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***Long Term Care Partnership:
Challenges, Opportunities
& State Implementation Update***

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Overview of Presentation

- Backdrop for New Partnership Initiative
- Basic Concept
- Partnership Initiative Roll Out & Status
- State by State Implementation Update
- Issues for Consumers & Agents
- Concluding Remarks
- Questions?

Backdrop For New Partnership Initiative

- Deficit Reduction Act of 2005
- Factors driving the new initiative
- Rules of engagement
- Other activities to support success of Partnership Initiative

Deficit Reduction Act – Key Messages

- People should take personal responsibility for their future long term care needs
- Incentives for planning ahead:
Partnerships, expand on-going consumer awareness campaign, supportive educational government website
- Disincentives if you do NOT plan: tougher to rely on Medicaid

Deficit Reduction Act of 2005

- Signed by President, February 8, 2006
- Important provisions for long term care
- Promote LTC insurance market growth through both “carrot” and “stick” approach
- **Stick** = tougher to qualify for Medicaid
- **Carrot** = educate and motivate personal responsibility

The “Stick”

Significant changes in Medicaid policy – tighten Medicaid loopholes

- *Increase penalties for transfer of assets for less than fair market value*
- *Asset transfer look back period up from 36 to 60 months*
- *Include certain annuities as “countable assets” for spend-down purposes*
- *Individuals with equity interest in their home of greater than \$500,000 excluded from Medicaid eligibility for LTC (states can elect amounts of \$500,000 to \$750,000)*

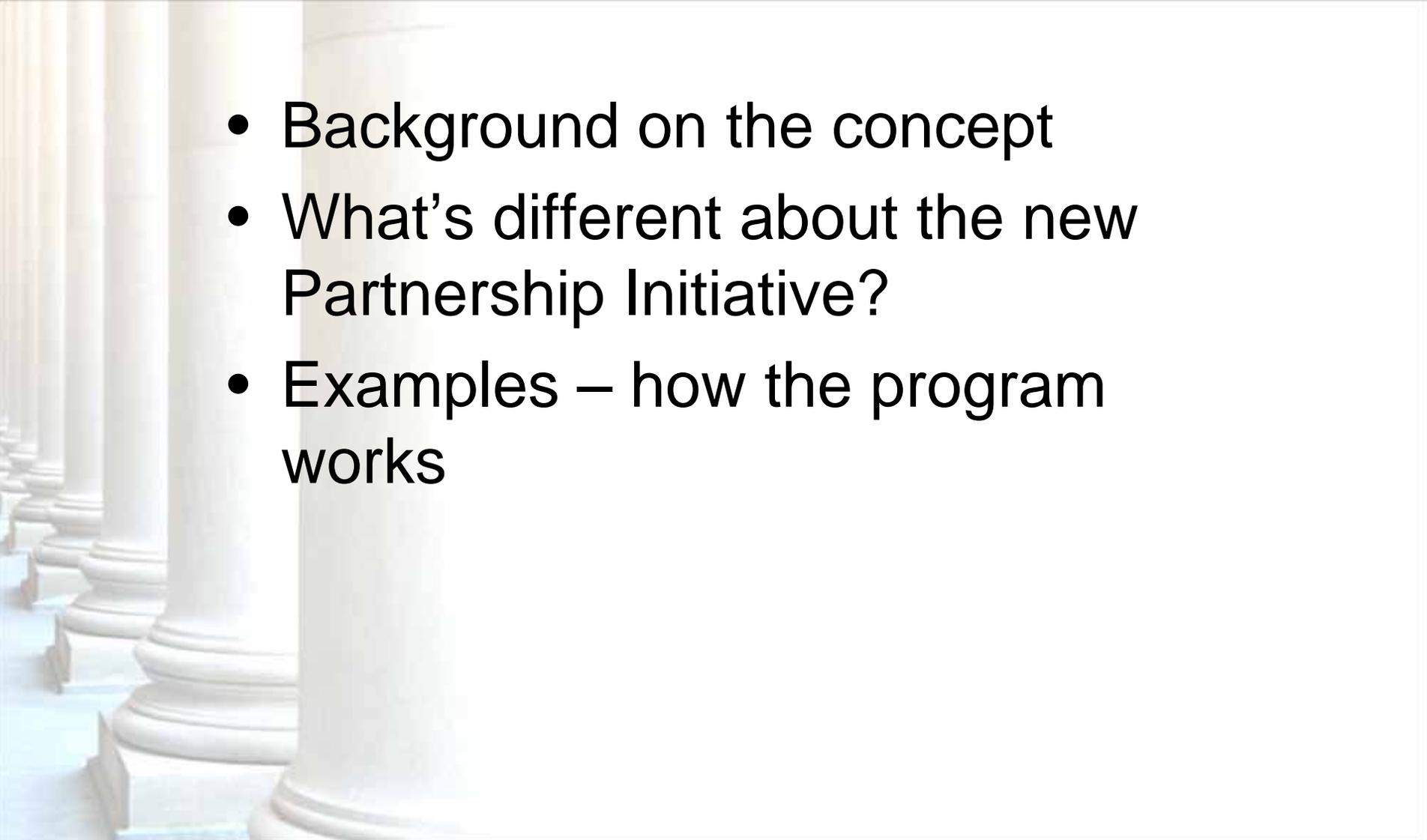
“The Carrot”

