

A CLASS Act Update

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The Intent

- “... to establish a national voluntary insurance program for purchasing community living assistance services and supports in order to—
- (1) provide individuals with functional limitations with tools that will allow them to maintain their personal and financial independence and live in the community through a new financing strategy for community living assistance services and supports;
- (2) establish an infrastructure that will help address the nation’s community living assistance services and supports needs;
- (3) alleviate burdens on family caregivers;
- (4) address institutional bias by providing a financing mechanism that supports personal choice and independence to live in the community.”



The CLASS Act—A Brief Summary

- Established as part of the Affordable Care Act (ACA)
- Government-sponsored, voluntary, guaranteed issue, long-term care insurance
- Eligibility
 - Age 18 with minimal income-based requirement
 - Employers may offer plan with automatic enrollment (with opt-out) for employees
 - Ability to enroll on an individual basis
 - No underwriting such as used in private insurance allowed



The CLASS Act–Benefits

■ Benefits

- To qualify need help with (2 or 3) of 6 activities of daily living or be cognitively impaired
- An alternative presumptive eligibility
- Minimum average of \$50 per day cash benefit indexed with inflation
- Lifetime coverage
- Zero day elimination period
- Five-year waiting period from enrollment until benefits are available



The CLASS Act—Funding

- Funding
 - Premiums level for life of the plan (CBO estimated \$123 per month)
 - Nominal premium for low income and students (\$5 per month)
 - No taxpayer funds used to support the program
 - Actuarial soundness required over 75 years



The CLASS Act–Timing

- Timing
 - 2011
 - CLASS office established under HHS
 - Formation of the CLASS Advisory Council
 - Establish state-based eligibility systems
 - CLASS alternative plans are developed
 - Jan. 1, 2012–Enrollment and benefit procedures established
 - Oct. 1, 2012–Secretary to designate CLASS benefit plan
 - Jan. 1, 2013–enrollment scheduled to begin
 - Jan. 1, 2014 and following–annual report to Congress by the Secretary



Initial Academy Concerns

- Absence of a material underwriting approach at enrollment
- The ability to enroll in the program after the initial eligibility offering with no underwriting and with relatively limited restrictions
- The use of a five-year waiting period as a light underwriting proxy
- The limited expense allowance (3 percent of premium) is insufficient to fund the type of meaningful educational and marketing efforts that are required to drive reasonable participation



Initial Academy Concerns (continued)

- The use of a presumptive eligibility approach without a benefit assessment provision is likely to increase claim incidence when services are not truly needed
- If premiums are set at the actuarially appropriate level, it would be difficult to enroll enough healthier and unsubsidized lives to keep the program sustainable
- Future rate increases are likely and are magnified by the burden placed on new enrollees



Academy Recommendations

- Enhance the actively-at-work definition/income-based program eligibility requirements
- Underwriting approach for the coverage of spouses who are not actively at work
- Add significant opt-out and subsequent opt-in restrictions
- Product changes:
 - Add a benefit elimination period
 - Add a lifetime maximum benefit limit
 - Provide benefits that are paid based on a reimbursement provision rather than on a cash basis
- Premium structure changes
- Consistent definition of benefit eligibility



The CLASS Act–Update

June 3, 2011 Letter from HHS Secretary Kathleen Sebelius:

- “... I am required to determine whether the program is actuarially sound before proceeding to offer insurance to consumers. ... we will not implement the program unless it is solvent and sustainable, as required by the statute.”
- Improvements under consideration “... consistent with the types of improvements that have been recommended by outside experts such as the American Academy of Actuaries.”
- Improvements could include:
 - Increasing the employment and earnings requirement
 - Indexing premiums to rise along with benefits
 - Minimizing the possibility that people will “game” the rules



Subsequent Academy Concerns

- “A reasonable spread of the risk”
- Affordability
- Reliance on the negative enrollment requirement
- The impact of the unlimited lifetime cash benefits
- What annual income level will be appropriate as an underwriting proxy?
- The significant level of internal subsidies
- Pricing CLASS with generally acceptable actuarial methods and assumptions



Academy CLASS Act Resources

- July 2009 letter to U.S. Senate Committee on Health, Education, Labor and Pensions

http://www.actuary.org/pdf/health/class_july09.pdf

- Critical Issues in Health Reform Series–CLASS Act

http://www.actuary.org/pdf/health/class_nov09.pdf

- March 2011 testimony by Al Schmitz, MAAA, FSA, Member, Joint Academy/Society of Actuaries Class Act Task Force to House Energy and Commerce Committee

<http://www.actuary.org/pdf/Allen%20Schmitz%20Acad%20CLASS%20testimony%20031511.pdf>



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