

2. AMENDMENT/MODIFICATION NO. 0003	3. EFFECTIVE DATE 07/20/2001	4. REQUISITION/PURCHASE REQ. NO.	5. PROJECT NO. (If applicable)
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6. ISSUED BY U.S. Office of Personnel Management Contracting Division 1900 E Street, NW, RM 1342 Washington, DC 20415-7710	7. ADMINISTERED BY (If other than Item 6)
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8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code) To All Interested Parties	(X)	9A. AMENDMENT OF SOLICITATION OPM-01-RFP-0016
	<input checked="" type="checkbox"/>	9B. DATED (SEE ITEM 11) 6/20/2001
	<input type="checkbox"/>	10A. MODIFICATION OF CONTRACT/ORDER NO.
	<input type="checkbox"/>	10B. DATED (SEE ITEM 11)

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of offers is extended, is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:

(a) By completing items 8 and 15, and returning 1 copy of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGEMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment your desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (IF REQUIRED)

13. THIS ITEM ONLY APPLIES TO MODIFICATION OF CONTRACTS/ORDERS IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

CHECK ONE	A. THIS CHANGEORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN TTEM 10A
<input type="checkbox"/>	
<input type="checkbox"/>	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, Appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF far 43.103(b).
<input type="checkbox"/>	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:
<input type="checkbox"/>	D. OTHER (Specify type of modification and authority)

E. IMPORTANT: Contractor is not, is required to sign this document and return _____ copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)
The referenced solicitation is hereby amended to note the following changes:

- The answers to the questions that appear on pages 3 through 7 are hereby incorporated into the solicitation.
- The transcript of the pre-proposal conference held on July 9, 2001, is hereby incorporated into the solicitation.

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print)	16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print)		
15B. CONTRACTOR/OFFEROR	15c. DATE SIGNED	16B. UNITED STATES OF AMERICA	16C. DATE SIGNED
_____ (Signature of person authorized to sign)		_____ (Signature of Contracting Officer)	

3. Under subsection I.1., delete clauses “52.219-4 Notice of Price Evaluation Preference for HUBZone Small Business Concerns Jan 1999”, “52.224-1 Privacy Act Notification APR 1984”, and “52.224-2 Privacy Act APR 1984.”
4. Under subsection I.1., in clause “52.203-11 Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions Apr 1991,” delete the term “appropriated” wherever it appears in the clause, and insert “FLTCIP” in lieu thereof.
5. Under subsection I.1., delete “Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions Apr 1991,” and insert “Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions Apr 1991 (Deviation)” in lieu thereof.
6. Under subsection I.1., in clause “52.203-12 Limitation on Payments to Influence Certain Federal Transactions Jun 1997,” delete the term “appropriated” wherever it appears in the clause, and insert “FLTCIP” in lieu thereof.
7. Under subsection I.1., delete “Limitation on Payments to Influence Certain Federal Transactions Jun 1997,” and insert “Limitation on Payments to Influence Certain Federal Transactions Jun 1997 (Deviation)” in lieu thereof
8. Under subsection I.25, in clause “52.232-17 Interest (Jun 1996),” delete from the first sentence “Except as otherwise provided in this contract under a Price Reduction for Defective Cost or Pricing Data clause or a Cost Accounting Standards clause, all”, and insert “All” in lieu thereof.
9. Delete subsection H.1 in its entirety, and insert the following in lieu thereof:

“H.1 DISCLOSURE OF INFORMATION AND PROTECTION OF INDIVIDUAL PRIVACY

Any information made available to the Contractor by the Government shall be used only for the purpose of carrying out the provisions of this contract and shall not be divulged or made known in any manner to any person except as may be necessary in the performance of this contract.

Records retained by the FLTCIP Contractor on enrollees serve the Contractor's own commercial function of paying FLTCIP claims and are not maintained to accomplish an agency function of OPM. Consequently, the records do not fall within the provisions of the Privacy Act. Nevertheless, OPM recognizes the need for the Contractor to keep certain records confidential. Subsection I.37, Confidentiality of Records, addresses this concern.”

10. All other terms and conditions remain the same.

**Federal Long Term Care Insurance Program
Questions and Answers
Solicitation OPM-01-RFP-0016
July 19, 2001**

Question: Is OPM asking the contractor to guarantee premium rates for the term of the initial OPM contract?

Answer: No. However, we will be very reluctant to agree to any premium changes after we have negotiated the premium with the winning Contractor.

Question: If the initial contractor and OPM cannot agree on renewal terms and OPM recompetes the contract, what would happen if OPM is not able to find another contractor willing to assume this business on terms more favorable than the initial carrier's renewal terms? Assuming that the initial contractor would be under no obligation to renew its contract with OPM, how would existing FLTCIP enrollees at the time of non-renewal be treated? Will their coverage terminate? If not, and in the absence of a renewal contract, who would determine whether rating adjustments recommended by the initial contractor should be implemented?

Answer: We don't think that we can indefinitely bind a carrier to the long term care insurance program. We find it difficult to imagine that we would put out an RFP for the recompetes of the Federal Long Term Care Insurance Program and find out that nobody was interested in acquiring that line of business on terms more favorable than the initial carrier's renewal terms. But if that would happen, we would have no choice but to renew on the initial carrier's renewal terms.

Question: We would like clarification concerning the exact placement of the annual reports and audited financial statements. While it appears that these items ought to be included in the Technical Proposal, since they support the answers to questions posed in the Technical Proposal, RFP Section L.14.3 suggests that they are to be included in the cost proposal as well under "Representations, Certifications, and other Statements of offerors, all items." These materials are bulky and will determine the size of the binders that we must order shortly.

Answer: Since these materials are typically bound stand-alone documents, they may be submitted separately so as to avoid binding an already-bound document. Alternatively they could be part of the financial document.

Question: We note that the U.S. Office of Personnel Management ("OPM") has applied the Federal Acquisition Regulation ("FAR") to this acquisition. See RFP § I.35, a contract clause which would incorporate the FAR by reference as a term of the contract. The FAR, however, applies only to acquisitions by contract with appropriated funds. FAR §§ 1.104, 2.101 (defining "acquisition"). No appropriated funds will be paid to the successful offeror in this acquisition (see RFP, p. C-17). Accordingly, will OPM amend the RFP to make the FAR inapplicable to this acquisition?

Answer: No, we will not. After consulting our legal counsel, we have determined that while we are not required to use the FAR in this procurement, we should, as a matter of contract, adopt those clauses that are reasonable and will add value to this procurement. Offerors are free to propose the addition, deletion or alteration of any provision of the RFP. Also note the clauses that we have taken out of the RFP, as shown elsewhere in this amendment.

Question: The RFP uses the Federal Acquisition Regulation (FAR) clause 52.219-9, Small Business Subcontracting Plan. The clause does not make service disabled veterans a separate subcontracting goal. The Veterans Entrepreneurship and Small Business Development Act of 1999 (P.L. 106-50) "requires the head of each Federal agency to establish agency goals for the participation, by small businesses owned and controlled by service-disabled veterans, in that agency's procurement contracts." FAR,

Subpart 19.704(a)(1), however, states "a separate goal for service-disabled veteran-owned small business concerns is not required." We believe that the SBA and the Office of Federal Procurement Policy misinterpreted the statute, and they plan to change the regulation sometime this Fall to reflect the original intent of the legislation. Will you change this clause in the RFP?