- Create **National Clearinghouse for Long Term Care** to provide education/motivation for private finance options
 - Expand “Own Your Future” campaign to additional states over the next 5 years
 - Consumer website (www.longtermcare.gov)
- **Expand Long Term Care Partnership initiative:**
 - Allow expansion of concept to all states
 - States file a State Plan Amendment with CMS to participate
 - Goal is to have reciprocity and uniformity
 - Encourage private responsibility!

Implementing DRA

- Medicaid provisions already “law” so more immediate impact
- Media, consumers and elder law attorneys and financial planners “waking up”
- Clearinghouse and Awareness Campaign also underway
- Strong evidence from “Own Your Future” of favorable impacts especially regarding LTC sales and other planning actions

Partnership Concept

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- Background on the concept
 - What's different about the new Partnership Initiative?
 - Examples – how the program works

Partnership Basics

- **Objective** – reduce Medicaid LTC costs by encouraging people at risk for “spend down” (or who would otherwise transfer assets) to buy LTC insurance instead
- Reward people who buy Partnership Policy by providing some “back end” protection if they use up private coverage and still need LTC.
- “Reward” is that they can access Medicaid LTC benefits without meeting the usual Medicaid asset “spend down” rules
- **Additional Asset Disregard:** Keep \$1 of assets for every \$1 received in LTC benefits from Partnership policy

Example

- Buy Partnership policy with Lifetime Maximum of \$200,000
- Use up private LTC policy* and apply for Medicaid
- Single person would otherwise get to keep \$2,000 in assets (and state would recover from estate after death)
- With Partnership policy, this person can keep \$202,000 in assets (and state won't recover this after death)
- Any additional assets person has **MUST** be spent down
- If state has income limit to qualify for Medicaid, person must also meet that before they can get Medicaid LTC benefits
- Individual must also meet all other Medicaid eligibility criteria

*In this example only – benefit exhaustion not required in most states.

Partnership Caveats

- “LTC services you can receive under Medicaid may differ from services covered under your LTC policy”
- Protects (some) assets, but not income
- Medicaid can change list of what LTC services it will cover in the future
- Medicaid eligibility is not automatic – must meet general eligibility requirements as well as functional, income and asset thresholds

Original Partnership Program Experience

- Operating since 1992
- California, Connecticut, Indiana & New York
- Dollar-for-dollar model in California & Connecticut
- NY has a “total asset disregard” approach & recently added a dollar-for-dollar option.
- Indiana also has a hybrid approach offering both options.

What Do We Know About Original Partnership Programs?

- More than 172,000 people had Partnership policies (as of 2005)
- Estimated at close to 200,000 at present
- This represents about 15% of all LTC policies in force in the 4 original Partnership states
- Of these, only 251 policyholders have exhausted benefits
- Of these, it is estimated that about 150 have gone on to Medicaid

Program Roll Out

- Rules of engagement
- Status of state activity
- Unknowns and concerns
- Next steps

Key Provisions of Partnership Expansion

- **Participation** – states file Medicaid State Plan Amendment with HHS.
- **Uniformity** – States can NOT impose requirements on Partnership policies that are different from state requirements for non-Partnership plans.
- **Reciprocity** – HHS to determine rules but idea is that you can get “spend down protection” in one state even if you bought Partnership policy in different state. ***States can opt out!***

Key Provisions of Partnership Expansion

- Tax qualified policies only
- Policy must meet NAIC 2000 model act requirements
- Benefit exhaustion not required
- HHS must develop insurer reporting requirements to central repository (registry)
- HHS define standards for reciprocity
- HHS report annually on Partnerships' impact

