House Legislative Analysis Section
House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

MPSERS: LONG TERM CARE INSURANCE

House Bill 4285 (Substitute H-1)
First Analysis (4-8-03)

Sponsor: Rep. Stephen Ehardt
Committee: Senior Health, Security and Retirement

THE APPARENT PROBLEM:

It has been estimated that any person who lives to age 65 will have a 50 percent chance of spending some time in a nursing home. Nursing home care, including skilled nursing care and intermediate nursing care, costs approximately $54,000 per year, or $150 per day. Less intensive custodial care alone (including such things as help with bathing, dressing, eating, and supervision, and which may be provided at home or in other settings) can cost as much as $15,000 per year. Many people, perhaps most, are not prepared to deal with the staggering costs of paying for long term care, should the need arise. Unfortunately, most private medical and disability insurance does not cover the cost of long term care, and Medicare offers limited assistance. Medicaid, designed for people who have very little in assets and income, covers nursing home care only after a person spends most of his or her assets. Medicaid may also limit choices about which nursing homes may be used.

For these reasons, states and the federal government, along with many employers, have embarked on public educational campaigns to promote awareness about the need for people to plan ahead for long term care needs. The State of Michigan recently added a group long term care insurance plan for its employees through MetLife (the plan is voluntary and the premium is entirely paid by the employee). Eligibility is extended to spouses and family members, and to retired state employees, public school employees, state police employees, and judges.

Active state employees who enroll in the long term care plan pay their premiums through payroll deduction. Retirees, however, have not been offered the option of having premiums deducted from their retirement benefits. At the request of an organization that represents retired school personnel, legislation has been introduced to require the Michigan Public School Employees Retirement System (MPSERS) to provide an option for retirees to direct part (or all) of their retirement benefit toward the cost of long term care insurance.

THE CONTENT OF THE BILL:

The bill would amend the Public School Employees Retirement Act to require – beginning July 1, 2004 - the retirement system to withhold the entire monthly premium for voluntary group long term care insurance coverage for retirees and their beneficiaries and dependents, at the option of the retiree. The bill specifies that if the entire monthly premium were greater than the retirement allowance, the retirement system would withhold the entire retirement allowance and apply it toward the premium. The bill would apply only for a long term care insurance plan authorized by the retirement system.

"Long term care insurance" would be defined to mean group insurance to cover the cost of services provided by nursing homes, assisted living facilities, home health care providers, adult day care providers, and other similar service providers.

MCL 38.1304 and 38.1392

BACKGROUND INFORMATION:

Two similar bills, House Bill 4376 and Senate Bill 462, were introduced in the 2001-2002 legislative session. Each was passed by its respective chamber.

<u>ORS</u>. The Office of Retirement Services administers the retirement systems for state employees (civil service and legislative employees), public school employees, state police employees, and judges.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would increase administrative costs of the Public School

Employees Retirement System. The amount would be indeterminate and would depend upon the number of retirees choosing the option to have the premium amount for long term care insurance deducted from their monthly pension benefits. As of 9-30-02, there were 135,277 retirees/beneficiaries in the system and 326,538 active members. (4-4-03)

ARGUMENTS:

For:

As a matter of convenience for retirees, the retirement system should provide a payroll deduction option so that retirees could have their long term care insurance premium deducted from their retirement benefits and paid directly to their insurer. Reportedly, due to memory lapses associated with aging, medication usage, or dementia, it is not uncommon for a retiree to forget to pay his or her long term care insurance premium on time. Unless a payment is received within the allowed grace period, the policy is cancelled. This presents an extreme hardship for the retiree who has paid into the policy for a number of years, perhaps decades, and now because of advanced age or existing medical condition is either priced out of obtaining another policy or denied altogether. There would not be a cost to the state to pay a long term care insurance premium from a person's pension, except for administrative expenses, as the insurance coverage is completely at the expense of the retiree. As the state has in place a system for state employees to have the premium paid through payroll deduction, it should not be overly burdensome for the retirement system to establish a similar system. Perhaps the added convenience would even persuade some retirees to purchase long term care insurance, which the state has been trying to promote among its citizens, employees, and retirees.

Response:

The bill is unnecessary. Retirees who have long term care insurance with MetLife and who are concerned with missed payments can already arrange to have premiums paid directly from their bank accounts. Further, according to an ORS representative, it is the intention of the office to provide this service to retirees in all of the state-administered retirement systems, regardless of the bill's status. However, to do so would require the development of a new computerized system. Since ORS will be switching to an entirely new information technology system in the near future, and since developing a software program to handle the premium deductions will involve some costs associated with program development and testing, it was decided that instituting such a service should wait until the new IT system is in place. Otherwise, the pension deduction system would become obsolete shortly after implementation and a new one that would be compatible with the new IT system would have to be developed.

The new IT system should be online by July of 2004 and it is expected to have the capability to deduct a retiree's long term care insurance premium from his or her pension check for payment to the insurance company. It should be remembered, however, that the bill applies only to retirees in the Public School Employees Retirement System and that the only premium payments that would be deducted for a long term care insurance plan would be for a plan authorized by the retirement system. Currently, the only authorized plan is the one with MetLife.

Against:

While premium deductions from a pension check (as the bill would provide) and the current availability of having premiums automatically deducted from a retiree's bank account would meet to the needs of those retirees who have enrolled in the state's group plan offered by MetLife, there is no similar arrangement in place for those who hold policies from other companies. If the goal is to meet the needs of the majority of retirees (who, so far, have not chosen to participate in large numbers in the state's group plan with MetLife), then these options should be expanded to cover any insurance company from which a retiree elects to purchase a long term care insurance plan.

Response:

Though it may seem simple on the surface, making deductions from a paycheck or pension check is a complicated process for the state. For example, the state must develop a relationship with and approve a vendor before automatic deductions and payments could be made. Also, there are costs associated with a check being cut and mailed to the insurance company. Most banks and other financial institutions, on the other hand, already have bill payment systems in place to handle electronic fund transfers from a person's bank account to an insurance company for the purpose of automatic premium payments.

POSITIONS:

The Michigan Association of Retired School Personnel supports the bill. (4-3-03)

The Retirement Coordinating Council supports the bill. (4-3-03)

Elder Law of Michigan and the Office of the State Long Term Care Ombudsman support the bill. (4-3-03)

The Office of Retirement Services in the Department of Management and Budget is neutral on the bill. (4-3-03)

Analyst: S. Stutzky

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.