchase the non-medical services and supports necessary to maintain community residence. The C.L.A.S.S. Act (short for Community Living Assistance Services and Support) is financed through monthly premiums paid by payroll deductions or through monthly mail-in coupons. Working adults will be automatically enrolled in the program but may choose to opt-out. This program would create the first national long-term care insurance program.

Appendix A: Statute Requiring This Study

Laws of 2009, Chapter 159, Section 108 (HF 1760) Health Care Policy Omnibus Bill

Study of allowing long-term care insurance to be purchased by local government employees The commissioner of management and budget, in conjunction with two representatives of state government employees, with one each to be designated by the American Federation of State, County, and Municipal Employees and the Minnesota Association of Professional Employees; one representative of local government employees to be designated by the American Federation of State, County, and Municipal Employees; and one representative each designated by the League of Minnesota Cities and the Association of Minnesota Counties, shall study allowing local government employees to purchase long-term care insurance authorized under Minnesota Statutes, section 43A.318, subdivision 2. On or before February 15, 2010, the commissioner shall report on their findings and recommendations to the chairs of the house of representatives Health Care and Human Services Policy and Oversight Committee and the senate Health, Housing, and Family Security Committee.

Appendix B: M-PEL Enabling Statute

MINNESOTA STATUTES 2009 43A.318

43A.318 PUBLIC EMPLOYEES GROUP LONG-TERM CARE INSURANCE PROGRAM.

Subdivision 1. **Definitions.** (a) **Scope.** For the purposes of this section, the terms defined have the meaning given them.

(b) **Eligible person.** "Eligible person" means:

- (1) a person who is eligible for insurance and benefits under section 43A.24;
- (2) a person who at the time of separation from employment was eligible to purchase coverage at personal expense under section 43A.27, subdivision 3, regardless of whether the person elected to purchase this coverage;
- (3) a spouse of a person described in clause (1) or (2), regardless of the enrollment status in the program of the person described in clause (1) or (2); or
- (4) a parent of a person described in clause (1), regardless of the enrollment status in the program of the person described in clause (1).

(c) **Program.** "Program" means the statewide public employees long-term care insurance program created under subdivision 2.

(d) **Qualified vendor.** "Qualified vendor" means an entity licensed or authorized to underwrite, provide, or administer group long-term care insurance benefits in this state.

Subd. 2. **Program creation; general provisions.** (a) The commissioner may administer a program to make long-term care coverage available to eligible persons. The commissioner may determine the program's funding arrangements, request bids from qualified vendors, and negotiate and enter into contracts with qualified vendors. Contracts are not subject to the requirements of section 16C.16 or 16C.19. Contracts must be for a uniform term of at least one year, but may be made automatically renewable from term to term in the absence of notice of termination by either party. The program may not be self-insured until the commissioner has completed an actuarial study of the program and reported the results of the study to the legislature and self-insurance has been specifically authorized by law.

(b) The program may provide coverage for home, community, and institutional long-term care and any other benefits as determined by the commissioner. Coverage is optional. The enrolled eligible person must pay the full cost of the coverage.

(c) The commissioner shall promote activities that attempt to raise awareness of the need for long-term care insurance among residents of the state and encourage the increased prevalence of long-term care coverage. These activities must include the sharing of knowledge gained in the development of the program.

(d) The commissioner may employ and contract with persons and other entities to perform the duties under this section and may determine their duties and compensation consistent with this chapter.

(e) The benefits provided under this section are not terms and conditions of employment as defined under section 179A.03, subdivision 19, and are not subject to collective bargaining.

(f) The commissioner shall establish underwriting criteria for entry of all eligible persons into the program. Eligible persons who would be immediately eligible for benefits may not enroll.

(g) Eligible persons who meet underwriting criteria may enroll in the program upon hiring and at other times established by the commissioner.

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(h) An eligible person enrolled in the program may continue to participate in the program even if an event, such as termination of employment, changes the person's employment status.

(i) Participating public employee pension plans and public employers may provide automatic pension or payroll deduction for payment of long-term care insurance premiums to qualified vendors contracted with under this section.

(j) The premium charged to program enrollees must include an administrative fee to cover all program expenses incurred in addition to the cost of coverage. All fees collected are appropriated to the commissioner for the purpose of administrating the program.

