

# The CLASS act – the “public option” for long-term care insurance

## What you need to know.

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*It's official - a voluntary cash benefit long-term care program is now law. Below is our “best guess” of how the CLASS act long-term care insurance program will work.*

### **Q: What is it?**

A: The CLASS act stands for Community Living Assistance Services and Support Act, and is part of the health care reform bill. It is a legacy of the late Senator Ted Kennedy. The plan creates a voluntary government run long-term care insurance program, and is planned to be effective January 1st of 2011.

### **Q: Who will be eligible?**

A: All actively at work Americans 18 and older will be eligible. The actively-at-work requirement is anticipated to have a low income threshold of \$1,120.

### **Q: What are the benefits?**

A: The program will probably provide a benefit amount of \$50 cash per day for participants who fail 2 of 6 activities of daily living or have cognitive impairment. The benefits last for unlimited period of time and should increase annually to the consumer price index (CPI).

### **Q: What is the underwriting like?**

A: The plan is guaranteed issue with no underwriting except for the actively-at-work requirement.

### **Q: What is the wait period before benefits can be paid?**

A: Individuals must pay premiums for a 60-month period before being able to access benefits.

### **Q: What will the premiums be?**

A: The premiums will be determined by the Secretary of Health and Human Services and are based on a 75 year solvency requirement. The premiums are designed to remain level, but may be increased annually depending on the solvency of the plan. Premiums will be rated based on age. The American Academy of Actuaries predicted that to maintain solvency of the program 6% of eligible Americans would have to participate at a monthly premium cost of \$160. The Chief Actuary of the Centers for Medicare and Medicaid services predicts that only 2% of those eligible would participate, and that premiums would be as high as \$240 per month.

### **Q: How do people enroll?**

A: Employers will provide payroll deduction for the plan. Employers will have the option of having auto-enrollment feature such as with 401(k) plans. Self-employed will also be eligible to enroll with a mechanism to be determined. The tax treatment of premiums should be the same as private long-term care insurance.

### **Q: Who determines claim eligibility?**

A: Some claims will be automatically approved, such as participants who are leaving a hospital, nursing home or mental health center and need long-term care services. Other claims will be determined by Department of HHS.

### **Q: How is the plan funded?**

A: The law specifically prevents tax dollars from being used for the plan. The entire plan must be self-sustaining through voluntary employee enrollments.

## **Comments**

Based on experience with private LTC Insurance, the adverse selection due to a voluntary guaranteed issue long-term care insurance means the CLASS act must get an extremely high level of participation to

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be fiscally viable in the long-term. In our opinion, the congressional budget office has unrealistically optimistic projections about enrollment in the plan. These projections allow the plan to offset much of the initial 10 year cost of proposed health reform.

The proposed law only allows 3% of money to be used for marketing or administration. Private LTC Group Insurers spend much more in order to increase awareness in a voluntary program, underwrite risk and manage claims properly.

The proposed \$75 daily benefit is a fraction of what is needed for quality home, assisted living and private nursing home care. For example, according to the 2009 Genworth Cost of care survey the national average for home care is \$17.48 per hour and the average private nursing home costs is \$203.32 per day.

Because private group LTC insurers can medically and demographically underwrite groups, they will be able to offer much more attractive premiums and rates than the CLASS act program. In addition, those interested in care management and prompt claim service will be attracted to the private plans. Current LTC carriers will be able to attract a healthier, wealthier and more educated customer while the government option will struggle to attract this key buying audience. Increasing awareness of the issue could lead to renewed interest in LTC planning.

### Following is a side-by-side comparison of the public and private options:

<u>Feature</u>	<u>“CLASS” act program</u>	<u>Private LTC program</u>
Who is eligible?	Actively at work 18 or over. Can't be on Medicaid	Typically 18 and older
Premiums	<p>Premiums to be determined by Secretary of Health and Human Services. Premiums based on age and are designed to remain level.</p> <p>Actuaries estimate premiums will average \$160 per month, with...</p> <p>\$136 per month for those 18-39, \$144 for 40-49, \$152 for ages 50-59, \$231 for ages 60-69 \$277 for ages 70-79</p>	<p>Age based Designed to remain level, although premiums can be raised for a class in a state. If “class” is law, then premiums for private LTC will also be pre-tax. Because there isn't the adverse selection that happens with the CLASS act, premiums will be lower for similar benefits.</p> <p>Sample premiums for \$80 per day plan with CPI compound inflation rider, and maximum lifetime benefit of \$146,000 (5 years of coverage) plus \$1,000,000 if exhausted:</p> <p>Age 20 - \$40.50 Age 30 - \$42.83 Age 40 - \$54.00 Age 50 - \$76.34 Age 60 - \$110.79 Age 70 - \$221.11</p>

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Waiting period for benefits	Must be enrolled 5 years before benefit eligible.	Immediately after satisfying elimination period.
Underwriting	No underwriting - Guaranteed Issue	Ranges from fully underwritten to guaranteed issue depending on group size and demographics
Benefit Amount	Fail 2 of 6 ADL's or cognitive impairment- \$75 per day indexed for inflation	Range of options available from \$30 per day to \$300 per day and higher.
Benefit Type	Cash disability model	Either reimbursement or cash disability model
Benefit Duration	No limit	Typically bought as a “years of care” (2, 3, 4, 5, Lifetime) or as a pool of money from \$100K to \$1,000,000 or more...
Benefit Inflation	Benefits increase with the CPI.	Inflation coverage optional
Contact is between	Based on promise from federal government	Based on contract between carrier and individual
Who determines if claim eligible?	Social Security. Automatic if discharged from a hospital, nursing home or mental care facility for long-term care	Insurance carrier based on contract language