Answer: We used this clause because, according to the General Services Administration's Secretariat's office, when using FAR clauses, they must be used as currently written. The Veterans Entrepreneurship and Small Business Development Act of 1999 had a number of inconsistent provisions in it. These were clarified by the Small Business Reauthorization Act of 2000 which clarified that agencies DO have to put in place a separate goal for disabled-veteran owned small businesses. The FAR will soon be amended to reflect this, but it hasn't been yet, so we were following the FAR as currently written. However, as discussed in the questions and answer above, we are not required to use the FAR for this procurement. Therefore, offerors may propose additions, deletions or alterations to the clauses. We do remain committed to supporting disabled-veteran owned small businesses.

Question: What is the OPM's legal basis for applying the FAR to this acquisition?

Answer: OPM is not required to follow the FAR for this procurement, but it is required to use reasonable procurement methods and comply with all other applicable statutes and regulations. We are applying the FAR clauses that we believe are reasonable and will assist the agency in achieving the goals of the Federal Long Term Care Security Act.

Question: Has OPM confirmed the validity of its decision with the U.S. Office of Management and Budget ("OMB")?

Answer: No, we do not believe there is a need to do that.

Question: Does OPM intend to issue agency procurement regulations to apply the FAR to this acquisition? If so, when does it plan to do so?

Answer: We do not plan to issue long term care insurance procurement regulations.

Question: Federal acquisition policy (41 U.S.C. § 264b) mandates agencies to utilize commercial items to the maximum extent practicable. The Long-Term Care Security Act clearly contemplates the acquisition of a commercial item by, among other things, describing the master contract as an insurance policy (5 U.S.C. § 9003(a)). However, OPM has not structured the RFP as a commercial item acquisition. Please explain why.

Answer: We do not believe that this is a commercial item procurement. We are not purchasing an off-the-shelf long term care insurance product. Rather, we have established product design requirements and are soliciting proposals based on these requirements.

Question: Will OPM delete from the RFP those contract clauses that are inapplicable to procurements made with non-appropriated funds such as FAR § 52.203-11 captioned "Certification and Disclosure regarding Payments to Influence Certain Federal Transactions" and FAR § 52.203-12 captioned "Limitation on Payments to Influence Certain Federal Transactions" (see RFP, p. I-1).

Answer: We changed the words "appropriated funds" in these two clauses to "FLTCIP funds", as you will see elsewhere in this amendment. All clauses in the RFP are subject to negotiation with offerors.

Question: At several points in the RFP (e.g., RFP § I.31(b)(5), at p. I-20, § I.49, at page I-28), OPM refers to Program assets, but it fails to define that term in the RFP (see p. C-60). We note that the Long Term Care Security Act makes no mention of Program assets, but rather "all amounts withheld under this section [9004] shall be paid directly to the carrier." Premiums are carrier assets under insurance accounting principles. What then does OPM consider to be Program assets and why?

Answer: We consider the "FLTCIP assets" or the "Program assets" to be the assets held by the Contractor for this program, e.g. the experience fund and real assets acquired for the FLTCIP and paid

for with FLTCIP funds.

Question: We recognize that the Long Term Care Security Act, 5 U.S.C. § 9004(e), requires carriers to account for Federal Long Term Care Insurance Program ("FLTCIP") premiums (and investment income thereon) separately from other premiums. We routinely apply the concept of notional segregation of premiums in order to accomplish this requirement for other policyholders. Under notional segregation, the insurer pools policyholder premiums in order to improve the investment return. The insurer will account for the premiums separately from other funds and will apply a prorated share of the investment return to increase the reserves associated with those premiums. We interpret the financial requirements of Part IV of the RFP to permit the use of notional segregation. Is this interpretation accurate? If not does OPM intend to require that carriers physically segregate FLTCIP premiums from other premiums? Physical segregation is not a standard commercial practice. What is the basis in the Long Term Care Security Act or other federal law for that requirement?

Answer: The Contractor does not have to maintain the FLTCIP premiums physically separate from other assets. Being separately identifiable is sufficient.

Question: Does OPM intend to apply the cost allowability rules of FAR Part 31 to this acquisition, which involves no appropriated funds? If so, what is OPM's legal authority for this action and when does OPM intend to issue agency cost principles for this acquisition? As it stands the cost allowability of the marketing expenses is in question. Also, for what purpose will OPM apply the cost principles to this acquisition? Given the inapplicability of the FAR to this acquisition and the existence of price competition, would OPM be willing to establish a simpler process for tracking incurred costs than applying the cost principles? Is OPM willing to treat cost of money (48 C.F.R. § 31.205-10) as a chargeable expense? May the cost of money be applied to statutory reserves (see RFP, p. C-36)?

Answer: In general, we believe the FAR allowability rules are sound and reasonable and should be applied to the FLTCIP contract and we see no need to recreate a set of cost principles. We are willing to make exceptions (see the revised response to interest on start-up expenses in the transcript from the July 9th pre-proposal conference, found elsewhere in this amendment). We will allow marketing and advertising expenses that are identified in advance and are part of the overall educational/marketing/roll-out plan that is jointly developed by OPM and its FLTCIP contractor. We do not intend to allow other costs specifically disallowed by the FAR such as first class air fare, alcohol and entertainment expenses, etc.

Question: In Section K.9 of the RFP (p. K-6), OPM incorporates the accounting and allowable cost provision from the Federal Employees Health Benefits Acquisition Regulation ("FEHBAR"), 48 C.F.R. § 1652.216-71. This provision should have no application to this procurement. Will OPM delete Section K.9 from the RFP, and if not, please explain the legal rationale for incorporating this requirement.

Answer: We need an annual accounting statement for this program. Offerors may propose changes to this clause that meet this objective while making it more workable.

Question: In the RFP's discussion of the Experience Fund (p. C-37), OPM indicates that the carrier will be obligated to charge the lesser of projected or actual administrative expenses by category. Is OPM's position that if actual marketing expenses are over budget but actual claims administration expenses are under budget by the same amount that the carrier would not be able to recover the overage? What is the legal justification for applying this requirement to this acquisition?

Answer: The purpose of adjusting the "as priced" expenses in Tables 1 and 2 to reflect actual distributions of enrollees is to recognize that some expenses, especially underwriting, will vary significantly by age and risk class and to assure the contractor is not penalized (or does not reap a windfall) if the actual distribution of enrollees is significantly different than assumed. Our primary focus will be on total administrative costs and we would likely consider the above example to be a

"wash".

Question: Both the FEHBAR and the Federal Employees Group Life Insurance Acquisition Regulation ("LIFAR") state that carrier records developed in the performance of the contract are not subject to the Privacy Act. For example, the FEHBAR, 48 C.F.R. § 1624.104, states that "Records retained by FEHBP carriers on Federal subscribers and members of their families serve the carrier's own commercial function of paying health benefit claims and are not maintained to accomplish an agency function of OPM. Consequently the records do not fall within the provisions of the Privacy Act. Nevertheless, OPM recognizes the need for carriers to keep certain records confidential. The clause at 1652.224-70 shall be inserted in all FEHBP contracts." (See also LIFAR, 48 C.F.R. § 2124.102-70.) While the RFP includes a confidentiality of records contract provision (RFP § I.37, p. I-22) substantially similar to FEHBAR § 1652.224-70 and LIFAR § 2152.224-70, the RFP fails to include the rationale about the inapplicability of the Privacy Act. To the contrary, the RFP appears to incorporate the Privacy Act (RFP, p. I-2), but it is unclear as to which record systems that Act would apply in this case. We further agree with the RFP (p. C-47) that the FLTCIP will be subject to the Health Insurance Portability and Accountability Act's protected health information privacy rule in April 2003. Accordingly, will OPM amend this RFP to include a provision substantially similar to these FEHBAR and LIFAR provisions and to delete the RFP's references to the Privacy Act, including Sections H.1 and I.1.?