Key Provisions (con't)

- Existing LTC insureds NOT grandfathered in, even if their policy has all components now required to be “Partnership” policy
- However, states are allowing “exchanges” although rules and insurer protocols may vary
- Additional agent training requirements to be determined by states
- Only benefit mandate (beyond what is included in TQ) pertains to inflation protection

Reporting Requirements

- HHS desire to streamline and simplify
- Design objective: information collected should meet the needs of all stakeholders and be feasible for insurers to participate
- Goal is to avoid state-by-state reporting but still give states access to the data they need
- HHS studied current reporting requirements
- Stakeholders have been involved in discussion on reporting requirements
- Expect to begin insurer reporting using these Reporting Requirements January 2009

Reciprocity Standards

- Draft under consideration
- Encourage states to offer reciprocity
- Portability of Partnership important sales point
- To what extent do people move when they need LTC?
- More likely with younger people buying today
- Movement patterns – “gain” and “loss” states

Reciprocity Standards (con't)

- Neutral to “losing” state since they don’t have to provide Asset Disregard
- “Receiving” state benefits because more people have LTC insurance
- But also means they may need to provide Medicaid Asset Disregard for those people at some future date
- States can “opt out” initially or at any time
- “Receiving” state’s Medicaid rules apply in determining eligibility and asset disregard. But policy does not lose Partnership status if Partnership program rules in receiving state differ from the insured’s original state of residence.

Key Concerns

- How much uniformity will there really be?
- Inflation protection is critical issue
- What “changes” result in loss of PQ status?
- Handling exchanges
- Consumers may “put off” purchase until state’s implementation is complete

Key Concerns

- Industry can't promise how much or what kind of reciprocity/portability there will be
- States can't promise that they will continue to maintain their Partnership programs in the future
- Compelling advantages, but more complicated concepts and procedures
- Learning curve for insurers & agents – different products, sales techniques, reporting requirements, disclosures
- Make sure insureds don't "fall through the cracks" when it comes time to claim asset disregard

Selling Partnership --Then

- Specialized Partnership training for each state –requirements & state programs vary
- Little or no training reciprocity
- Little hope for broad PQ policy reciprocity across many states
- Partnership policies with special requirements

Selling Partnership -- Now

- Agent training requirement encompasses full spectrum of LTC and Medicaid issues, as well as Partnership
- Partnership policies basically TQ with IP requirements
- Training reciprocity across states?
- More players because reporting and product design greatly simplified
- Reciprocity important

Impact of Partnership on Sales

- What percent of market will be represented by Partnership Plans in the future?
- How will Partnership initiative change who buys?
- How will it change what is sold – e.g., shorter benefit durations; more inflation protection; others?

- Policies offering possibility of back-end protection
- Increased public awareness
- Policies viewed as possibly more affordable with increased protection to more limited policies
- Increased training and education for agents, along with increased credibility with public

Cons of Selling Partnership -- Agents

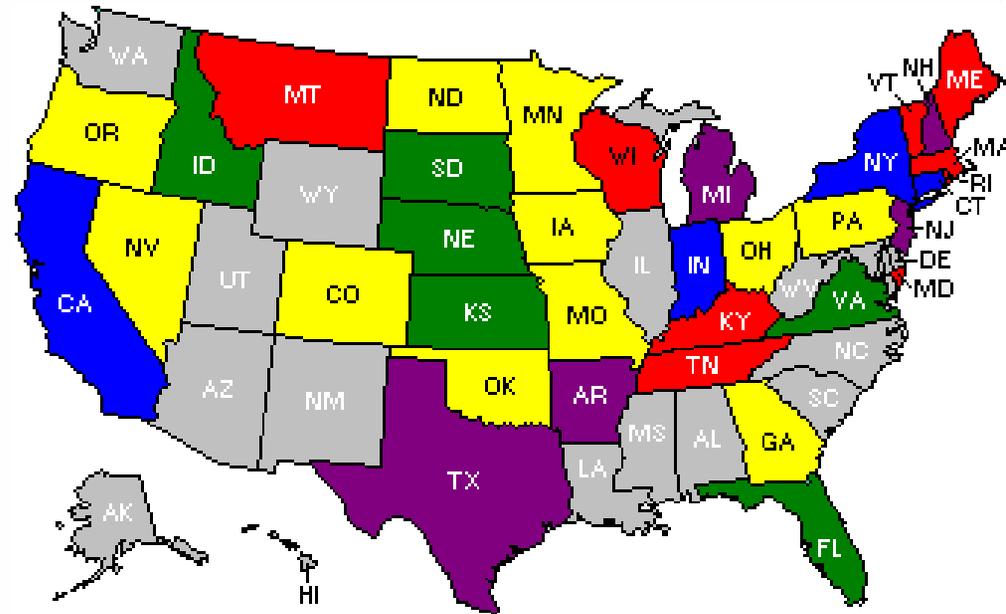
- Greater responsibility for disclosure and disclaimers – Medicaid viability and limitations, sales pre-dating SPA effective date
- Training might be more burdensome if non-resident state doesn't allow training reciprocity and classroom training is required elsewhere
- Existing states can continue as they are

