



**U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

**Audit of the U.S. Office of Personnel Management's Oversight
of the Rate Monitoring and Procurement Process of the Federal
Long Term Care Insurance Program**

**Report Number 4A-HI-00-17-025
April 5, 2018**

EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management's Oversight of the Rate Monitoring and Procurement Process of the Federal Long Term Care Insurance Program

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Why Did We Conduct the Audit?

We conducted this audit due to the significant premium increases in the Federal Long Term Care Insurance Program (FLTCIP) that occurred at the inception of the third contract period (2016) and the concerns expressed by Federal employees with this increase.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the U.S. Office of Personnel Management's (OPM) oversight of the FLTCIP. Specifically, we reviewed OPM's procurement and rate monitoring processes for the FLTCIP. We performed our audit site visit from May 15 through 26, 2017, in Washington, D.C. We completed additional audit work at our offices located in Washington, D.C. and Cranberry Township, Pennsylvania.

What Did We Find?

We did not identify any issues for reporting related to OPM's oversight of the procurement and rate monitoring processes of the FLTCIP.

However, we did identify an area of potential program improvement related to FLTCIP contingency planning. Specifically, we determined that OPM has no formal contingency plan to address the risks of future premium increases and industry changes that have occurred related to the FLTCIP.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

FLTCIP	Federal Long-Term Care Insurance Program
John Hancock	John Hancock Life and Health Insurance Company
LTCP	Long Term Care Partners
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management

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I. BACKGROUND

This report details the results of our audit of the U.S. Office of Personnel Management's (OPM) Oversight of the Rate Monitoring and Procurement Process of the Federal Long Term Care Insurance Program (FLTCIP). The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

The FLTCIP was established by the Long Term Care Security Act (Public Law 106-265), which was signed by the President on September 19, 2000. The Act directed OPM to develop and administer a long term care insurance program for Federal employees and annuitants, current and retired members of the uniformed services, and their qualified relatives.

In December 2001, OPM awarded a seven-year contract to Long Term Care Partners (LTCP) to offer long term care insurance coverage to eligible participants. A new contract was awarded to John Hancock Life and Health Insurance Company (John Hancock) upon the expiration of the original contract. On October 1, 2009, John Hancock became the sole insurer and LTCP became a wholly-owned subsidiary of John Hancock. LTCP, with OPM oversight, is responsible for all administrative functions of the program, including marketing and enrollment, underwriting, policy issuance, premium billing and collection, and claims administration.

In April 2016, OPM again awarded the long term care insurance contract to John Hancock. During the procurement process for this contract, John Hancock was the only provider to submit a bid. OPM's current contract with John Hancock is set to expire on April 30, 2023. According to section I.3 of the contract, this is to be a fixed-price contract with prospective price redetermination. The contract is for a base period of seven years.

OPM's Federal Employee Insurance Operations, Individual Benefits and Life group has overall responsibility for administering the FLTCIP, including the publication of program regulations and agency guidelines, and also the following:

- Maintaining the OPM FLTCIP website;
- Liaison with Federal agencies and uniformed services;
- Facilitate the promotion of the FLTCIP as program sponsor;
- Be responsive on a timely basis to LTCP's requests for information and assistance;

- Perform, as provided by the Long Term Care Security Act, functions typically associated with insurance commissions such as the review and approval of rates, forms, and marketing materials; and
- Request any re-determinations, if necessary, from the Secretary of the Treasury pursuant to 26 U.S.C. 7702B(g)(2)(B)(iii) in order to ascertain that the FLTCIP meets the requirements of the National Association of Insurance Commissioners Long Term Care Model Act and Regulations.

This was the OIG's first audit of OPM's oversight of the FLTCIP. The initial results of this audit were discussed with OPM officials during an exit conference on September 25, 2017. A draft report was provided to OPM officials on January 18, 2018, for their review and comments. OPM's response to the draft report was considered in preparation of this final report and is included as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The main objectives of the audit were to determine whether OPM administered the FLTCIP procurement processes for the 2016 contract re-bid in accordance with the applicable Federal regulations, and to review the extent and involvement of OPM in the FLTCIP rate setting process and determine if OPM had any opportunities to mitigate price increases over the term of the 2009 contract.

Our specific audit objectives were to:

Procurement Process Review

- Obtain an understanding of OPM's policies and procedures related to the 2016 FLTCIP procurement process and to determine if the appropriate regulations were followed.
- Verify that the requirements mandated in the Long Term Care Security Act were followed by OPM's Office of Procurement Operations.

Rate Monitoring Process Review

- Obtain an understanding of OPM's policies and procedures related to monitoring of enrollee premium rates and the potential need for increases.
- Review the premium rate setting process and all related policies and procedures to determine what, if any, precautions are taken to mitigate future premium increases.
- Determine if the Healthcare and Insurance Office has a contingency plan in place for the FLTCIP, given the rapidly changing marketplace, in the event that the program is no longer sustainable.

SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The audit included a review of OPM's oversight of the procurement process for the 2016 FLTCIP contract and the rate monitoring process for 2009 through 2016. Our field work was conducted at OPM's headquarters in Washington, D.C., from May 15 through 26, 2017. Additional audit work was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

In planning and conducting the audit, we obtained an understanding of OPM's internal control structure as it relates to the oversight of the FLTCIP, to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Additionally, since our audit would not necessarily detect all significant matters in the internal control structure, we do not express an opinion on OPM's system of internal controls, taken as a whole.

We also conducted such tests of accounting records and other auditing procedures as we considered necessary to determine compliance with the FLTCIP contract and Federal regulations. Exceptions noted in the areas reviewed are set forth in the "Audit Results" section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that OPM had not complied, in all material respects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by OPM. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether OPM administered the FLTCIP procurement process for the 2016 contract re-bid in accordance with all Federal regulations and to determine if OPM had any opportunities to mitigate price increases over the term of the 2009 contract, we performed the following audit steps:

Procurement Process Review

- We met with OPM's Office of Procurement Operations to obtain an understanding of the procurement process and the policies and procedures that govern the procurement process to determine if appropriate Federal regulations were followed.
- We reviewed the Long Term Care Securities Act to determine if mandated contract requirements were followed by the Office of Procurement Operations.

Rate Monitoring Process Review

- We met with OPM's Office of Actuaries and Healthcare and Insurance Office to determine their roles in administering the FLTCIP, their responsibilities for monitoring the rates, the current policies and procedures for administering the program and to identify controls in place to mitigate rate changes. We also reviewed the FLTCIP Funded Status Reports provided by John Hancock for 2009 through 2015.
- To determine OPM's involvement in the rate setting process for the FLTCIP and what controls are in place to monitor rate changes, we met with OPM officials, we reviewed the FLTCIP contract to identify any rate requirements, we reviewed independent assessments of the premium rates submitted by John Hancock, and we reviewed Benefit Administration Letters sent to FLTCIP enrollees.
- To determine if OPM has a contingency plan in place for the FLTCIP in the event the program is no longer sustainable we interviewed OPM officials from the Office of Procurement Operations, Office of Actuaries, and the Healthcare and Insurance Office.

III. AUDIT RESULTS

A. Procurement Process Review

Our review determined that OPM followed Federal regulations related to procurement when awarding the 2009 and 2016 FLTCIP contracts.

B. Rate Monitoring Process Review

Our review determined that OPM effectively monitored the FLTCIP premium rates during program years 2009 through 2016.

The FLTCIP contractor, John Hancock, provides OPM with semi-annual funded status reports that include information on the Experience Fund¹ and premium rates. OPM's Office of Actuaries performs a review of the actuarial assumptions contained in the reports and provides a summary to the Healthcare and Insurance Office. As part of the monitoring of the FLTCIP, OPM meets with John Hancock to review the results of the semi-annual report, the Office of Actuaries' summary report, and investment results and strategy. John Hancock also performs a more detailed and extensive analysis of this information every three years.

During the second contract period, the semi-annual funded status reports indicated a fully funded Experience Fund until the report which was issued "as of 9/30/2013." In June 2014, John Hancock notified OPM of a potential funding shortfall in the Experience Fund. A shortfall would mean that at some point there might not be enough funds to pay expected future claims. John Hancock indicated that they would work with OPM to assess the implications of the funded status report findings and recommendations. In April 2015, John Hancock performed a thorough analysis of the claims experience and updated its pricing assumptions (which included lapse rates, return on investment rates, and mortality and morbidity rates) and determined that a premium increase was needed. As a result, John Hancock submitted a proposed premium rate increase to be effective May 1, 2016.

Because of the price increase proposed, OPM decided not to extend the current contract. In September 2015, OPM issued a new Request for Proposal in an effort to attract competitive bidders and better rates. However, John Hancock was the sole bidder and was awarded the seven-year contract, effective from May 1, 2016, through April 30, 2023. As previously proposed by John Hancock, premiums significantly increased for new FLTCIP applicants beginning in August 2015. In July 2016, current enrollees received personalized information detailing their premium increase and were given the opportunity to make coverage changes to

¹ FLTCIP premiums are held by the Program's insurer(s) in an Experience Fund, and kept separate from their other assets.

mitigate the premium increase. The premium increase for current enrollees took effect in November 2016.

C. Program Improvement Area

1. Contingency Planning

Procedural

The FLTCIP has been in place for 15 years and is in its third contract period. During those 15 years, the long-term care insurance industry has seen numerous changes, such as:

OPM needs to have contingency plans in place for the rapidly changing long-term care insurance market.

- In 2000, there were 125 insurers in the long-term care insurance marketplace. By 2014, there were only 12 insurers that were issuing at least 2,500 individual policies and only 5 insurers sold group policies;
- John Hancock, the current FLTCIP contractor, discontinued the sale of new group policies in 2010, and discontinued the sale of individual policies in December 2016;
- Today, only one insurance company offers a “true group”² plan, similar to FLTCIP; and
- Many insurers are now offering a hybrid product; long-term care insurance combined with either life insurance or an annuity.