Answer: We have done so. See RFP changes in this amendment.

Question: Has OPM confirmed with the U.S. Department of Labor's Office of Federal Contract Compliance Programs that the affirmative action requirements of the FAR are applicable to a procurement made without appropriated funds? If not when does OPM intend to do so?

Answer: We included these provisions because we believe they are reasonable to include. Offerors may propose modifying these requirements, and we will consider such proposals.

Question: Has OPM confirmed with the Small Business Administration that the small business subcontracting requirements of the FAR are applicable to a procurement made without appropriated funds? If not when does OPM intend to do so?

Answer: We included these provisions because we believe they are reasonable to include. Offerors may propose modifying these requirements, and we will consider such proposals.

Question: RFP § I.39 at page I-23 would establish a ten year record retention period for individual claim records. We note that the individual claim record retention requirement for FEHBP carriers is three years (FEHBAR, 48 C.F.R. § 1652.204-70). Health claims and long term care claims are substantially similar. A ten year record retention provision will increase carrier costs. Will OPM conform the long term care record retention to the FEHBAR provision? (We note that both the RFP and the FEHBAR provide a five year retention period for financial records.) If not, please explain why.

Answer: We incorporated the same ten year record retention period that is found in the Life Insurance Federal Acquisition Regulation (LIFAR) applicable to our life insurance program because we thought it was a reasonable requirement. Offerors may propose changing this requirement, and we will consider such proposals.

Question: If an offeror wishes to add, modify or delete a FAR provision, how should it proceed? Must all of the modifications the offeror considers to be desirable be identified at the time of the initial proposal?

Answer: An offeror wishing to modify a FAR provision must address the intent of the provision and demonstrate how that intent will be satisfied by the course of action and/or procedures being proposed. Desired modifications to major FAR provisions must be identified at the time of your initial proposal. However, we could consider a request for FAR modifications at any time, and we could make an award before coming to closure on provisions that we consider to be insignificant to award. As a general rule,

we think the FAR provides important financial safeguards and advances important federal policies so that significant deviations that are not clearly in the interest of the success of the FLTCIP would weaken our overall assessment of a proposal.

EDITED TRANSCRIPT
U.S. OFFICE OF PERSONNEL MANAGEMENT

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PRE-BID CONFERENCE
ON THE
FEDERAL LONG TERM CARE
INSURANCE PROGRAM
:
OPM-01-RFP-0016 :
:
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Monday, July 9, 2001

U.S. Office of Personnel
Management - Auditorium
1900 E Street, N.W.
Washington, D.C. 20415

The pre-bid conference commenced,
pursuant to notice, at 1:35 p.m.

BEFORE:

FRANK D. TITUS
Assistant Director for Long Term Care
Retirement & Insurance Service

P R O C E E D I N G S

MR. TITUS: Good afternoon. John Cutler tells me that the number of people in the audience is close enough to his guess that we can begin. You all need to know that today's meeting is being transcribed and so we'll ask you to please use the microphones if you have any questions, and I'll probably also attempt to repeat your questions.

You also need to know that the transcript will be issued as Amendment 3 to the RFP. So the transcript will be made available to all of you and it will be the transcript and not what you heard which will govern what was said here.

[Laughter.]

MR. TITUS: All right. And we do that because I may be able to say more clearly in writing on reflection something that I attempted to convey by speaking to it. So that will give us an opportunity to make sure that our messages to you are as clear and as consistent as we can make them, which has been one of our objectives all along, and I hope that it's one that has succeeded.

I'd like to introduce just real quickly the staff that has been working on the RFP and will also be involved throughout the rest of the process. Fred Chatterton is the head of our Procurement Office, and Andre Adams has done most of the staff work from the procurement point of view. From our Office of Actuaries, Nancy Kichak, who is the head of that office, and Greg Kissel, who again is providing staff support, and, of course, they will be involved in the evaluation of the premiums that are submitted and the other financial information.

Finally, from my staff, Laura Lawrence, who has just done a tremendous job in terms of helping us respond to all the Qs and As, and really all aspects of this effort. John Cutler whom I think almost all of you know--perhaps all of you know--who has been working with us throughout the process. Terry Schleicher, who is helping us with our regulations and also has helped with the Qs and As and throughout the process. And Mike Velemirovich, who is again one of our staff support.

Claude Thau is here in the audience. He's been sort of our expert consultant. And Angie Johnson who is not here, but I want to mention her name because she helps Claude and she's my secretary and,

of course, things don't get done without those kinds of folks.

I also want to acknowledge that we did receive some questions of a legal nature. Unfortunately they just came in, of course, in time for the deadline, but they're really the kinds of questions that we wanted to get surfaced at our meeting on April 23, because we did distribute at that meeting the FAR provisions and asked if there was anyone who had a problem with them to let us know about that.

So we don't have those answers yet, because, being legal in nature, they're a little bit more complex than just, you know, communicating what our intent was. But they will be coming. Hopefully, they will be part of Amendment 3, and we will have this transcript I think in five days, and then we'll review it very quickly but thoroughly and get it issued, as I say, as Amendment 3, and hopefully we'll have the answers to the questions about the applicability of the Federal Acquisition Regulations as part of that amendment.

I hope everybody here knows and has access to the two amendments that we issued on July 3. The first was a clarification of some actual errors that crept into the RFP because of some last minute changes we made to it and also some clarifications on some other points, and then Amendment 2 is the answers to the questions that we received by the deadline, and as I say that's all of the questions that were received were answered in that Amendment 2, save for the legal questions about the applicability of the Federal Acquisition Regulation.

Now, I was asked by someone, well, what about questions after today? Can there be questions after today? And the answer to that is yes, there can be, but they should be based around things that you just don't understand or perhaps an inconsistency, an error, an omission or something that you see in the RFP.

We will look at the questions, any questions that come in after today, and make an assessment as to whether we think the RFP is clear on its face or whether we need to make it clearer by answering a question that comes in after today. But we will not feel obligated to answer all questions. We will only answer those questions that we think require a clarification to the RFP.

So, for example, many of the questions that we, in fact, answered in Amendment 2, we would not have answered under the guidelines that I just gave you because in our assessment, the RFP was clear on its face.

I just want to restate a couple of things, just by way of emphasis. The RFP asks you to identify alternatives if you think those alternatives would be in the best interest of a successful long term care program, and I just want to assure you that that is a sincere request.

Even though we are also asking you to submit a price proposal that's based on the specific plan provisions contained in the RFP, that does not preclude you from proposing an alternative that you think would contribute to the success of the Federal offering. So I just want to emphasize that and say that this is a genuine and a sincere offer.

The other thing that is unchanged is our objective of achieving premiums that would be 15 to 20 percent below comparable premiums that are reasonably priced out there in the private sector.

The only other thing that I want to touch on before seeing if there are any follow-up questions to the amendments or any new questions for today is to clarify a little bit what we mean by technical evaluation of the proposals and the cost evaluation.