Subd. 3. [Repealed, 2007 c 133 art 2 s 13]

Subd. 4. **Long-term care insurance trust fund.** (a) The long-term care insurance trust fund in the state treasury consists of deposits of the premiums received from persons enrolled in the program. All money in the fund is appropriated to the commissioner to pay premiums, claims, refunds, administrative costs, and other related service costs. The commissioner shall reserve an amount of money sufficient to cover the actuarially estimated costs of claims incurred but unpaid. The trust fund must be used solely for the purpose of the program.

(b) The State Board of Investment shall invest the money in the fund according to section 11A.24. Investment income and losses attributable to the fund must be credited to or deducted from the fund.

Subd. 5. **Private sources.** This section does not prohibit or limit individuals or local governments from purchasing long-term care insurance through other private sources.

History: 1999 c 250 art 1 s 78; 2001 c 94 s 1; 2007 c 133 art 2 s 5

Appendix C: Employer Groups in the Municipal Pool's LCTi Program

Effective September, 23, 2009

- AFSCME Council #5
- Beltrami County
- Benton County
- Big Stone County
- Carver County
- Chisago County
- City of Apple Valley
- City of Blue Earth
- City of Brooklyn Center
- City of Centerville
- City of Chaska
- City of Chisholm
- City of Columbia Heights
- City of Elk River
- City of Golden Valley
- City of Goodview
- City of Ham Lake
- City of Hanover
- City of Hastings
- City of Hoyt Lakes
- City of Maple Grove
- City of Maplewood
- City of Minnetonka
- City of Montgomery
- City of Moorhead
- City of New Auburn
- City of Northfield
- City of Norwood Young America
- City of Oakdale
- City of Plainview
- City of Redwood Falls
- City of Rosemount
- City of Savage
- City of St. Anthony Village
- City of St. Michael
- City of St. Paul
- City of Waite Park
- City of Waseca
- Clay County
- Dakota County
- Douglas County
- Faribault County
- Freeborn County
- Great River Regional Library
- Houston County
- Human Services Inc.
- Human Services of Faribault & Martin Counties
- Jackson County
- Kanabec County
- Kandiyohi County
- Kittson County
- Lac Qui Parle County
- Lake of the Woods County
- League of Minnesota Cities Office
- LeSueur County
- LOGIS Association
- Marshall County
- McLeod County
- Meeker County
- Murray County
- Morrison County
- Nobles County
- Polk County
- Pope County
- Ramsey county
- Red Lake County
- Redwood County
- Regions Hospital
- Renville County
- Roseau County
- Sherburne County
- Sibley County
- Steele County
- Stevens County
- Todd County
- Traverse County
- Tri County Community Action
- Wadena County
- Waseca County
- Watonwan county
- West Hennepin Joint Powers

End Notes

¹ The provision is reprinted in Appendix A.

² ADLs include bathing, dressing, eating, toileting, continence, and transferring (e.g. getting from a bed to a chair). Senile dementia and Alzheimer's disease are cognitive impairments that often require LTC.

³ Genworth Financial, *2008 Cost of Care Survey* (March 2008). Accessed through the U.S. Department of Health and Human Services on November 23, 2009.

http://www.longtermcare.gov/LTC/Main_Site/Paying_LTC/Costs_Of_Care/Costs_Of_Care.aspx

⁴ Based on 2002 CNA Cost of Nursing Home Care Survey, room and board only.

⁵ 2008 Cost of Care Survey, *supra* note 3.

⁶ 2008 Cost of Care Survey, *supra* note 3.

⁷ 2008 Cost of Care Survey, *supra* note 3.

⁸ 2008 Cost of Care Survey, *supra* note 3.

⁹ 2008 Cost of Care Survey, *supra* note 3.

¹⁰ 2008 Cost of Care Survey, *supra* note 3.

¹¹ 2008 Cost of Care Survey, *supra* note 3.

¹² Minnesota Statute 43A.318. See Appendix B.

¹³ See M-PEL's website for more eligibility information. <http://www.mpel.org/learnmore.htm>

¹⁴ M-PEL membership numbers are as of November 1, 2009. Numbers were provided by CNA.

¹⁵ M-PEL membership numbers are as of November 1, 2009. Numbers were provided by CNA.

¹⁶ Based on 46,000 eligible employees, the overall participation for the M-PEL plan is 20.4%. Using only active employees the participation rate is 12.5%.