Our review found a lack of competition for the FLTCIP contract, as evidenced by the fact that the most recent Request for Proposal attracted only one bidder. This is likely because the “true group” plan (like FLTCIP) is almost non-existent in today’s marketplace. However, John Hancock has stated they intend to continue to bid on and service the current FLTCIP contract.

When we approached the Healthcare and Insurance Office about contingency planning in the event it receives no bidders on its next Request for Proposal, it stated that the law ensures the continuance of the FLTCIP. Specifically, in the event that John Hancock does not bid on future Request for Proposals, OPM does have a provision in the current contract, which allows it to extend the contract beyond its expiration, requiring John Hancock to continue to service Federal employees previously enrolled. During rate negotiations, OPM can suspend

² A group plan usually consists of individual plans bundled together for a group rate. A “true group” plan is one policy filed in one state, with members given certificates.

new enrollments temporarily, if necessary. The Healthcare and Insurance Office informed us that any other changes to the FLTCIP would require legislation enacted by Congress.

Considering the rapidly changing environment of the long-term care insurance industry, OPM should develop a formal contingency plan to prepare for future FLTCIP procurement challenges. Although some changes may require regulatory or legislative actions, OPM should be proactive in planning for any changes that could arise in the future.

Recommendation 1

We recommend that OPM develop and implement a formal contingency plan well in advance of the next FLTCIP procurement action. The plan should take into consideration the risks in the long-term care insurance market that adversely affect the continuance and feasibility of the program.

OPM's Response:

OPM disagrees with our recommendation. OPM states that as part of its monitoring of the program, many of its departments are in regular contact with John Hancock. They meet with John Hancock monthly to discuss operational matters, and semi-annually to review the funded status reports. OPM further states it is discussing new product and plan design ideas and will continue to assess an array of options to address rate stabilization concerns and to ensure that FLTCIP will meet the needs of its enrollees.

OIG's Response:

The OIG agrees that OPM is effectively monitoring the current FLTCIP program (based on current regulations), as stated earlier in our report. Our concern is with the fast-paced change in the market of the long-term care insurance industry. While we are encouraged that OPM is discussing new product and plan designs with John Hancock, we would like to see more formal plans in place as to the implementation of future product changes. Although these are 'what if' scenarios, any potential changes to the product or discontinuance of the current product in the future would require significant planning and work with Congress to potentially change legislation. OPM should position itself with the ability to permanently suspend enrollment to new enrollees should the need arise. Preplanning and road-mapping potential future changes will ensure continuity for the FLTCIP enrollees.

APPENDIX



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

March 15, 2018

MEMORANDUM FOR:

[REDACTED]
Chief, Special Audits Group

FROM: EDWARD
DEHARDE

Digitally signed by EDWARD
DEHARDE
DN: cn=U.S. Government,
ou=Office of Personnel
Management, cn=EDWARD
DEHARDE,
0.9.2342.19200300.100.1.1=2400
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Date: 2018.03.16 09:36:46 -
0400

for ALAN SPIELMAN
Director, Healthcare and Insurance

SUBJECT:

Draft Report on the Audit of the U.S. Office of
Personnel Management's Oversight of the Rate
Monitoring and Procurement Process of the Federal
Long Term Care Insurance Program Report number
4A-HI-00-17-025

Thank you for providing OPM the opportunity to respond to the Office of the Inspector General (OIG) draft report on the Audit of the U.S. Office of Personnel Management's Oversight of the Rate Monitoring and Procurement Process of the Federal Long Term Care, Report number 4A-HI-00-17-025.

Our response to the recommendation is provided below.

Recommendation # 1: We recommend that OPM develop and implement a formal contingency plan well in advance of the next FLTCIP procurement action. The plan should take into consideration the risks in the long-term care insurance market that adversely affect the continuance and feasibility of the program.

Management Response:

Do Not Concur. As the draft report acknowledges, the FLTCIP law and the terms of the FLTCIP contract ensure the continuance of the program. OPM may extend the contract, beyond its expiration, if needed.

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In addition, OPM continues to incorporate mitigating controls and consider program modifications to address the concerns that we mutually share. These include:

1. OPM contracting, actuarial, management offices, and executive leadership are in regular contact with John Hancock to monitor the program and assess rate sufficiency in order to ensure that premiums “reasonably and equitably reflect the cost of the benefits provided” and that they are sufficient to pay future claims.
2. OPM is discussing new product and plan design ideas to address rate stabilization concerns for FLTCIP.

In short, OPM continually monitors the performance of FLTCIP through standards agreed upon in the contract. John Hancock provides OPM with semi-annual funded status reports that include information on the Experience Fund and premium rates. In addition, John Hancock meets with OPM to review the status reports as well as investment results and strategy. Finally, OPM and John Hancock discuss the operational aspects of FLTCIP on a monthly basis.

OPM recognizes the evolving state of the long-term care industry and has been proactive in monitoring the program’s performance, while engaging in meaningful dialogue and analysis to best position the program for the future. OPM will continue to assess plan benefit and design options to ensure that FLTCIP enrollees are receiving an array of options to meet their long term care needs.



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