The cost evaluation will be based on the information you submit in the financial section of the RFP, which includes a couple questions that also appear in the technical section, and basically that's an evaluation of the proposed premiums and the financial strength and capabilities of the offerors.

And the technical evaluation is everything else and everything else is identified in Section M of the RFP, and we identified those things that are important to us in descending order of importance, and we also say that on balance—that technical is more important than price.

And so that is the process that we will go through. There will be two separate evaluation panels: one on technical and one on price. And basically those panels will be independent of one another, and then we'll come together and determine what the competitive range is. If there is question about competitive range, we'll make a determination as to whether or not we need to go back out to the offerors who are in the competitive range to ask for a best and final proposal.

So, that will be the process that we will follow, and I'll look over here at staff quizzically to see if anybody thinks that I should say more about anything, and I don't see anything. So I'll ask you then if you have any follow-on questions?

I don't intend to talk, you know, just to read to you what we've already sent to you. If there is anybody who did not access or does not have access to the Internet, we do have one or two paper copies of the Qs and As or the amendments that we can furnish to you.

I'll also call your attention to the fact that we put some five by seven, I guess, cards, bigger than a three by five, out in the back. They have different colors, but the colors have no significance. We would appreciate it if you submit a written question that you use the side with the lines on it and that you stay between the lines.

[Laughter.]

MR. TITUS: Other than that, you're free to ask any questions that you care to and again you can either use the mikes or you can submit them on a three by five card or five by seven card if you want to remain anonymous with respect to the source of the question.

MR. CHATTERTON: Frank.

MR. TITUS: Fred.

MR. CHATTERTON: Frank, just one thing. I wanted to mention that nothing that is provided in a response to any question that you might ask today has the effect of changing anything in the solicitation document unless or until it is done so through an amendment to the solicitation. So that's something to keep in mind.

MR. TITUS: Now, I warned our transcription service that sometimes at these meetings there are no questions because I've been at other meetings with industry folks and have witnessed the reluctance to sometimes ask questions, but really this will be the last opportunity for you to ask questions and engage in a dialogue with us about the RFP and tease out from us if it's not clear what it is we're asking for. So I really do invite you to ask any questions or put them down on cards.

Yes?

MR. FORTE: Good afternoon. Paul Forte from John Hancock. My question concerns the sources of profits for contractors. It would appear that OPM does not want the contractors to benefit from any expense savings they might achieve except as a credit in Table 9. So on page 16, we read the experience fund

is calculated using the lesser of actual or expected expenses.

Yet OPM leaves the door open for sharing in upside investment gains. On page 22, it says that the fund can be net of a spread as long as that spread is clearly identified.

Is it fair to assume that carriers will be limited to two principal sources of profit: one, risk and profit charges; and two, investment spread as defined in the contract?

MR. TITUS: Well, the profit that is identified in Table 9, I believe it is, as we say in the RFP, is intended to be the primary source of profit. Now, of course, in that table, there is an opportunity for carriers to identify what weight they think should be given to achieving administrative expenses below budget.

Carriers would also be free to identify that in and of itself as, if you will, an independent source of profit as opposed to something that is taken into account in negotiating what proportion of the proposed profit in Table 9 should be awarded.

So, just as we identified explicitly the opportunity to identify rates of return above objectives as a source of profit, a similar approach could be followed by a carrier in terms of proposing an alternative or a variation to Table 9.

Having said all that, the overall profit that is being proposed will, of course, be one of the things that is evaluated as we go through the financial and price evaluation of the proposals that we see. And so, obviously, you know, profit is, an area that is a natural one for carriers to make competitive decisions about what they want to propose.

MR. FORTE: Put differently, then we would be free to make suggestions as to ways in which there might be some incentive to the carrier to manage expenses in a really rigorous way outside of the credit that is envisioned in Table 9?

MR. TITUS: Yes, you could do that, although we think our objective was for Table 9 to contain those areas where we wanted to send signals, but you're certainly free to do it apart from Table 9 or, as I say, a variation to Table 9.

MR. FORTE: Thank you. May I ask a second question?

MR. TITUS: Sure.

MR. FORTE: This is completely unrelated. It concerns the clarification of the term of the contract which was a comment or the answer that was given on page 19. Your answer suggests that the initial contract will be truncated so that the length of the contract is actually greater than the length of the time policies will be in force under the contract.

Is there any chance that the initial contract period could be extended into 2009 so as to secure a full seven years of time in which enrollees would actually be covered?

MR. TITUS: And I'm going to answer that to the best I can, but also tell you that my answer may change because I'll want to check with counsel in terms of what we can do.

Post-Conference Note: We checked with counsel and this answer is now slightly different than what was actually said at the conference.

As we said in our response, our procurement people have told us that we cannot basically set up a relationship with our insurance partners and have them incurring costs that need to be reimbursed without a contract in place.

So that means that I have to have a contract in place with you so that I can work with you in doing whatever refining needs to be done in marketing and rollout and open enrollment plans and all of that. And I have to have that early on. Fortunately, the law defined the first 7-year period as beginning on the effective date of the first policy issued, giving us the authority to enter into a contract and assuring a full 7-year term for the first policies issued.

A related issue is the request in the RFP that the industry, while setting aside all of the planning that would go into open enrollment and the developing of educational and marketing materials and the like, if we had individuals, as we know we do, who have done all of the research that they intend to do and they know that they want to purchase a long term care policy and they're just waiting to see what the government's price is going to be, and if the government's price and coverage is what we think it's going to be, they're going to want to buy a policy, ASAP. So we ask you in the RFP, that being the case, how quickly could you issue a policy?

I know that I want the program to run on a fiscal year basis so that there will be some amount of truncation. The ending date for the first term will almost certainly be September 30, 2008.

MR. FORTE: Thank you.

MR. CHEUNG: Malcolm Cheung from Prudential. I have two questions and they both relate to the same topic and that is the treatment of set-up costs, start-up costs with respect to the experience fund. On July 3, one of the amendments to the RFP was a new requirement in the Contract Termination Section which states that OPM has not provided for any adjustment to the experience fund for unamortized start-up costs should the fund be transferred.

Yet there is a preexisting requirement in the section on actuarial assumptions which states that provision will be made for the return of unamortized initial expenses in the calculation of the experience fund.

Further, in one of the Q and As on page 18, in response to a submitted question, the statement is made that start-up costs are to be amortized for premium-setting purposes and repaid as cash is available from the experience fund.

So my two questions are, one, what is the treatment of start-up costs with respect to the experience fund calculation? And two, are educational and marketing expenses and costs considered part of the start-up costs?

MR. TITUS: Okay. And I'm just going to put Nancy on alert that--no, I'm not going to ask you to answer it, but to stand up and correct my answer after I've given it.

[Laughter.]

MR. TITUS: The language that you read I think had the same intent. When we say that we're going to return unamortized expenses, it basically means that the return is to the losing carrier. So the carrier is not at all exposed to the absorption of any unamortized start-up costs and that would include the marketing and the educational costs.

So the amortization is necessary for premium-setting purposes, but in terms of reimbursement, obviously the fund is what the experience fund is and it can't be earning returns on money that is not there, and so we expect that those start-up costs will be reimbursed to the carrier as funds are available even though for premium-setting purposes, they're amortized.

MS. KICHAK: Right.

MR. CHEUNG: So what that means is that if at the termination of the first contract period, a decision is made to move the coverage to another carrier, the incumbent carrier can essentially deduct from the experience fund their total expenses related to the marketing and enrollment campaign?