¹⁷ CNA.

¹⁸ UNUM. *The Role of Long Term Care Insurance in a Complete Financial Plan*. (November 12, 2009). Accessed on November 23, 2009.

http://www.businesswire.com/portal/site/unum/template.NDM/menuitem.a50c9bf22444d0af809e6be2e6908a0c/?javax.portlet.tpst=287696e4165573c5e6bb3743893bc8a_ws_MX&javax.portlet.prp_287696e4165573c5e6bb3743893bc8a_newsLang=en&javax.portlet.prp_287696e4165573c5e6bb3743893bc8a_viewID=news_view&javax.portlet.prp_287696e4165573c5e6bb3743893bc8a_ndmHsc=v2*A116757000000*B1259036748000*C3155806799000*DgroupByDate*J2*N1005763&javax.portlet.prp_287696e4165573c5e6bb3743893bc8a_newsId=20091112005971&beanID=2141892801&viewID=news_view&javax.portlet.begCacheTok=com.vignette.cachetoken&javax.portlet.endCacheTok=com.vignette.cachetoken

¹⁹ America's Health Insurance Plans, *Who Buys Long-Term Care Insurance? A 15-year study of buyers and non-buyers, 1990-2005* (April 2007). Accessed on November 12, 2009.

http://www.ahipresearch.org/PDFs/LTC_Buyers_Guide.pdf

²⁰ American Association for Long-Term Care Insurance, *Group Long-Term Care Insurance Study Released*. (March 20, 2009). Statement by Jesse Slome, Executive Director. Accessed on November 12, 2009. http://www.aaltci.org/subpages/media_room/story_pages/media032009.html

²¹ The M-PEL rate guide is at <http://www.mpel.org/downloads/MinnesotaRates.pdf>.

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- ²² Of the 33 companies selling LTCi in Minnesota, 29 offer partnership policies. Tina Armstrong, Minnesota Department of Commerce, phone conversation on 11/13/2009.
- ²³ A list of MuniPool employer groups is included in Appendix C.
- ²⁴ A MuniPool rate guide is at www.ltcbenefits.com, the password is “munipool.”
- ²⁵ The complete surveys are included in the back of this report.
- ²⁶ 2008 Mercer Survey of Employer-sponsored health plans.
- ²⁷ 2008 Mercer Survey of Employer-sponsored health plans.
- ²⁸ John Hancock, *New Small Business Survey Reveals Employer Misconceptions May Explain Reluctance to Offer LTC Insurance, Despite Perception of Employee Need*. (July 21, 2009). Accessed on December 1, 2009. http://www.johnhancock.com/about/news_details.php?fn=july2109-text&yr=2009
- ²⁹ *Id.*
- ³⁰ Marilee Kern Driscoll and Michael Lynch. *What the Class Act can Teach the Long-Term Care Insurance Industry*. National Underwriter. (Published October 14, 2009) Accessed on December 10, 2009. <http://www.lifeandhealthinsurancenews.com/Exclusives/2009/10/Pages/What-the-Class-Act-can-teach-the-long-term-care-insurance-industry.aspx>
- ³¹ FTE costs include salary, benefits, and office costs.
- ³² Mailings to 1,528 groups with postage at \$0.42 each is \$642. Mailing supplies, including paper, envelopes and printing at \$0.27 each for \$413.
- ³³ Mailing to 10 percent of local unit employees or 22,000 employees: postage at \$0.42 is \$9,240 and \$0.27 for printing and supplies is \$5,940.
- ³⁴ The assumption is a minimum of 50 annual meetings to facilitate communication about the M-PEL. Costs for these meetings are based on SEGIP experience of an average cost of \$110 per meeting. 50 meetings x \$110/meeting = \$5,500.
- ³⁵ Based on SEGIP experience, the cost of two supplemental webinars is approximately \$1,000 per webinar including five hours of a technical expert assistance.
- ³⁶ Comprehensive Annual Financial Report (CAFER) for the year ending June 30, 2009. This figure is included in the \$7.1 million reported as Other Income. Unpublished.
- ³⁷ U.S. Government Accountability Office (GAO), *Long-Term Care Insurance, Oversight of Rate Setting and Claims Settlement Practices*. (June 30, 2008). GAO-08-712. Accessed on November 20, 2009. <http://www.gao.gov/new.items/d08712.pdf>
- ³⁸ M-PEL website accessed on November 20, 2009. <http://www.mpel.org/whatsright.htm> accessed
- ³⁹ Minnesota Statute Chapter 43A.316, Subdivision 6.

