

CALPERS LONG-TERM CARE INSURANCE

CATEGORY A—FREQUENTLY ASKED QUESTIONS FOR CURRENT POLICYHOLDERS

Q: What will I receive under the Settlement?

A: If you are a current policyholder—meaning you are continuing to pay premiums and are not currently On Claim—and you remain a current policyholder as of the Final Settlement Date, you will receive a full refund of all premiums you have paid for your CalPERS Long-Term Care Insurance Policy (“CalPERS LTC Policy” or “Policy”) from the date you first signed up for the Policy through the date the Settlement becomes Final (also known as the “Final Settlement Date”). The amount of the refund of premiums that you receive will be reduced by the amount of any benefits you received if you went on and off claim at any time prior to the Effective Date. **However, in exchange for this full refund you will be surrendering your CalPERS LTC Policy and will not be entitled to receive any benefits from that Policy after the Final Settlement Date and you will be releasing all Released Claims against CalPERS. If you want to keep your CalPERS LTC Policy, you must exclude yourself from the Settlement. Instructions on how to request exclusion or “opt out” of the Settlement are included in the Notice of Class Action Settlement at Section 12.**

Q: If I decide to purchase a Replacement LTC Policy (Option 2), what will that policy provide?

A: Once it is determined how many and which policyholders elect Option 2 in the Award Acknowledgment Form, the brokers working on behalf of the Class will attempt to procure a policy with the following minimum characteristics:

1. The replacement long-term care insurance will be backed by a large insurance carrier that is rated “A” or higher;
2. The replacement long-term care insurance will be regulated by the California Department of Insurance;
3. Any new replacement long-term care policy will *not* require underwriting;
4. Policyholders will *not* have to pay any further premiums to the new insurance carrier going forward—instead, the policy will be funded by the transfer of the premium refund you would receive under this Settlement to the new insurance carrier;
5. The policies will provide coverage for three (3) years of LTC benefits; and
6. As for the nursing home daily benefit amounts, the broker has informed us that the final daily benefit amount you will receive will vary based on the amount of your premium refund and your age, among other potential factors. In any event, and subject to the caveat, any replacement LTC Policy that is sought from insurers will have a nursing home daily benefit amount falling somewhere within the following minimum/maximum range:

Refund Amount	Minimum Nursing Home Daily Benefit	Maximum Nursing Home Daily Benefit
Under \$40,000	\$142.50	\$157.50
\$40,000 - \$60,000	\$182.25	\$204.75
\$60,000 - \$80,000	\$209.00	\$231.00
\$80,000 - \$100,000	\$232.30	\$257.70
\$100,000 - \$140,000	\$289.75	\$320.75
\$140,000 and Above	\$308.75	\$341.25

It is important to understand that the daily Nursing Home Benefit Amount noted above will be the *lesser* of the amount above corresponding to your premium refund, OR your current benefit level within the CalPERS Plan. In other words, if your daily benefit amount is currently lower than the amounts listed in the chart, that is the daily benefit amount you will receive under the new policy.

Although the benefits offered under the Replacement Policies are likely less than what you have with CalPERS, it is important to recognize that the Replacement Policies will *not* require the payment of any future premiums, will *not* require underwriting, *will* be regulated by the state of California, and will have no affiliation with CalPERS or any government entity.

Q: If I select the option of purchasing a Replacement LTC Policy (Option 2), when will the policy begin providing coverage?

A: If you select Option 2, there is no guarantee you will receive a Replacement LTC Policy. As indicated in the accompanying documents, the broker who is working on behalf of the Class will attempt to obtain replacement LTC Policies for Settlement Class Members once it is determined who and how many select this option. After all Settlement Class Members have made their election, the broker will then have 30 days to obtain Replacement Policies for Settlement Class Members who selected this option. You will then be notified whether the Replacement Policies are available. Once the Settlement becomes Final, meaning it is approved by the Court and there are no appeals, your premium refund will be transferred to the replacement insurance carrier and, once received, your replacement policy will go into effect. **Because there is a delay between the time you select Option 2 and the date your policy will become effective, it is important to continue paying premiums to CalPERS until the new policy goes into effect.**

Q: If the brokers cannot obtain an adequate Replacement LTC Policy, what happens?

A: The broker who is working on behalf of the Class will attempt to obtain replacement LTC Policies for Settlement Class Members once it is determined who and how many select this option. After all Settlement Class Members have made their election, the broker will then have 30 days to obtain Replacement Policies for Settlement Class Members who selected this option. You will then be notified whether the Replacement Policies are available.