MR. TITUS: That is correct.

MR. CHEUNG: Okay.

MR. TITUS: We'll go to the left first.

MR. WINKELMAN: Good afternoon. Ross Winkelman with Milliman USA out of the Denver office and I just have one question. The RFP indicates that a contractor would need to hold statutory reserves producing significant surplus drain. It appears that this is in conflict with the contract termination provision, which requires transfer of the experience fund and therefore seems to cap the liability at the experience fund balance.

Which liability is the program expecting contractors to hold?

MR. TITUS: Again, I'm going to look to Nancy to correct anything that I say here. We recognize the statutory reserve requirements and their role in normal long term care pricing situations, but at the same time, of course, we are different in terms of basically preempting those requirements.

And we also expect that our relationship with our insurance partners will be a long-term one. So we don't in any way contemplate that this contract would be terminated at the end of the first term. In fact, you know, we think we're going to be very wise in the selection of our partners and we have every reason to believe that we and they and the program will be successful.

Having said all of that, the experience fund will be transferred to any successor organization. I think we ask actually if someone would be willing to transfer the statutory reserves as opposed to the actual cash balance of the experience fund, but what the RFP requires is the transfer of the cash balance of the experience fund and not the statutory reserves that may be on the books but, you know, aren't really there.

Nancy?

MS. KICHAK: Yes, I think again for us contract termination is based on the experience fund, but I don't think that gets you out from holding the statutory reserve. Even though we could be exempt from

the state regulations that doesn't mean we don't want you to have the assets you need to satisfy that group of people.

So, in case of termination, the experience fund, but for reporting your financial worth, it's the statutory fund.

MR. WINKELMAN: Thank you.

MR. KOLOMS: Leonard Koloms, independent actuary. Going back to the cumulation fund, am I correct in saying that this is purely a cash flow so where it was implied before that the unamortized--at the end of the period of time, really there isn't any unamortized involved here? First dollars that come in, they will pay the monies that cover the expenses. Is that a true statement?

MR. TITUS: As a practical matter, yes, that's correct.

MR. KOLOMS: And will that include interest on the funds?

MR. TITUS: Yes. But that gets you to your amortization schedule, I believe, right?

MR. KOLOMS: No, I mean let's say a company spends \$100 million on October 1 of this year and the first premium comes in a year later, is it \$100 million plus interest that they get to charge against the fund? I mean is that a true statement? I mean so where does it come out of because it's going to cost the company to borrow money in order to do that? Are you saying it will never be repaid because I mean you're keeping 100 percent of all the excess interest on the funds? I'm trying to figure out where the company gets to recover that money. Is it coming out of the general profits? I mean it gets kind of confusing.

MR. KOLOMS: I mean somebody is going to have to borrow money from somewhere in order to do it.

MS. KICHAK: Okay. Well, we're going to have to clarify that.

Post-Conference Note: the following answer was not given at the conference and is based on our recent determination that the FAR does not apply to the FLTCIP contract.

Mr. Titus: If the FAR applied to the FLTCIP the answer would be that interest on start-up costs could not be charged to the Government. In view of the size and long term profits of the FLTCIP, it is not unreasonable to expect bidders to absorb this cost. The successful contractor's

willingness to do so would be a positive factor in OPM's profit determination. Since the FAR does not apply, OPM will entertain proposals that include, as part of start-up costs, interest on funds advanced to cover those costs. Proposals must be explicit in this regard.

MR. KOLOMS: Understand. I guess the second question is if we're talking about investments, will a company on its own determine what to invest in -- the quality, the length and everything else, or do you expect this to be joint--is there going to be a committee established?

MS. KICHAK: The company.

MR. TITUS: Yes, the company will make that determination. OPM does not intend to involve itself in investments, although we do ask as part of the RFP for the investment philosophy and the strategy that will be used for this program, and I believe we also request benchmarks that the carrier or carriers believe are appropriate for assessments of their performance against that philosophy and against that strategy, but OPM will not attempt to influence that strategy in any way.

MR. KOLOMS: Is that a total return on your investment income? Is it based on including market value changes or I mean what is the definition of it or do we have prerogatives on that?

MR. TITUS: You have prerogatives on that.

MR. KOLOMS: There is no preference in terms of--I mean are we going to have to, in order to--let's say a part of it is in stocks. Will the unrealized gains on those stocks they'll be able to use to get that return or is it only if you cashed in those stocks, as an example? And what about market fluctuation of bonds? I mean I would assume you would like to have--let's assume that the strategy is and agreed upon that some monies will be invested in stocks so that the unrealized value of those stocks would have to go to on a market basis?

MR. TITUS: Right, and we're asking, I believe, for your proposed approach to that should the contract be terminated.

MR. KOLOMS: I'm not thinking terminated. I'm talking about year to year earnings. In other words, the difference between unrealized and realized gains. In other words, is it only investment income that's earned on the bonds and the dividends that goes through or are you also going to be market value, you know,

the difference between book and market? Does that get also considered as part of the investment income earnings?

MR. TITUS: Well, we would like the industry to propose to us what it thinks is the most appropriate process that we should use to evaluate its investment performance and that's why the RFP asks for the philosophy as well as appropriate benchmarks, and I think that certainly there's room for either approach.

We're asking the industry for what it believes to be best in terms of an accurate assessment of their performance under that area of Table 9 again which will determine the proportion of the proposed profit that is awarded for Return on Investment on an annual basis.

MR. KOLOMS: And the funds themselves, do they have to be specific assets they'd be able to track or can we have formulas based on outside indexes and outside funds? I mean is there any preference? I mean you talk about actually allowing the--

MR. TITUS: There's room for either approach.

MR. KOLOMS: Okay. Thank you.

MR. GAGNE: Roger Gagne from John Hancock. I have a couple of questions, as everybody seems to. First, in the underwriting section of the proposal, Question 12 talks about asking us what performance standards and guarantees we would propose for our underwriting function. And I'd like some clarification on what form of guarantee you're contemplating. Is it something along the lines of Table 9 where we were putting a piece of profit at risk? And if so, is that already part of Table 9 in the customer service areas or is there some other type of guarantee?

MR. TITUS: It's part of Table 9 basically, and actually I think we tried to clarify that in one of the Qs and As. Because we're asking in that area and in other areas, as well, for performance measures that the carrier thinks are appropriate and then Table 9 again is where we evaluate the carrier against those things.

If a carrier wanted to, separate and apart from Table 9, propose a guarantee with some monetary value associated with it -- I'll do everything within 30 days or I'll give you "x" dollars, -- a carrier is certainly free to do that. But it was really intended to be in the context of Table 9.

MR. GAGNE: Thank you. One last question. In the Q and As that you sent out, you explained that if in the event OPM and the contractor can't agree on premium rates at the termination of the initial

contract period, then OPM would recompete the contract. And I'd just like some clarification on, although it may not be likely, what if, in the unlikely event that OPM recompetes the contract and finds no new bid that they deem acceptable, does the incumbent carrier still have the right to walk away from the contract if they so choose after that period or is there some other possible course of action?

MR. TITUS: I don't think that we can indefinitely bind a carrier to the long term care program. I find it difficult to imagine that we would put out an RFP for the recompete of the Federal Long Term Care Insurance Program and find out that nobody was interested in acquiring that line of business, but I guess it's conceivable.

MR. GAGNE: Thank you.

