



The Long-Term Care **Solution**

CLASS Plan Questions & Answers

The Senate Health, Education, Labor and Pension (HELP) Committee and the House Energy and Commerce Committee's Affordable Health Choices Act include provisions from the CLASS Act (S. 697, H.R. 1721), which is supported by President Obama and over 100 national consumer, provider and faith-based organizations.

Why is there a need for the CLASS plan?

Ten million Americans today need long term services and supports—including 4 million under age 65. As the Baby Boomers age into retirement, these numbers will more than double. The CLASS plan addresses what may be the biggest current gap in coverage for seniors and people with disabilities by creating an affordable, accessible, voluntary insurance program to provide services and supports to help those in need remain in their homes and communities. Our major “insurance” plan, by default, for long-term services and supports (LTSS) is Medicaid, which serves the impoverished and has limited options for personal choice. This system fails to provide realistic opportunities for personal planning, requires people to spend-down into poverty before receiving the help they need, fails to support family caregivers adequately, leads to higher acute care costs and is fiscally unsustainable, given the Baby Boomers' coming explosive needs. The nation needs a plan that protects people beyond just those who are healthy and wealthy enough for private market coverage. Helping people to avoid impoverishment due to the costs of LTSS is the right thing to do for individuals and their families and it is the right thing to do for the Medicaid program.

What groups support the CLASS plan?

For a partial list of the organizations that support the CLASS plan, see the Roll Call Ad at the end of this document. The CLASS plan is consistent with the principles for long-term services and supports financing reform agreed to by the Leadership Council of Aging Organizations and the Consortium for Citizens with Disabilities. Together, the two coalitions include over 150 organizations representing seniors, people with disabilities, and providers of health, housing and supportive services

Is the CLASS plan an unfunded entitlement that will increase the federal budget deficit?

No. The CLASS plan is a voluntary self-funded insurance plan and, according to CBO, would reduce the federal budget deficit by \$57.8 billion over ten years including federal Medicaid savings of \$2.5 billion in the first four years CLASS benefits become available. Medicaid savings would increase substantially over time as more and more participants aged into their

senior years when the probability of using LTSS increases. The bill requires that the CLASS Plan be maintained in an actuarially sound manner. That means that premiums and benefits will be kept in proper alignment so that there will always be sufficient money from premiums and earned interest in the CLASS Trust Fund to pay benefits owed to participants. The CLASS Plan is not subsidized by tax dollars but is fully self-sustaining for the long run.

Will the CLASS plan discourage more consumers in the future, compared to today, from planning properly for future long-term care needs?

No. The voluntary CLASS plan encourages personal responsibility and planning. The CLASS plan includes additional funds for consumer education and evidence suggests that implementation of a foundational insurance plan is likely to stimulate the current flat market for private long term care insurance by creating opportunities for supplemental plans for those who want and can afford it, particularly to protect against the cost of more expensive institutional care. For example, since France introduced its public, cash benefit plan, sales of private “wrap-around” policies have been growing by 15% per year. Similarly, sales of private insurance increased when Germany introduced its public plan.¹

Many Americans realize that total long term supports and services are not fully covered. For example, a 2008 survey by the highly-respected Employee Benefit Research Institute found that both younger workers and retirees are more concerned about having enough money for long term care in retirement than they are about having enough money for medical expenses.²

Is the CLASS plan actuarially sound for the long run?

Yes. The legislation requires that the CLASS plan be implemented and maintained in a manner to be actuarially sound for the long term. Numerous analysts, from the independent CBO to some affiliated with companies opposing the CLASS plan, have shown how the CLASS plan can be financially sustainable for the long term. These analysts sometimes differ with respect to estimates of the premium price required for a sustainable program, as shown in the following table. Those differences reflect the use of different data, different assumptions, and different details regarding benefit levels and benefit triggers. There are many different combinations of benefit trigger, benefit amounts, and premium price that can be actuarially sound for the long term. That is why the law requires the plan to be actuarially sound, but gives the Secretary the responsibility for working out the exact program details, based on transparent, independent study and consultation with an Advisory Council.

¹ “View from Abroad: LTC Insurance in Canada, Germany, France and the UK,” presented at the Ninth Annual Intercompany Long Term Care Insurance Company, March 31, 2009.