Survey of Long Term Care Coverage by Counties

1. Number of Counties Responding: 29. List of respondents is below.
2. Number of Responding Counties Currently Offering Long Term Care Insurance : 18
3. Number of Responding Counties Currently Offering Long Term Care Insurance, which Participate in the Municipal Pool administered by Ochs, Inc.: 16. Of the remaining two counties offering long term care insurance, Prudential was the carrier for one and the other county did not identify a carrier. The long term care benefit in the county where Prudential was the carrier is 100% of DBM for nursing home care and 50% of HCBC for assisted living facility care. No benefit information was provided by the other county offering long term care insurance but not participating in the Municipal Pool.
4. Number of Responding Counties Not Currently Offering Long Term Care Insurance: 11
5. Number of Responding Counties Not Currently Offering Long Term Care Insurance, which Identify Administrative Costs and/or Burdens or Other Factors as an Impediment to Offering Long-Term Care Insurance: 4
 - a. Obstacles or barriers that were listed:
 - i. Our employees long ago bought in to the idea of participating in the State's plan, and keep asking for it.
 - ii. County does not have sufficient interest from employees.
 - iii. Administrative costs and time, budget restrictions
 - iv. Budget concerns
6. Number of Responding Counties that Indicate If Participation in the State of Minnesota Long-Term Care Insurance Program through CNA Were an Option They Would Consider Offering This as a Benefit: 10. Two of the 10 currently offer long term care insurance and one of those two participate in the Municipal Pool administered by Ochs, Inc.

Additional Information on employer contributions and payroll deductions is available.

List of County Survey Respondents:

Anoka	Martin	Sherburne
Benton	McLeod	Sibley
Big Stone	Murray	St. Louis
Carver	Nobles	Stearns
Cass	Olmsted	Todd
Clay	Pennington	Wabasha
Crow Wing	Ramsey	Washington
Dakota	Redwood	Watonwan
Dodge	Rock	Winona
Jackson	Scott	

For additional information, please contact Keith Carlson at keithc@mica.org or 651-222-8737.



November 23, 2009

To: Lorna Smith, State of Minnesota (Dept. of MMB)
From: Erin Rian, League of Minnesota Cities
Subject: Long-Term Care Survey Results for City Organizations

On behalf of the League of Minnesota Cities (LMC), I am submitting results of the Long-Term Care (LTC) Survey conducted among member city organizations. LMC conducted a voluntary survey that was sent via e-mail to city organizations through various listservs administered by LMC. The participation rate was low with only a total of 44 cities responding (among 830+ city organizations). A list of responding organizations is provided at the end of this report.

Below is a summary of the survey results, for your review:

1. **Number of cities responding that currently offering LTC insurance: 11**
2. **Number of total cities currently offering LTC insurance through the Municipal Pool (administered by Ochs): 31**
3. **Number of cities responding that offer LTC insurance through the Municipal Pool administered by Ochs, Inc.: 9**

One of the remaining two has LTC insurance through CNA, but not through the Municipal Pool. The other has LTC insurance through the Minnesota Benefit Association.

4. **Number of responding cities currently not offering LTC insurance: 33**
5. **Number of responding cities not offering LTC insurance, which identify Administrative Costs and/or Burdens or Other Factors as an impediment to offering LTC insurance: 13**
 - Obstacles or barriers that were listed:
 - The City would consider offering this as long as it was a voluntary benefit paid by the employees.
 - We are highly organized. No union group has ever brought that benefit forth as an issue they want to include in their proposals.
 - I have found individual policies that offer what I think is good affordable coverage, but I have not liked the group coverage that I have looked at.
 - Staff time to determine options, set-up and administer this as an additional benefit option are initial obstacles. However, we have not had a lot of requests or interest expressed by employees.
 - Small staff - too cumbersome to offer at this point.