MS. ANATOLE: Hi. Jodi Anatole from MetLife. I have a couple of questions. The first one is regarding the care coordination feature, and in the questions that were provided as a follow-up, there is a response that leads one to believe that the intent of the care coordinator is to be an on-site care coordinator rather than by telephone. Can you elaborate a little bit on your thoughts of the care coordinator?

MR. TITUS: Well, there is no requirement that care coordination be on-site, although there would be instances, I think, where if on-site weren't almost an inherent requirement of the assessment, that it would certainly be a very attractive one.

We recognize, however, and I think we say this in the RFP, that we may be envisioning a national/international care coordination program that's more robust than what's out there, and that some capacity may need to be built, and if that's the case, I believe we ask for plans and timetables for building whatever additional capacity needs to exist. And certainly one could imagine that part of that capacity is the ability to have somebody on site in remote locations because our people will be found everywhere.

MS. ANATOLE: Second question is regarding individuals that live outside of the United States and there was a question that you responded to regarding the offering of the program to U.S. citizens that are abroad, but also there was part of the question regarding foreign nationals and whether the intent is for this program to cover the foreign nationals?

MR. TITUS: Well, where the foreign national is a spouse, I believe that our statute would

require that the coverage be made available to the foreign national. As we say in the RFP--I think we say it in the RFP--I say it every time I talk about the program--this is an important part of OPM's and the government's compensation package.

Now, that package is not built around foreign nationals and foreign nationals typically are not eligible for our benefits, but I think our statutory requirement to make it available to spouses and other qualified relatives means that foreign nationals who meet the definition can be covered by the program.

MS. ANATOLE: Okay. And the final question is really regarding the evaluation of the rates. You've done an excellent job of putting out a plan design that you want us to price to. There is, however, some leeway for the carriers in terms of what level of inflation you have in the future purchase, whether there's underwriting for the unlimited or not, so can you talk a little bit about how you're going to evaluate the base pricing with their being some differences such as those provisions?

MR. TITUS: Nancy, do you want to speak to that?

MS. KICHAK: I didn't understand the question about leeway and the underwriting portion.

MS. ANATOLE: Well, one of the responses to the questions was regarding the underwriting for the lifetime benefit and whether there could be more comprehensive underwriting for that benefit, and it was certainly left that there was flexibility for the carriers to approach that with their being more comprehensive underwriting or more limited underwriting.

So that was just one example of where there could be differences with how carriers approach different features and ultimately have an impact on the rates.

MR. TITUS: Let me try to answer that and then I'll let Nancy try to answer that. The areas in which you've got flexibility to come up with different assumptions about whether or not there's underwriting or some amount of additional underwriting for the lifetime benefit as opposed to the five-year policy are relatively narrow.

Now, we know that more underwriting produces--even I've figured this out--produces lower premiums. And we also know that we want the coverage and the insured population to be as broad as possible, and so if we are comparing two premium proposals, one of which assumes underwriting for the lifetime benefit

and the other doesn't--all right--then ultimately we're faced with making a judgment as to whether the differential in premium is worth, if you will, the difference in approach.

And I suspect that we would also have the capability to attempt to adjust premiums to see what things look like when we try to put them on an equal footing, and I think both elements of that evaluation would come into play.

And then the second part of that answer, although we are not committed to going out to best and final offers, but if we go out and ask for best and final offers, we will have probably removed as much variability as possible so that we're absolutely sure we've got apples to apples.

MS. KICHAK: Yes. I think that says it. We're developing our own models where we're going to develop our own premium structure, and the proposals are going to be compared against what we think the price should be. So if there's a package from one contractor and that package is richer for some reason, an innovation or something, we're not going to be comparing that price against a different product in another bidder. We're going to be comparing that price against what we think the price should be to see if it's a reasonable price. So we're going to normalize all the prices before we look at them. Is that helpful?

MS. ANATOLE: Yeah, that's helpful. I do have one other question I realized. It's regarding the elder care information for relatives of the employee, and you certainly have impressed upon us the point that the value of other family members having access to things to ultimately help with productivity.

When you talk about that and you say it can be cost or no cost for the elder care information, when you talk about it being cost, is the thought that if someone were to access it, there would be a charge at that point? Are you talking about it being a part of the premiums for the active enrollee?

MR. TITUS: I think we addressed that in one of the Qs and As. When we say at no cost or at cost, that's really a function of the services that are rendered. We never had in mind a separate premium for these people.

MS. ANATOLE: Right.

MR. TITUS: Or some--or even a wedge in the premiums that are paid for by enrollees, but we think that there is a level of service that can be provided at no cost because of the value that these people bring

in numbers and in negotiating strength that the carrier will have with care coordinators and that care coordinators will have with providers and suppliers.

We also recognize that if we're talking about a care coordinator going to somebody's home and doing an assessment and drawing up a plan of care as opposed to providing, in essence, off-the-shelf information to help a person do something, that we could hardly expect that to be provided at no cost. But rather than a premium, I think we issued a Q and A that said what we had in mind is that that cost would be incident to the service that was provided, and when I say at cost, I mean at cost, not at market value. Does that answer the question?

MS. ANATOLE: Yes, thank you.

MR. KOLOMS: Leonard Koloms again. Going back to the question of your comparison of companies and rates, on employees you are going to be using the vast system pool. I'm assuming what that means is that the better risks you would like to subsidize the non-better risks. But you really haven't defined as to how much subsidization should be in that standard risk.

And therefore I get a little confused as to how companies--how you're going to evaluate where two companies or one company will have a little subsidization, another one will have a lot of subsidization, and how you actually will be doing this process because it doesn't ask for unsubsidized rates. It asks for the subsidized rates, if my recollection is right.

MR. TITUS: Well, yes, and remember you're talking about a very small number of people in proportion, and we're asking for the carrier to be explicit in identifying the extent of the subsidy. I think the answer to the question is a little bit like the answer to the other premium question because we'll know what the cost is, and so we'll know, for example, if we wanted to increase or decrease a subsidy, what the cost of that would be because we've asked the carriers to be explicit about what's being built in.

And we also have in other areas of the RFP requested the carriers' assumptions about the various populations and their numbers, and so I think we're in a position to make an informed evaluation of slightly different approaches to subsidization.

MR. KOLOMS: Except you haven't defined the percentage of people that you want subsidized

or the amount. I mean it gets kind of confusing because you can have one company there that is going to assume--an assumption that they're going to write, let's say, a whole bunch of sub-standard people at inadequate rates and another company is going to assume, well, that's not going to happen.

I mean it's all those things that start, if the number of people that have to be, that are going to be subsidized can substantially influence the actuarial calculation of the rates. And both these are--I guess the point I was trying to get at is, and it's going to be only time will tell as to which one, as to who is right, and I guess so I'm trying to figure out as how you actually are going to then choose between two companies where one says we expect this many to be anti-selected by this percentage of people, and therefore we're going to have to put this much into the rate, and somebody says something else, that's purely just an opinion and only time will tell. And I guess that's where it gets kind of confusing to me.

MR. TITUS: Well, I don't think there's any aspect of long term care that is crystal clear or subject to the kind of exactness in terms of knowing what's going to happen as we would all like.

You know part of the answer to your question is the carrier's underwriting philosophy in terms of the quote "standard policies," whatever they are. We asked for that philosophy. We asked for not only the philosophy, but we asked for field or other underwriting manuals, and we asked for the enumeration of conditions that would result in the automatic declination of a standard policy.