See: <http://www.lifecareassurance.com/2009Conference/Powerpoint/48.pdf>

² see: http://www.msnbc.msn.com/id/24018971/ns/business-personal_finance/

Estimates of Monthly Premiums for a Sustainable CLASS Plan		
Analyst	Average Daily Benefit	Estimated Monthly Premium
ACLI	\$90/day	\$140/month
CBO (June 25, 2009)*	\$75/day	\$65/month for initial decade, rising to \$100/\$110 for subsequent cohorts
CBO (July 6, 2005)*	\$75/day	\$65/month for initial decade; after 2019, benefits dropped to \$50/day and premiums for new enrollees raised to \$85/month
AAA/SOA	\$75/day	\$125/month
Mercer Group	About \$75/day [2-3 ADLs = \$50/day; 4+ ADLs= \$100/day]	\$61/month to \$123/month, depending on participation rate and disability trends
ACLI	\$50/day	\$107/month to \$117/month
AAA/SOA	\$50/day	\$86/month

A critical function of the independent, scientific analysis that the Secretary will conduct is to assure that reasonable assumptions and data are used. One set of critics, for example, assumes that 94% of all people eligible will “opt-out,” based on what happens with some (unspecified) private long term care insurance plans (prices and benefits unknown). A lower participation rate, if coupled with adverse selection, increases the premium price that must be charged. But how realistic is the 94% opt out rate? The CLASS Act is by design very different from the private policies offered today, including the fact that it uses an “opt out” approach as one of the strategies to increase enrollment. Peter Orzag—former CBO Director, now Director of OMB—has explained how opt out programs and similar design features based on findings from behavioral economics can substantially increase participation in programs, noting that “people’s choices are highly sensitive to factors ignored by rational,

* Assumed a benefit trigger point of 2.5 ADLs; all others assumed 2+ADLs

‘Econ 101’ models—things like simplicity and inertia, which can sometimes be far more important determinants of choice than monetary incentives.”³

What are the CLASS Plan benefits?

The CLASS Plan pays cash benefits to people who have paid premiums for at least 5 years and meet the required disability trigger. The bill requires the Secretary of Health and Human Services to develop a benefit structure that is actuarially sound; it specifies a minimum cash amount (to ensure a sufficiently meaningful plan) but does not specify an exact benefit amount. In the legislation originally introduced in both Chambers, the benefits were set at \$50 per day for a person with need for assistance with two or three activities of daily living (ADLs) or the cognitive equivalent and \$100 per day for a person with four or more ADLs or the cognitive equivalent. Current legislation provides that benefits on average may be no less than \$50 per day and directs the Secretary to vary benefits based on functional need (i.e., to pay a higher cash benefit for people with greater functional need). CBO and other analysts have estimated the premiums required for an actuarially sound program using either an average daily benefit of \$50/day or \$75/day. Final plan details, including the exact level of benefits, will be set by the Secretary in an actuarially sound manner.

Are the CLASS Plan benefits generous enough to provide meaningful help?

Yes. The Class Plan is intended to pay a foundational level of benefits. The CLASS Plan, like private long-term care insurance, is not intended to cover all costs of future care. Researchers have found, for example, that the typical private long-term care insurance policy that is purchased covers “only about one third of the expected present discounted value of long-term care expenditures. Moreover, this policy is provided at premiums that are ‘marked up’ substantially above expected benefits.”⁴

CLASS Plan benefits are substantial. First, it’s important to understand that CLASS benefits continue as long as a plan participant’s need continues—this could be for just six months or for a lifetime. That is critically important for the younger working person who incurs a lifelong disabling condition and for the twenty percent of people turning age 65 who researchers find will need long term services and supports for five or more years. Notably, less than a quarter of private long term care insurance policies sold recently provide a lifetime of benefits—these policies typically cover a higher amount of specified service (like nursing home) cost for a shorter period of time than CLASS.⁵ The approaches are complimentary.

³ See: <http://www.slate.com/id/2221159/>

⁴ <http://www.nber.org/reporter/spring07/finkelstein.html>

⁵ http://www.ahipresearch.org/PDFs/LTC_Buyers_Guide.pdf

Second, the average daily benefits anticipated for CLASS are themselves substantial. For example, a \$75 per day benefit equals \$27,375 per year. This could be enough for several hours/day of a personal care assistant or a full day of adult day services in nearly all places. This level of benefits would allow many family caregivers to continue to work.