- Administrative costs and not enough staff to administer.
- Mostly it's the start-up research, determining which plan best suits our staff needs/desires, presentations to staff to explain the plan, writing newsletter articles to promote the plan, time in an employee orientation to explain "yet another benefit" when their eyes have already glazed over after flex, high deductible health care, EAP, etc.
- There are so many voluntary benefits out there. We want to offer only a limited number for administrative purposes and have yet to define the ones that are most valuable to employees.
- We have not done a lot of research of this benefit as of yet.
- Would be concerned that this would become something employees would want to negotiate a city paid option.
- Due to budgetary concerns, the City has not offered long term care insurance to its employees in the past.
- Cost, staff administrative time for implementation and administrative fees.

6. Number of cities indicating that they would consider participating in the State of Minnesota Long-Term Care Insurance Program through CNA if it were an option:

Yes – 15; No – 2; Maybe - 22.

Of those that currently offer LTC insurance, 5 responded Yes that they would consider the State's LTC program and 2 responded Maybe.

Of those that currently do not offer LTC insurance, 20 responded Maybe that they would consider the State's LTC program, 10 responded Yes, and 2 responded No.

7. Maximum Daily Benefits and Maximum Lifetime Benefits:

- Max. Daily Benefits range from \$80 per day to \$200 per day
- Max. Lifetime Benefits range from \$100,000 to \$365,000

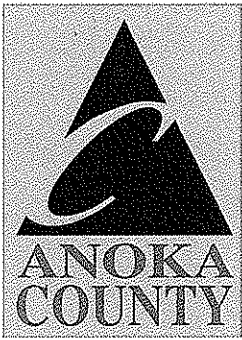
8. Do you provide an employer contribution towards LTC insurance? None of the respondents indicated that they make an employer contribution towards this benefit. LTC insurance tends to be offered on a voluntary basis among city organizations with 100% of the premium paid for by the employee.

9. Do you offer payroll deductions for LTC insurance premiums? A majority of respondents (9) provide employees with payroll deductions for LTC premiums. 4 respondents do not provide payroll deductions.

List of City Survey Respondents:

Apple Valley	Dayton	Mankato	St. Michael
Becker	Eagan	Maple Grove	St. Paul
Blaine East	Bethel	Minneapolis	Shakopee
Bloomington Eden	Prairie	Minnnetonka	Shoreview
Brooklyn Center	Edina	New Brighton	Spring Lake Park
Brooklyn Park	Farmington	New Hope	Woodbury
Burnsville	Golden Valley	Oak Grove	
Chanhassen Ha	m Lake	Plymouth	
Columbia Heights	Hastings	Richfield	
Coon Rapids	Hopkins	Roseville	
Cottage Grove	Inver Grove Heights	St. Cloud	
Crystal	Lakeville	St. Louis Park	

For more information, please contact Erin Rian at 651-215-4095 or erian@lmc.org.



COUNTY OF ANOKA

HUMAN RESOURCES DEPARTMENT

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Website: www.co.anokacounty.us

DATE: January 29, 2010

TO: Minnesota Department of Management and Budget

FROM: Melanie Ault, Director of Human Resources *ma*
Anoka County

SUBJECT: Addendum to the Long-Term Care Insurance (LRCi) Report

Anoka County is a member of both MICA and AMC. I am the AMC representative to the LTCi study group.

As members of the study group, Anoka County and MICA cannot support the Public Employee Long-Term Care Insurance (LTCi) Program Study report as written and prepared by the Minnesota Department of Management and Budget. No vote was taken of the study group regarding the report.

Good Public Policy

It is simply good public policy for citizens to take financial responsibility for their own, long-term care needs.

Millions of baby boomers will soon need LTC and potentially further burdening the federal and state budgets/deficits.

Broad based participation in long-term care insurance is in the state of Minnesota's, counties', and ultimately the federal government's best interests. In recent years, the cost of long-term care for residents who have exhausted their assets has been paid for by the medical assistance program after utilizing any available income of the patient. For the past 18 years, medical assistance costs have generally been shared on a 50/50 basis by the state and federal government. In the state's current fiscal year, the state's fiscal costs for long-term care and alternate care services are projected to be over \$1.2 billion. Counties have been responsible for long-term care screening and providing alternate care services, such as homemaker services and visiting nurse services, to keep individuals out of long-

term care facilities. Thus, premium cost reductions that would incent increased participation in long-term care insurance would pay off through reduced costs for the state, counties and the federal government in the future.