And all those things come into play in terms of the point you raise, and it's a valid point--all right. It's just that Nancy is developing a model that we will use in conjunction with what the carriers tell us to provide our own estimate as to what the reasonable premium should be, and that, again, depending on what we see and what our assessment is, if we need to, if we feel that we need to clear things up and go out for best and finals because we're not certain as to what it is we really have, we'll do that.

MR. KOLOMS: I mean with all these uncertainties, I mean, and really it gets a little confusing here as to how you choose on rates because I mean if you have three companies all underwrite the same and there's different--and the only thing different turns out to be later on the percentage of people that turn out, that's the thing that's really going to affect ultimately the final cost of your program.

It's not--you know, if the underwriting is done exactly the same, the companies' expenses are the

same, and everything else looks the same in terms of how they're able to manage it, then, you know, the choice of the rates is the only variable that's left, and that's where, I guess, it gets kind of confusing as to how you choose between companies, and is this going to be like a joint--or is your process going to be like a joint decision that this is the best thing to do with the companies you choose?

Or are you just going to let one company set its rates and then just go with that company which you think is the best? I'm a little confused how the final rates ultimately get determined.

MR. TITUS: Well, the final rates ultimately get determined in negotiation with the carrier that's selected, and we have said that the technical approach is more important than cost and one of the reasons for that is it's not inconceivable that between the time that we make a selection and the time we settle on final rates, that the final rates that get published on the Internet might be a little bit different than the ones that came in on the proposal.

And I don't expect that we'll be looking at proposals where there is only one variance between one and the other.

MR. KOLOMS: Sure.

MR. JACOBS: Gary Jacobs, CHCS Services. Frank, I have a follow-up question to a previous question. The issue of providing the care coordination to the non-enrolled qualified member/person/beneficiary, can you envision a possibility where that benefit becomes a benefit offered to those within the federal government that can't for purposes of suitability or for other purposes don't choose to participate in the benefit as buying the long term care benefit on its own?

Can you envision a scenario where the insurance company actually makes that an available benefit to those who decide to purchase or not purchase the product is a better way of saying it?

MR. TITUS: I can conceive of almost anything, but I'm not sure that scenario is necessarily, if we embarked on it, in the best interest of the program because we're almost asking for people to self-insure or perhaps even insure with a quote "competitor" but then take advantage of our very strong and robust care coordination program, and I'd have to reflect on that a lot.

I'm not saying that I wouldn't entertain a proposal, but it would take a careful evaluation and

somebody would need to demonstrate why the outcome that I just described would not happen.

MR. JACOBS: Thanks.

MS. TELL: Eileen Tell from Long Term Care Group. I have a question and clarification about the future purchase option. Is the intent for the offers that are made to make up for past offers that were declined while the person is still eligible to receive the offers or does each offer stand on its own as the amount that's offered?

MR. TITUS: Let me make sure I understand the question. Is the question the issue of consecutive versus declinations over a lifetime?

MS. TELL: No.

MR. TITUS: No?

MS. TELL: The question has to do with how much gets offered as a future purchase option, the additional benefit that's offered this time is deemed to be appropriate to be \$10, and last time it was \$10, and someone declined last time, do we offer that person \$20 to make them whole for the decline they passed up, or are they just offered the \$10 that's now available to everybody?

MR. TITUS: And I'm going to--yeah, I was going to say ten, too. Very good, Nancy. It's good when you're on the same page with your actuaries. So, no, the answer is just the ten.

MS. TELL: Okay. And then one other question. We were confused about from different impressions we had about active duty reservists and whether they're eligible for this program currently.

MR. TITUS: Oh, good.

AUDIENCE PARTICIPANT: What was the question?

MR. TITUS: The question was active duty reservists and are they eligible?

AUDIENCE PARTICIPANT: As we have discussed, I would think that you would want to include the reservists. In this day and age, reservists are used more and more in military operations. They're a part of our program. I don't see why you wouldn't.

MS. TELL: We just thought we had heard some information that they weren't eligible until such time as they took an annuity, and I wanted to understand whether that was accurate or whether they're

eligible right now?

MR. TITUS: Yes, I can clarify that.

MS. TELL: Okay.

MR. TITUS:

Post-Conference Note: We expanded on this answer and added more information than was actually said at the conference.

Reservists who are on active duty for more than 30 days are indeed eligible to apply for this insurance. The reservists in question are those who are awaiting a retirement benefit. These “grey” reservists, which I think is what we're talking about here, are similar to what we call deferred annuitants. They have to perform a given amount of reserve duty and then that entitles them to a future military retirement benefit.

That benefit begins at age 60. That is akin to a category of individual that we have that right now —that is not eligible for coverage but which we hope will benefit from the technical amendment which would make them eligible.

And that category is deferred annuitants -- somebody who works at least five years for the government and then separates, although many cases it will be ten or 15 years, and then separates before attaining an age at which eligibility for what we call an immediate annuity is established, which means an annuity that begins immediately upon your separation.

Those people, assuming they do not take a refund of their retirement contributions, become eligible to draw a pension benefit at age 62. Although once they separate from the Government with a deferred annuity they are not covered under the current law, we think when they begin to draw that retirement benefit, they should be eligible to apply for coverage under the program. Under current law, the retired “grey” reservists become eligible at the point in time that they begin to draw their benefit at age 60.

MS. TELL: So they're not eligible now?

MR. TITUS: They're eligible now only if they are on active duty for more than 30 days.

Otherwise, they're eligible once they reach age 60 and begin to draw a retirement benefit.

MS. TELL: One last question about pension allotments and payroll deduction. I understand that for some systems there are limits as to how much can be taken out of a pension through deductions for benefit programs and a certain amount has to be left over. Is that something that applies to payroll deduction? Is that something that is uniform across all the payroll systems or does each payroll system have their own rules about those limits?

MR. TITUS: I've never heard of such limits. They don't exist, I know, under the civil service or federal employees retirement systems. I will check to see if any such limits exist under any of the retirement systems that are encompassed by the act but again I've never heard of them, and they don't exist with respect to salary as far as I know.

Post-Conference Note: We checked and cannot find anything about such limits.

MS. LUDDEN: Beth Ludden. I just wanted to ask a little bit about the post-submission of the RFP. You've alluded to the possibility of a best and final process. Could you give us a little overview as to what your best case scenario might be and maybe the worst case and what would be required of those of us who might be in either of those processes?

MR. TITUS: Well, the best process would be that we evaluate the proposals and that from my perspective there is a proposal that is clearly superior, and that there is no disagreement with respect to its superiority among any of the people who are performing either the price or the technical evaluation. And we go straight to award.

Now, that doesn't mean that the cake has been fully baked. All right. There may be some aspects of the proposal that we think need clarification or further negotiation, but they are not aspects that would affect the decision to award or not award to a given team or whatever.

So we would make an award and we would stipulate in that award what issues needed to be resolved, and if necessary those issues would be, depending on what they were, they might require an amendment to the contract or what have you. That's not unheard of.

The worst case is simply because of the time -- we have some number of proposals, and maybe they're all in the competitive range. We make a determination that any one of them could be a winner, and that

we go out for a best and final which means that we have to go through another evaluation process which I think, and again I don't know what your proposals are going to look like or how big they're going to be or anything, but it's going to take some amount of time for an initial evaluation.

And then we'll have to make a judgment as to what additional information we want to provide to each and every carrier or team or what have you that's in the competitive range so that everybody is responding to the same thing, and so that the playing field stays level, and then we'd have to go through another evaluation process.