If, for some reason, the broker is unable to secure a replacement Long-Term Care policy for interested Settlement Class Members (due to a lack of interest, insurer refusal, actuarial issues, or other unforeseen problems), Settlement Class Members will still have the right to either receive a full refund of their net premiums, or exclude themselves from the Settlement and stay with CalPERS (Option 1 or 3 in the Award Acknowledgement Form). In either scenario, Settlement Class Members will have limited time to make that choice once a replacement Long-Term Care insurance product is determined.

Q: If I select the option of purchasing a Replacement LTC Policy (Option 2), can I change my mind?

A: Yes, though this could impact whether the Replacement LTC Policy is ultimately offered, so we encourage you to select Option 2 *only if* you are committed to a Replacement LTC Policy. Since the pricing of the Replacement LTC Policies is based entirely on how many and who decides to elect this option, once made, the decision should not be rescinded. Assuming a replacement Long-Term Care policy for interested Settlement Class Members is feasible and achievable, you will receive another letter confirming that option and disclosing the insurer, the terms of the product, and the Evidence of Coverage, if available, for any replacement Long-Term Care insurance product. Once you are notified whether replacement policies will be offered, you will be given an opportunity to accept the replacement policy if one is being offered, or you can decline the replacement policy and elect to receive a premium refund or opt out of the Settlement.

Q: What if I don't return my Award Acknowledgment Form?

A: If you do not return your Award Acknowledgment Form, it will be assumed that you have elected to Surrender your CalPERS LTC Policy in exchange for a full refund of your premiums. However, it is important to sign and return the form in order to ensure that your Settlement check is delivered to the correct address and made out to the appropriate party. For this reason, we urge you to return the Award Acknowledgment Form.

Q: If I want to keep my CalPERS LTC Policy what should I do?

A: If you want to keep your CalPERS LTC Policy, you must exclude yourself from the Settlement by following the directions spelled out in Section 12 of the Notice of Class Action Settlement or by returning the Award Acknowledgment Form and checking Option 3. However, please be aware that if you exclude yourself from the Settlement, you will not receive a refund of any premiums and will have to continue paying premiums to CalPERS in the future to prevent your Policy from lapsing. This obligation to continue paying premiums also includes paying the recently announced premium increase of up to 90%, or reducing your benefits, as well as any other premium increases CalPERS may elect to impose in the future. You will also not release any claims against CalPERS if you exclude yourself from the Settlement.

Q: Will my premium refund be reduced by attorneys' fees or litigation expenses?

A: No. As part of the Settlement, CalPERS has agreed to create a separate fund *on top of* the amount being paid to Class Members to cover the cost of notice, litigation expenses, attorneys' fees, and other potential costs that may be associated with opt outs. If the Settlement is approved by the Court, and you remain a current policyholder on the Final Settlement Date, you will never receive anything less than a full premium refund (less any benefits paid).

Q: How does the up to 90% premium increase that CalPERS recently announced factor into my decision?

A: CalPERS recently announced that it would be increasing premiums by 52% in November 2021 and up to an additional 25% in 2022. If the two premium increases are fully implemented, this effectively amounts to a combined 90% increase over the next 2 years. If you decide to exclude yourself from the Settlement and keep your CalPERS LTC Policy, you will have to either pay the premium increase or reduce your benefits. CalPERS has provided or soon will be providing you with information regarding your options for reduction of benefits to avoid the premium increase and also the amount you will have to pay if you choose to pay the CalPERS premium increase. The announcement of this new premium increase and future potential premium increases is one of the key reasons that Plaintiffs' Counsel and the Plaintiffs are recommending the Settlement.

Q: If I want to participate in the Settlement, should I continue paying premiums to CalPERS until the Settlement becomes Final?

A: Yes. The Settlement must be approved by the Court for it to become effective and for you to receive the Settlement benefits. A hearing to determine if the Court will approve the Settlement is currently set for June 8, 2022. If the Settlement is approved, and there are no appeals, the Settlement will officially take effect approximately 60 days later. This date is known as the "Final Settlement Date." If the Settlement is not approved and you stop paying premiums, you will forfeit all the premiums you have paid and you will also lose your LTC Policy benefits. **For these reasons, it is vital that you continue paying premiums as if there was no Settlement until the Final Settlement Date.** If the Settlement is approved and you are not On Claim and have not asked to be excluded from the Settlement, you will receive all of the premiums you paid up to the Final Settlement Date (less any benefits paid).

Q: Do I still have to pay the recently announced premium increase when those increases take effect if the Settlement is not yet Final?

