

The CLASS Act:
COORDINATION, COST, AND IMPACT

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Demonstration #1

■ Affordability – Middle Mass Market

"Middle Mass" Market

55 to 64 year-olds

# households	9,100,000	51%
Avg. Income	\$56,857	
Assets net of home	\$74,575	

65 to 74 year-olds

# households	5,800,000	32%
Avg. Income	\$33,052	
Assets net of home	\$63,052	

Source: N. Abkemeler and B. Hamann, 2009. "Segmenting the Middle Market: RETIREMENT RISKS AND SOLUTIONS PHASE I REPORT." Society of Actuaries.



Demonstration #2

■ Affordability – Middle Affluent Market

"Middle Affluent" Market

55 to 64 year-olds

# households	1,800,000	10%
Avg. Income	\$102,611	
Assets net of home	\$274,500	

65 to 74 year-olds

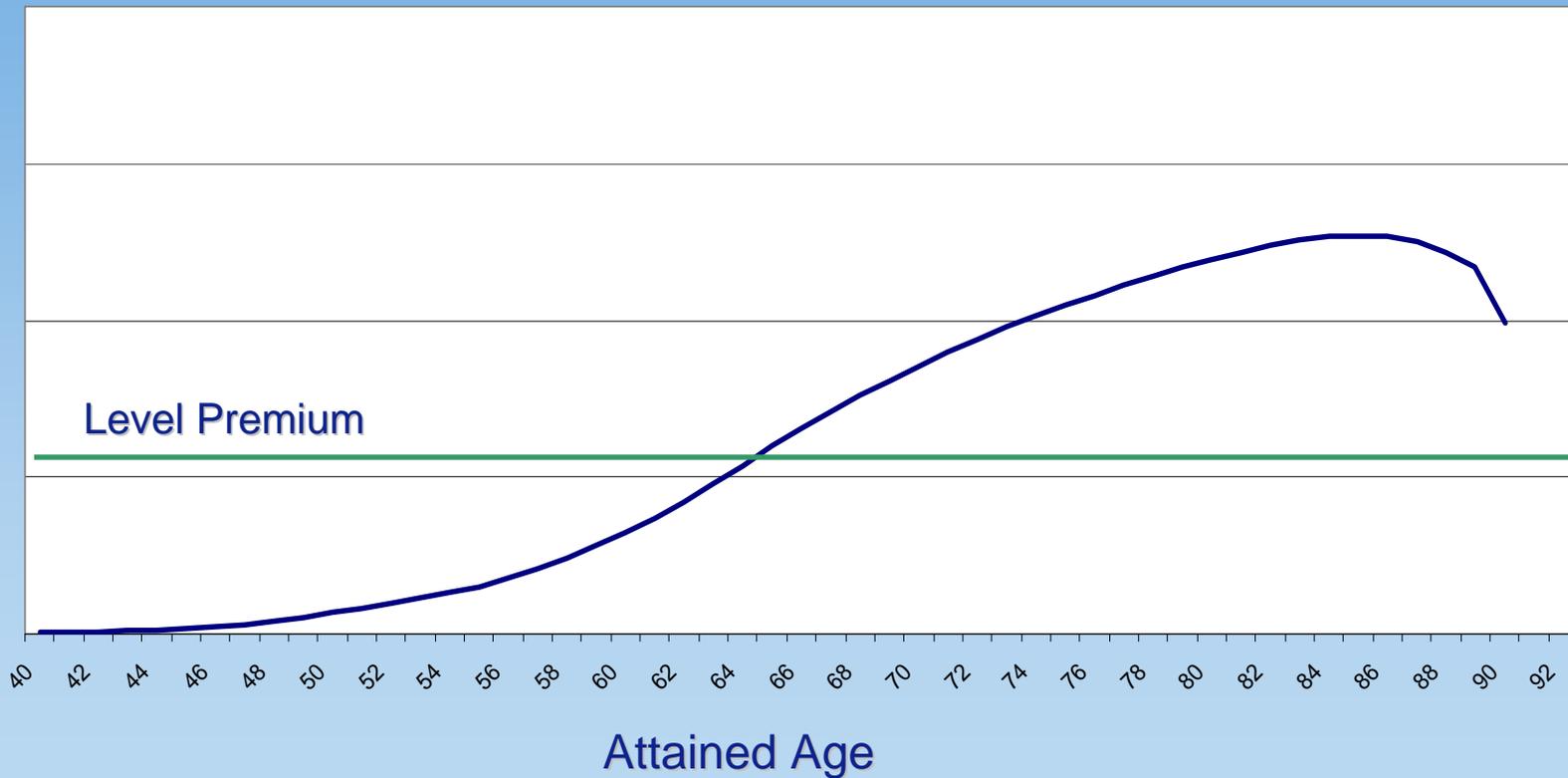
# households	1,200,000	7%
Avg. Income	\$69,833	
Assets net of home	\$237,500	

Source: N. Abkemeler and B. Hamann, 2009. "Segmenting the Middle Market: RETIREMENT RISKS AND SOLUTIONS PHASE I REPORT." Society of Actuaries.



Demonstration #3

- The Morbidity Curve for Long-Term Services and Supports



Demonstration #4

Premium

- Assume that the CLASS Act program's current eligibility and benefit design will produce a risk pool of participants with claim levels that are a very modest 10% greater than the private insurance industry:

Issue Age	Average Annual Premium Top Writers	Adjusted for Loss Ratio	Inc for CLASS Program Expenses	CLASS Product Differences (EP, cash,..)	Impact of Adverse Selection	Monthly Premium
Issue Age 40	1,915	1,149	1,352	1,690	1,859	155
Issue Age 50	2,210	1,326	1,560	1,950	2,145	179
Issue Age 60	3,019	1,811	2,131	2,664	2,930	244
Issue Age 70	5,422	3,253	3,827	4,784	5,262	439



Overview of the CLASS Act Provisions

- PPACA creates a new voluntary long-term care program (referred to as the CLASS Act)
 - Eligibility – working adults
 - Five-year vesting period
 - Minimum average cash benefit of \$50/day, Lifetime benefits
 - Auto-enrollment at the employer level with opt-out provision
 - Enrollment for self-employed
 - Nominal premium for students and low-income (\$5)
 - No underwriting



Overview of Joint Academy/SOA Analysis

Concerns:

- Absence of a material underwriting approach at enrollment.
- The ability to timely 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 levels (3%) do not allow for the type of meaningful educational and marketing efforts that are required to drive reasonable participation.
- 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.

A copy of the joint work group's initial letter can be found on the Academy's website:

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



Overview of Joint Academy/SOA Analysis

Recommendations:

- Enhanced “actively-at-work” definition
- Underwriting approach for the coverage of spouses who are not actively at work.
- Opt-out and subsequent opt-in restrictions
- Product changes:
 - A benefit elimination period
 - A benefit period duration that is less than lifetime
 - Benefits that are paid based on a reimbursement provision rather than on a cash basis
- Premium structure changes
- Consistent definition of benefit eligibility



Provisions that Affect CLASS Sustainability

- Affordability
- Adverse selection
- The currently disabled
- Lack of a marketing budget
- Low participation levels
- Rate increases and/or benefit reductions



Impact of the CLASS Program

- Medicaid:
 - Delayed and muted due to vesting period and low participation
 - Benefit levels are insufficient for institutional care
- Private Long-Term Care Insurance
 - Potential for increased consumer awareness
 - Limited supplement opportunity
- Employers
 - May enhance benefit programs
 - Additional administrative burden
- Consumers
 - Increased care opportunities
 - Monthly premiums may be excessive
 - Offers a limited solution



Questions?

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