Making it easy and convenient for local units of government to offer long-term care insurance available to its employees is one way to boost the number of people planning for their future.

Allowing local government employees to join the M-PEL group is an effective way for such a plan. Originally, the M-PEL program included all local units of government, but they were deleted at the last minute from the enabling legislation. The department in charge of this study actually recommended that all local units of government be included in M-PEL, and followed that message through to the end. (See attached DOER memo, June 21, 1999.)

The State of Minnesota, with the early-on assistance of local governments, intensively researched, evaluated and selected a long-term care insurance product (M-PEL). Survey results show some local governments still desire to offer that M-PEL product to their own employees.

Consistent with the current state offering, coverage should remain optional, with either the full cost paid by the enrollee or as negotiated in any collective bargaining agreement.

Tax incentives

The state legislature, in emphasizing the value and importance of carrying LTCi, already provides that Minnesota taxpayers purchasing LTCi are eligible for a Minnesota tax credit (not merely a deduction) of up to \$100 per year; however, relatively few people are aware of this tax benefit.

Many local government employees may not be aware that M-PEL is not like term life insurance: the amount paid as premium is never lost. Premiums can optionally be put in an account for future benefit use (even if an employee drops the policy), or can be returned to beneficiaries at time of death.

Local Units of Government LTCi Options

Many local units of government hampered by the lack of sufficient or any human resources staff cannot duplicate the state's efforts to intensively research, evaluate and select a LTCi vendor and product at a competitive price.

Some local units of government do provide employees the option to purchase LTCi through the Ochs Agency's MuniPool, which offers a LTCi product which has diverged in many aspects from M-PEL, and most importantly with an eight percent higher

premium than M-PEL. Some local governments were unaware of the eight percent cost difference.

Comparison of Premium Costs under M-PEL and MuniPool

M-PEL		MuniPool		\$ Difference	% Difference
Member's age on effective date	1825 x daily benefit = lifetime maximum \$150 daily benefit	Member's age on effective date	1825 x daily benefit = lifetime maximum \$150 daily benefit		
45	\$27.42	45	\$30.31	\$2.89	10.5%
Remaining Life Expectancy	38.8	Remaining Life Expectancy	38.8		
Estimated Lifetime Cost	\$12,767		\$14,112	\$1,346	10.5%

Some local units of government by default or by choice do not or will not offer LTCi.

Responses from both surveys indicated that if M-PEL was made available, additional employers would offer it. A conveniently offered product, offered through the state, makes it a fairly easy choice for local governments.

Many of the reasons that LTCi isn't offered can be resolved by offering M-PEL to employees of other units of government.

Convenience

That it is not convenient for some local governments to, on their own, explore a new benefit like long-term care insurance because they simply do not have the staff or resources to do so, is a comment that arose in the surveys and is repeatedly echoed in discussions. Consequently, the jurisdictions do not offer the benefit. Some jurisdictions may not even know the benefit exists.

Location

The state raised concerns about having to offer the product to jurisdictions throughout the state; however, the State of Minnesota already offers the LTCi product to its employees, which also happen to be located throughout the state.

Would the state have to visit each jurisdiction? Not necessarily. Local governments are already familiar with attending regional or webinar hosted sessions on their benefits. For example, PERA, the public sector retirement program, does not visit each jurisdiction throughout the state, and instead holds regional informational sessions for local governments to attend. In addition, the state already has two different instances where it already provides benefits for local government employees – deferred compensation and the health care savings plan. The State Retirement System administers both in a manner where local governments on behalf of participating employees submit payments or deposits every payroll period in a seamless and transparent manner.

Underwriting and administration

Employers not on the state's central payroll have already successfully established interfaces with CNA to provide for payroll deductions. It seems that similar interfaces could be developed with other jurisdictions, thereby diminishing administrative burden to the state.

Insurance Premiums

Since the decision to include only state employees in M-PEL was made, private sector vendors have marketed LTCi to local unit employees. The survey results indicated that the local units of government have not dedicated time or efforts to research, evaluate and select a private sector vendor. Consequently, it is likely those groups wanting LTCi and that are able to afford it and are committed to offering it have already purchased coverage.