A: Yes. There is always a chance the Settlement will not be approved or that approval may be delayed. **Thus, it is critical that you continue paying your CalPERS LTC Policy premiums as if there was no settlement.** This includes either paying the upcoming premium increase CalPERS recently announced or reducing your benefits pursuant to the process described by CalPERS in its premium increase notice. **It is important that you make the decisions regarding your CalPERS LTC Policy as if there was no Settlement since there is no guarantee the Settlement will be approved by the Court.**

Q: If I decide to let my policy lapse or cancel it before the Final Settlement Date, will this affect the amount I receive from the Settlement?

A: Yes. If the Settlement is approved, the amount you receive under the Settlement will be based on your status on the Final Settlement Date. Since the Settlement only provides full premium refunds to "current policyholders," if you stop paying premiums and allow your CalPERS LTC Policy to lapse before the Final Settlement Date you will not be considered a "current policyholder" and will not receive a full premium refund. Instead, you will receive substantially less as described further in the Class Notice.

Q: Why isn't the Court stopping CalPERS from implementing the upcoming 90% premium increase?

A: This lawsuit only involves the 85% premium increase that was announced by CalPERS in February 2013 (and implemented in 2015-2016). There is currently no lawsuit seeking to oppose the new premium increase of up to 90%, and challenging the premium increase may prove difficult. The reason for this is that the Court entered an order interpreting the insurance contract between Class Members and CalPERS and ruled that a premium increase is permitted under the contract as long as the premium increase is not as a result of the annual increases in benefits provided to policyholders with automatic inflation protection benefits. According to CalPERS, this new premium increase is not targeted towards individuals with inflation protection and was needed because of low interest rates (investment returns) and negative experience factors, and not costs imposed on the Long-Term Care Fund as a result of automatic inflation protection benefits.

Q: Can I receive a premium refund if I ask to be excluded from the Settlement, and then later change my mind and decide to drop my CalPERS LTC Policy?

A: No. The Settlement is the only way a policyholder who cancels his or her CalPERS LTC Policy can receive a refund of premiums. If you exclude yourself from the Settlement and then later decide to drop your coverage, CalPERS will **not** refund your premiums and you will forfeit all of the premiums you paid since you first signed up for your Policy.

Q: Will I receive a refund of the premiums I pay between now and the Final Settlement Date?

A: Yes, as long as you remain a current policyholder. The Settlement provides that Class Members who are current policyholders and who are not On Claim will receive a full refund of all premiums paid (minus benefits received) until the Final Settlement Date, including all premiums paid following the upcoming premium increase.

Q: If I paid the Benefit Increase Option but never had the Inflation Protection Benefit, am I a member of the Settlement Class?

A: No. The CalPERS LTC Policy offers an inflation protection benefit, sometimes referred to as automatic inflation protection, under the heading “Benefit: Inflation Protection.” This is a different benefit from the benefit, sometimes referred to as “BIO,” offered under the heading “Benefit: Benefit Increase Option.” If you did not elect the automatic inflation protection benefits and only chose to pay the Benefit Increase Option, you are NOT a member of the Settlement Class and you are not entitled to any of the benefits of the Settlement. But, if you also had lifetime benefits and you paid the Benefit Increase Option, you are a member of the Class certified by the Court’s Order of January 28, 2016 and you retain the right to appeal the Court’s Statement of Decision when a final judgment is issued in this case.

Q: What if I need to go “On Claim” before the Final Settlement Date?

A: If at any time between now and the Final Settlement Date you need to go On Claim, you can apply to do so under your CalPERS LTC Policy. If you qualify, you will be able to choose after the Final Settlement Date whether to receive a refund of your previously paid premiums or to continue receiving full benefits under your CalPERS LTC Policy. But if you choose to continue receiving benefits, you will not receive a refund of your previously paid premiums. And, as has always been the case, if you qualify to go On Claim, your premiums will be waived while you are On Claim.

Q: Is the CalPERS LTC Program in good financial condition?

A: One of the reasons the Plaintiffs and Plaintiffs’ Counsel are recommending the Settlement is because they believe that, without it, the LTC Fund will not be able to meet its financial obligations to pay claims in the future. Relatedly, the reason the CalPERS Board approved the upcoming premium increase is that it believed the premium increase was necessary to maintain the financial health of the Long-Term Care Fund. CalPERS has raised premiums on eight separate occasions since 2003, and the Plaintiffs and Plaintiffs’ Counsel have been advised by many Class Members that they will not be able to afford the recently announced premium increase which could effectively result in a 90% increase over the next 2 years. CalPERS has also stated that it reserves the right to impose additional future premium increases (beyond the upcoming up to 90% increase) if it determines they are necessary to maintain the solvency of the Long-Term Care Fund.

Q: If there is no Settlement, how much longer will this case last?