In addition, should a participant want a benefit that could cover most of even expensive nursing home care, it is notable that \$75/day would cover the rate for private enrollees in most PACE programs—a highly successful managed plan with comprehensive benefits, including nursing home care when needed.

A \$50 per day benefit (\$18,750 annually) compares favorably to the cash grants (for personal care services) provided under the highly successful Cash and Counseling Program, which has been shown to have a significant effect on reducing use of nursing homes by supporting people in the community. Average annual cash and counseling grants in 2003 were about \$11,700 for adults with physical disabilities and elderly adults in Florida and \$16,800 for the same populations in New Jersey. This level of benefits would also cover about half the cost of private assisted living.

As noted, CLASS benefits are intended to be foundational, not comprehensive. This approach fills a critical need and also creates a framework for a workable public/private partnership, with private long-term care insurance (for those for whom it is appropriate) supplementing a broad-based floor of protection.

Why isn't private long-term care insurance a better solution to meeting American's long-term care financing needs?

Although private long term care insurance can be a good choice for some people who can pass the health screen, can afford the policies, and like the benefits offered, less than 10% of seniors (and even fewer younger people) have private LTC insurance policies, even though such policies have been available for 30 years. In 2007, only \$4B in claims was paid by private long term care insurance of \$200B in national spending on long-term care. Indeed, the independent Kaiser Commission recently examined purchase trends in private long-term care insurance policies and concluded that “it appears unlikely that the long-term care insurance market will experience the kind of dramatic growth necessary to shift a substantial portion of the long-term care financing burden from Medicaid to private insurance.”⁶

Some argue that the solution to this problem is to increase tax subsidies for private long-term care insurance, beyond those already in place. Federal tax subsidies for the purchase of private long-term care insurance are very expensive and—according to most research—have little if any impact of Medicaid spending and limited effect on increased insurance purchase. The original version of the CLASS Act had a section that would have allowed private long-term care insurance programs to be offered in cafeteria plans, but CBO scored that as costing \$31B over 10 years and the section was dropped.

⁶ Kaiser Commission on Medicaid and the Uninsured, “Closing the Long-Term Care Funding Gap: The Challenge of Private Long-Term Care Insurance,” Tumlinson and Watts, p. 14.

A recent study concluded that an even stronger tax incentive (an above-the-line deduction) would do very little in terms of increased purchase of private insurance. The study found: “Creating additional federal tax incentives for the purchase of private long-term care insurance would modestly boost take-up rates. Take-up rates would rise to 19 percent if all taxpayers could fully deduct premium expenses from income subject to federal income taxes...The impact of tax incentives on private long-term care insurance would be concentrated among high-income taxpayers.”⁷

For those who want protection against the cost of more expensive institutional care, the CLASS plan proposal provides a foundation upon which private long-term care insurance can build with supplemental policies.

Why isn't the Partnership Program a better approach than the CLASS Plan for reducing Medicaid spending on long-term care?

The Congressional Budget Office has concluded that the CLASS plan will save Medicaid funds by helping people avoid needing Medicaid's help because they have CLASS plan insurance instead, which is open to people regardless of any pre-existing conditions. But both CBO and GAO have concluded that the Partnership program is unlikely to save Medicaid money and is more likely increase Medicaid spending. The Partnership program encourages people to purchase a qualified private long term care insurance plan, promising that if private benefits are exceeded, the participant may get Medicaid coverage while preserving assets equal to the amount of the purchased private LTC insurance. The public program acts as a “backstop” to the private plan. While this approach may help some who can qualify for private LTC insurance to purchase it and protect assets, GAO and CBO have concluded it is not an effective way to reduce future Medicaid spending. CBO, for example said:

“An additional potential drawback to partnership policies is that they might increase Medicaid's spending for long term care. Without question, partnership policyholders would generate more Medicaid LTC expenditures than would holders of conventional policies because partnership coverage would allow policyholders to qualify for Medicaid without first exhausting all of their assets. And Medicaid expenditures would increase for those people purchasing partnership coverage who would have purchased conventional coverage if partnership coverage had not been available.”⁸

⁷ For more details of that study-- see: http://aging.senate.gov/award/award_aspe.cfm

⁸ <http://www.cbo.gov/ftpdocs/54xx/doc5400/04-26-LongTermCare.pdf>