There are many reasons for wanting to offer the state's LTCi plan that do not lead to adverse selection. Groups wanting coverage but that have not yet purchased it, are likely to choose M-PEL because:

- ✓ it does not carry the eight percent higher premium of another available option; or
- ✓ M-PEL was originally designed to include this group of public employees; or
- ✓ the M-PEL plan design has been generally accepted by local governments as being appropriate and suitable for their employees; or
- ✓ M-PEL's familiarity to local government employees; or
- ✓ because local government employees specifically request M-PEL (similar to a local government employee requesting participation in the state's deferred compensation plan); or
- ✓ the initial research, set ups and administrative model have already be developed.

There was no indication from the survey results that the local units of government were any more likely to be more expensive to insure than the state's employees are. It is also possible that if enough lower costing members join, the insurance total cost could be reduced. Overall, if more Minnesotans purchase LTCi, the state's financial burden will decrease.

Administrative costs for M-PEL to administer a local program

Administrative costs to roll out M-PEL to local governments can be diminished. Employers not on the state's central payroll system currently overcome that obstacle by establishing interfaces with CNA to provide for payroll deductions. While the addition of local units of government will require an initial rollout of new and separate benefits communication, payment systems similar to the ones already in place by other employers who also offer M-PEL, could be explored.

M-PEL still retains control

The degree of control, if any, over plan design and administration given to local government employers, could still be determined by or completely remain with M-PEL, and thereby not affect the administrative costs.

Similarly, no degree of control is granted to local units of government in offering the State of Minnesota's Deferred Compensation Plan. A jurisdiction is mandated by statute to offer the plan, offer it through payroll deduction, and that it be in a specified form, offering it only under the same terms and conditions as the state sets. (M.S. 352.965, Subd. 2 Right to participate in deferred compensation plan.)

Conclusion

If more Minnesotans purchase LTCi, the state's financial burden will decrease. Fewer people would need to access government programs to cover nursing home and other long-term care costs. This is a state law change which would enable employees of local units of government to be covered. Since working models already exists with local governmental units' participation in both the state's deferred compensation plan and health care savings plan, it would seem to ease the transition to LTCi. In addition, it encourages individuals to take more personal responsibility for these future costs in their lifetimes, while reducing potential burdens to their families.

The M-PEL product is convenient to offer, and does not carry the eight percent increase in premium of the MuniciPool. Local governments are already familiar with offering other "State of Minnesota" benefits. Because the initial research, plan options, set ups and model communications for M-PEL are already in place, combined with the likely reduction in administrative fees from what local governments are already paying, all

Minnesota Department of Management and Budget
January 29, 2010
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increase the likelihood that more Minnesotans would be covered by LTCi, which helps reduce the state's overall financial burden.

Attachment (DOER memo, June 21, 1999)

C: Association of Minnesota Counties
Minnesota Inter-County Association
League of Minnesota Cities

Minnesota
Department of
Employee
Relations

State of Minnesota: Employer of Choice

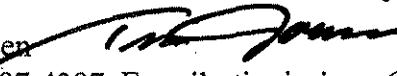
RECEIVED
JUN 29 1999
Anoka Co. Human Resources Dept.

Memo

DATE: June 21, 1999

TO: Non-state Public Employees and Retirees

FROM: Paul Strebe 
Ph: 651/282-2438 E-mail: paul.strebe@state.mn.us


Tim Jorissen 
Ph: 651/297-4387 E-mail: tim.jorissen@state.mn.us

Long-term Care Insurance Initiative
Employee Insurance Division

RE: **Outcome of legislative proposal for long-term care insurance program**

Knowing your interest in long-term care insurance, we would like to update you on the State of Minnesota's efforts in this area.

During the past legislative session, our department introduced legislation (SF 2223/HF 2386) that would have enabled all public employees, retirees, their spouses, their parents, and their spouse's parents to purchase long-term care insurance on a group basis. Coverage would have been optional with the full cost paid by the enrollee.

 The proposal was included in the Governor's budget and in the Senate budget bill. However, the initiative was defeated in the House Government Operations Committee. During the conference committee process, legislators agreed to limit eligibility to only state employees, their spouses, and their parents.

As a result, you will not be eligible to buy long-term care insurance under the program that was recently signed into law (Minnesota Statutes 43A.318). If you have concerns about this, we encourage you to contact your legislators and your employee and retiree associations. If you have questions, please contact either of us by phone or e-mail. Thank you.

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