A: Plaintiffs’ Counsel estimates that this case will likely last several more years if the Settlement is not approved by the Court. If the Settlement is not approved, the trial of the third phase of the case will take place sometime in late 2022. If Plaintiffs and the Class are successful, there will likely be appeals that could take several years. And if the appellate court should reverse the verdict (or reverse the Court’s orders deciding the first and second phases of the case) and order a new trial, Plaintiffs would essentially have to start over, and the case could go on much longer.

Q: If Plaintiffs prevail at trial, what will happen to the Long-Term Care Fund?

A: The third phase of the trial will occur sometime in late 2022 if the Settlement is not approved. In order to prevail, the Plaintiffs must establish that CalPERS breached the insurance contract between it and Class Members and that the breach resulted in damages to the Class. If Plaintiffs win the case and obtain a significant judgment, and win all appeals, there is uncertainty as to the long-term impact on the LTC Fund. In Plaintiffs’ Counsel’s view, the only way a judgment could be paid that would allow the LTC Fund to remain solvent, is for the California Legislature to appropriate funds to essentially bail out the LTC Fund. In CalPERS’s view, the California Legislature has no obligation to do so. Uncertainty as to whether, how, and when a judgment would be paid, is one of the reasons why the Plaintiffs and Plaintiffs’ Counsel are recommending the Settlement, since the delays will likely only hurt policyholders.

Q: If the case continues to be litigated for several more years, what happens to Class Members who die?

A: Since this lawsuit was filed in 2013, more than 16,000 Class Members have died, and the actuaries hired by Plaintiffs’ Counsel estimate that thousands more will pass away within the next four years. Although the heirs of Class Members who die while the case is pending may be entitled to a recovery, the amount of that recovery will be significantly less than what is available under the Settlement as a result of legal arguments that will likely be raised by CalPERS.

Q: What if too many people decide to exclude themselves from the Settlement?

A: Under the terms of the Settlement, CalPERS has the right to walk away from the Settlement if too many individuals elect to be excluded from the Settlement or if the financial impact of the Settlement puts the LTC Fund at risk of insolvency. If this occurs, the lawsuit will continue as if there was no Settlement. This is another reason why it is important that you continue paying premiums to CalPERS until the Settlement is Final.

Q: Could Plaintiffs and the Class lose the case?

A: Yes. As in any lawsuit, there is a risk that Plaintiffs may not prevail at trial or on appeal. CalPERS has raised several defenses that could result in a verdict in its favor or significantly reduce the amount of damages awarded to the Class. For example, to prevail at trial, Plaintiffs must show that the 85% premium increase was implemented “as a result of” the “automatic inflation protection” coverage that was selected by a large number of policyholders. CalPERS has argued that the 85% premium increase was unrelated to the inflation protection coverage and instead was implemented because of poor investment returns and other reasons not tied to the costs of providing inflation protection coverage. If the jury accepts CalPERS’s position, the Class would receive nothing. CalPERS also argues that—even if it did breach the insurance contract—no damages should be awarded to any Class Member who reduced benefits or dropped their policies in response to the 85% premium increase. It argues that it is impossible to know whether individuals in these categories will ever be damaged by the premium increase since it is impossible to know whether they will ever need Long-Term Care or exhaust any reduced benefits. Although Class Counsel believe that they will be able to overcome these arguments, there is still a risk that a jury or trial or appellate court may accept CalPERS’s position on these and other issues.

Q: Are there any other important factors I should consider when making my decision to accept the Settlement or exclude myself from the Settlement?

A: Yes. There are several important facts you should consider in making your decision. The actuaries hired by Class Counsel have thoroughly examined the claims history of the CalPERS LTC Program over the past 25 years. Based on this history, the actuaries estimate that only 41% of current policyholders will ever use their LTC Insurance. This information is important for you to consider in weighing the benefit of receiving a full refund of all premiums paid to CalPERS (less any benefits received) or deciding to remain with the CalPERS LTC Program and continue paying premiums.

Q: If the Settlement is approved, when will I receive my payment?

A: The Settlement benefits will be paid only **after** the Court officially approves the Settlement and, if there is an appeal of the order, if and when that appeal is finally resolved in favor of the Settlement. A hearing to determine if the Court will approve the Settlement is currently set for June 8, 2022. If approved, and if there are no appeals, the Final Settlement Date will be approximately 60 days later and payments to Class Members will be made approximately 120 days after that.

Q. If I accept a return of all premiums, will that be a taxable event?

A: Plaintiffs’ Counsel are not tax lawyers and are not providing any tax advice to you or the Class Members. The answer is likely dependent on each taxpayer’s individual financial and income/deduction reporting circumstances. Each Class Member is encouraged to consult with a tax advisor of their own choosing before deciding how to proceed.