Consumer Education

- Important adjunct to success of Partnership initiative
- National Clearinghouse for Long Term Care Information can help (www.longtermcare.gov)
- “Own Your Future” Campaign – OH and PA are next
- State-specific campaigns focused on Partnership, (e.g., South Dakota, NY)

Status of Partnership Implementation (as of 2-1-08)

- Policies for sale
- SPA Approved
- SPA Submitted
- Original Partnership State
- Enabling legislation & other state info



States With Approved State Plan Amendments (SPAs)

- 
- **Colorado**
 - **Florida**
 - **Georgia**
 - **Idaho**
 - **Iowa (not part of “new” Partnership)**
 - **Kansas**
 - **Minnesota**
 - **Nebraska**
 - **Nevada**
 - **North Dakota**
 - **Ohio**
 - **Oregon**
 - **Pennsylvania**
 - **South Dakota**
 - **Virginia**

States With Operational* Programs

- **Colorado**
(begins 1/1/08)
- **Florida**
- **Idaho**
- **Kansas**
- **Minnesota**
- **Missouri**
- **Nebraska**
- **North Dakota**
- **Ohio**
- **South Dakota**
- **Virginia**

*Programs are “operational” in states whose insurance departments are accepting Partnership state filings for review and approval.

States with SPAs Pending

- **Arkansas**
- **Michigan**
- **New Hampshire**
- **Oklahoma**
- **Texas**
- **More states expected to follow:**

Based on recent survey of State Medicaid Directors, 20 out of 40 states interviewed expressed interest in implementing Partnership programs within the coming year.

Implementation Issues for States with Approved SPAs

- PQ Certification Process & Forms
- Inflation Protection Requirements
- Policy Exchanges
- Disclosure Notices
- Agent Training
- Consumer Education & Outreach

- Process whereby states verify that insurers' policy forms contain the required provisions for PQ status
- Many states have state-specific certification form
- To some degree, self-certification checklist approach

Require State-Specific Form for PQ Certification

- **Idaho**
- **Kansas**
- **Minnesota**
- **Missouri**
- **Nebraska**
- **North
Dakota**
- **Ohio**
- **South
Dakota**
- **Virginia**

Inflation Protection

- Most “talked about” and unique requirement of PQ policy
- Remember, all TQ policies mandate offer of 5% compound annual inflation protection
- PQ policies go further: Must meet age-specific inflation protection requirements:
 - Persons \leq age 60 must have annual compound inflation protection
 - Ages 61-75 must have some form of inflation protection
 - Ages 76+ must be offered some form of inflation protection
- Some states interpreting “annual compound inflation protection in a variety of ways

Allow CPI-Based Inflation Protection for Buyers Younger Than Age 61

- 
- **Idaho**
 - **Minnesota**
 - **Nebraska**
 - **Ohio**
 - **South Dakota**

Allow Inflation Protection Less Than 5% Compounded for Buyers Younger Than 61

- Idaho (only CPI-based and on compound basis)
- Minnesota
- Missouri (3% or more)
- Nebraska
- Ohio
- South Dakota
- Virginia

Exchanges

- Some people bought policies prior to state's Partnership or DRA effective date
- For many, these policies, but for timing of purchase, satisfy all the PQ requirements
- For others, only change required pertains to inflation protection
- States mandating/allowing a variety of approaches to allow insured to exchange their pre-PQ policy with one that is PQ

Require Insurers Offer Exchanges*

- **Florida (Back to date of DRA)**
- **Missouri (Back to date of DRA and premium based on original issue age as long as there is no coverage increase)**
- **Ohio (8/12/2002)**
- **Pennsylvania (Back to date of DRA and premium based on original issue age as long as there is no coverage increase)**

*Required exchange back to date specified; some states allow insurers to offer exchanges further back in time.