It is not, I don't think, unheard of for there to be more than one best and final. You know it's a process you go through until you're satisfied that you know who the the best set of bidders is, and as soon as you think you know that, then you make a decision, but it's conceivable that even after one best and final, you still might not know.

And if that was the case--all right--then, you know, in my view, we'd begin to have a situation where an on-time bringing up the program by October 1, 2002 might be threatened, but that's not a scenario that I think is going to happen, but you asked for the worst case, and that's the worst case I can imagine.

MS. LUDDEN: Thank you.

MR. ABOU-KHATWA: Tarek Abou-Khatwa, Benefit Consulting Associates. You've answered this question that there is no minority business enterprise or DB participation set-aside requirement. Does that still stand?

MR. TITUS: Yes.

MR. ABOU-KHATWA: And can you give some examples of subcontracting opportunities if it's applicable in this particular RFP?

MR. TITUS: Well, and again I don't have the in-the-weed sort of knowledge of exactly what long term care insurance industry delivery systems look like, but I'm sure that they all involve functions and processes that can be performed on a subcontractor basis by small businesses.

These might be things like data entry, other areas of support for data processing. Certainly there is housekeeping and all your other administrative kinds of arrangements that are typically performed by a wide

variety of subcontracting firms, I'm sure some of which are small business or minority firms.

And while there is no set aside, I think the RFP does encourage contractors to use those sources where they're appropriate and competitive.

MR. ABOU-KHATWA: So you encourage, but it's not a requirement. It's 100 percent at the discretion of the carrier?

MR. TITUS: Yes, basically, although we typically work with our carriers and we certainly do this in the health benefits area, to develop goals for awards to small and disadvantaged businesses, and we've been very successful in the health benefits program, and as a matter of fact, I think it was two years ago we got an award for our success in that area.

MR. ABOU-KHATWA: Thank you.

Post-Conference Note: While we have determined that the FAR does not apply to the FLTCIP as a legal matter, we intend to adopt, as contractual provisions, those aspects of the FAR that advance important Federal policies, including those related to small and disadvantaged businesses.

MR. TITUS: I know you're just itching to get out in that weather.

[Laughter.]

MR. TITUS: Okay. There's no written things? No. No takers on that. Okay.

MR. BARNETT: May I ask a question?

MR. TITUS: Sure.

MR. BARNETT: Thank you. I'm Jim Barnett with Gordon and Barnett, Frank. I just want to get a clarification, if we can, on one of the questions you already responded to in writing, and it's the one that's on page 21 of the Q and A response that you issued as an amendment to the RFP. And it's the provision that you comment on that's in the RFP that states that the Federal Long Term Care Insurance Program assets are not available for satisfying obligations arising in the contractor's other lines of business.

How do you apply that in regard to the first part of the answer when you indicate that you evidently are not looking for segregation of the funds or the assets that are attributable to this program? I mean how do you envision then that there's going to be no way or the contractor is going to be able to convince you that none of these assets absent segregation are being used for any other line of business? Or do you mean by

other line of business some line of business other than other long term care business?

MR. TITUS: No, I mean any other line of business, and I think that in terms of how we would assure that in the same way that we will assure that our requirements for the separate accounting for long term care assets be performed by our insurance partners, which is to say that the contractor's system for doing that will be subject to review and audit by our independent Inspector General as well as the General Accounting Office, and so that's how.

MR. BARNETT: Okay. Because I mean basically once the premium--money--you know money is fungible. You can't identify a dollar here from a dollar there. You're saying as long as we can account, show you that the assets over here don't have company-wide greater claims against them, then it's going to be--you're going to take that as sufficient for complying with this requirement?

MR. TITUS: Yes.

MR. BARNETT: Okay. One other question. Assuming the FAR is going to be made applicable, do you contemplate issuing things like the FEHBAR -- separate implementing regulations to guide the carriers on the application of FAR provisions to this particular program?

MR. TITUS: Well, and again that's something we dealt with, with our procurement staff, but we are hoping that the contract will be sufficient to do that.

MR. BARNETT: Okay. Thanks.

Post-Conference Note: While we have determined that the FAR does not apply to the FLTCIP as a legal matter, we intend to adopt, as contractual provisions, those aspects of the FAR that advance important Federal policies, including those related to small and disadvantaged businesses.

MS. RUDDOCK: Joyce Ruddock, MetLife. Do you anticipate site visits or finalist presentations being part of your evaluation?

MR. TITUS: Perhaps. Again, I think that will in part be a function of our assessment of what it is that comes across the transom on August 22, and a sense for what, if any, additional dealings we need to have in order to make an informed decision, a best and final or requesting the teams or offerors to come in for an oral presentation or what have you.

So it's really going to be a function of where we are after our first look at the proposals and the

things that we think we need to do to get comfortable with one, making an evaluation so that we're comfortable with our decision, and if part of that is site visits, then we would certainly do that.

Whatever we do will be done equally with respect to the carriers that are in the competitive range, so we wouldn't have one team in and not another or go to that site visit because it was cool and not that one because it was hot.

[Laughter.]

MS. RUDDOCK: Thank you.

MR. TITUS: Sorry, Laura.

MR. O'LEARY: Hi. John O'Leary. I'm a marketing consultant. And I thought it was pretty clear about the marketing funds, Frank, but on your response to the questions here on page 14, I got a little bit confused about the second question or the second response that you had in there because you began to refer to the need to do education and information, and then you also talk about in the out-front years of that \$1 million fund, that more of it might be spent on outreach.

Can you clarify what you mean by outreach?

MR. TITUS: I'm sorry. Page 14?

MR. O'LEARY: Yes, page 14. There's two questions. Primarily the one that I'm just trying to understand a little bit about is the second one, in order not to double count expenses, but I think your answer there talks a little bit about--it says respond to the need to develop an educational and information strategy. And it seems pretty clear that most of the money for that \$2 million in the first year is going to be the sort of staffing and administrative expenses to administer the program, but then you talk about outreach in the out front years, and I was trying to understand what outreach meant.

MR. TITUS: I'm not seeing.

MR. O'LEARY: There will be less consultant and more outreach and oversight afterwards. Does that mean that you're going to spend some--some of that money should be assumed to be spent on more educationally related things?

MR. TITUS: I'm not seeing it. Oh. Well, what I mean there is in the first year, you know,

we're spending substantial resources and the small staff here is fully consumed with just the RFP process. And in years two and, well, maybe not two so much, but probably three, that won't be the case, and so we will have more staff time that's available for us to do things with agencies to continue to promote the long term care program, because we expect that, assuming full underwriting the program will be continuously open, and then periodically, and we're asking for responses on this, that we would conduct an open enrollment period where there's an enrollment campaign even though there might not be minimal underwriting.

So that's what I'm getting at there, but just to make sure that everybody is assuming the \$2 million in the first year and a million dollars thereafter.

Are we done? All right. Well, thanks for coming. Again, if when you get into the RFP, there's something that you really think is inconsistent or erroneous, please bring it to our attention, and then if we agree that clarification is needed, we will put out an amendment that is available to everybody who is on the list to get things.

And I appreciate your coming by and, Fred, if you'd stop by so our transcriber, and who else spoke? Nancy. If you want your name spelled correctly, please drop cards in the front. If you don't or you think that misspelling is impossible, then you don't have to come by.

[Whereupon, at 2:50 p.m., the pre-bid conference was concluded.]