Partnership Disclosure Notice

- Important for insureds to know whether or not they have PQ policy
- Important they know what circumstances might cause them to lose their policy's PQ status
- States mandating variety of approaches to notify insureds
- Important no one “slips through the cracks” at time of claiming asset disregard

Notice of Amount of Asset Disregard Earned

- No mechanism yet formalized
- Some options under consideration
- The “90 day” letter
- 1099 form to track benefits earned
- Insurer statement provided upon request
- Statement on the EOB while in claim

Require Special Partnership Notice for Partnership Insureds*

- **Florida**
- **Idaho**
- **Kansas**
- **Minnesota**
- **Missouri**
- **Nebraska**
- **North Dakota**
- **Ohio**
- **Oregon**
- **South Dakota** (also requires notice for Non-Partnership Insureds)
- **Virginia**

*Specifies terms under which PQ status may be lost

Policy Changes that May Impact PQ Status

- Drop inflation protection
- Move to state without Partnership program or without PQ reciprocity
- Change some other aspect of coverage (if required as part of state Partnership)

Address What Might Jeopardize Partnership Qualified Status*

- **Florida**
- **Idaho**
- **Minnesota**
- **Nebraska**
- **North Dakota**
- **Ohio**
- **Oregon**
- **Virginia**

*Most notably, moving out of state, making certain coverage changes, changes in state/federal law.

Unique Provisions in Minnesota

- **Allows Future Purchase Option (FPO) for buyers younger than age 61:**
 - Offers must be 5% annual
 - No offer can be refused until age 66
- **Allows insured's to downgrade on inflation protection when they reach the next age-tier:**
 - Buyers attaining age 66 who bought prior to age 61 can drop inflation protection
 - Buyers from ages 61 through 75 must continue inflation protection for first 5 consecutive years or age 76, whichever comes first
- **Requires Exhaustion of Benefits Before Asset Disregard is Applied**

Agent Training

- Important component of Partnership program
- Have knowledge to adequately assess suitability and know what the client is getting
- Know what differentiates PQ from NQ
- Know in general sense about Medicaid eligibility and service requirements in states where you sell
- Know PQ-specific procedures and rules where you sell (including reciprocity options)
- Comply with required agent training and continuing education

Require Partnership Training for Agents

Requires Training of All Agents:

- Colorado (1/1/09)
- Florida (8/1/07 for agents selling Partnership; 12/31/07 for agents not selling Partnership)
- Idaho (11/1/07)
- Iowa (1/1/09)
- Minnesota (1/1/08)
- Ohio (9/1/08)
- Oregon (1/31/08)
- South Dakota (7/1/08)

Requires Training only of Agents Selling Partnership:

- Missouri (prior to selling, soliciting, negotiating PQ policy)
- Nebraska (8/1/08)
- North Dakota (7/1/08)
- Virginia (9/1/07)

Minimum Training Requirements (Initial; Ongoing)

States that follow NAIC model of 8 hours initially and 4 hours every 24 months:

- Idaho, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oregon, South Dakota

States with Variations on the NAIC Requirement:

- Colorado (16 hrs – 8 LTC, 8 Partnership; 5 hrs every 24 months)
- Florida (1 hour of state-specific training)
- Iowa (8 credits; 6 credits every 3 years)
- Virginia follows NAIC but requires 2 hours to be Virginia-specific

Outline Topics for Agent Training

- 
- Colorado
 - Florida
 - Idaho
 - Iowa
 - Minnesota
 - Missouri
 - Nebraska
 - North Dakota
 - Ohio
 - Oregon
 - South Dakota
 - Virginia

Offer Training Reciprocity

- **Colorado**
(looking into issue further)
- **Idaho**
- **Iowa**
- **Minnesota (with conditions)**
- **Missouri**
- **Nebraska**
- **North Dakota**
- **Ohio**
- **Oregon**
- **South Dakota (with conditions)**
- **Virginia (with conditions)**

CONCLUDING REMARKS

- Good news – lots of state and insurer interest
- Unknowns – important to resolve with as much consistency across states as possible
- Industry Responsibility
- Exciting opportunity to transform the nature and type of LTC coverage purchased, legitimize the purchase and better educate consumers to take personal responsibility.

Contact Information

- HHS Partnership website:
www.dehpg.net/ltcpartnership
- About “Own Your Future” Campaign:
www.aoa.gov/ltc/awareness_campaign.asp
- Clearinghouse Consumer Education Website
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