AMERICAN ACADEMY *of* ACTUARIES

Committee on Energy and Commerce
Subcommittee on Health
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Hearing on
The Implementation and Sustainability of the
New Government-Administered
Community Living Assistance Services and Supports (CLASS) Program

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The American Academy of Actuaries (Academy) is a 17,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Thank you, Chairman Pitts and ranking member Pallone, for the opportunity to testify today on the sustainability of the Community Living Assistance Services and Supports (CLASS) Act as enacted under the Affordable Care Act (ACA).

My name is Allen Schmitz, and I'm here today on behalf of the American Academy of Actuaries. A joint task force of the Academy and Society of Actuaries published an analysis of the CLASS Act legislation in 2009, which modeled an earlier version of the program.[1] Based on that analysis, it was concluded that the program would not be sustainable in the long term and that it would be unlikely to cover more than a small proportion of the intended population. Those same concerns persist with the CLASS program enacted as part of ACA.

The CLASS program is a voluntary, guaranteed issue, employment-based program. It's important to note that the CLASS program is required to be actuarially sound over a 75-year period with no support from taxpayers.

And, while it is commendable for its inclusion, the actuarially sound requirement will be very difficult to achieve under the current program design. A primary concern is the considerable potential for adverse selection in this program, which could necessitate significant future increases in premiums and/or reductions in benefits. Without addressing many of the issues I will outline in the remainder of my testimony, the program is unsustainable in the long term.

[1] American Academy of Actuaries and Society of Actuaries analysis of the Community Living Assistance Services and Supports Act as included in section 191 of the *Affordable Health Choices Act*, which was introduced on June 9, 2009 in the Senate Committee on Health, Education, Labor and Pensions: http://www.actuary.org/pdf/health/class_july09.pdf

An effective, actuarially sound public long-term care (LTC) program will limit the effect of adverse selection. This is critical with a voluntary program in which participants may opt in and/or out—those individuals with greater need for long-term care coverage are more likely to opt in, while individuals without that need are more likely to opt out. This adverse selection increases the average insured risk and results in higher average premiums, which in turn may lead to less participation from healthy individuals and even more adverse selection. The process may continue and spiral, ultimately to a level at which it cannot be priced or the premium is so high it is equal to the prepaid cost of care.

Important provisions in the CLASS Act that affect adverse selection include:

- Guaranteed issue with a weak actively-at-work requirement;
- Opt-out and opt-in provisions that allow participants to delay coverage until it is needed;
- Premium subsidies requiring a premium of only $5 per month for students and those below the poverty line;
- A waiting period that is not long enough to effectively control adverse selection;
- Rate increase limitations for those who are older than age 65, have paid premiums for 20 years and are no longer working; and
- Benefit design features, such as cash benefits and unlimited lifetime maximums that have been and continue to be problematic in the private LTC insurance market because they are susceptible to induced demand and may drive higher premiums and lower program participation.

There has been a significant focus on participation levels as a critical yardstick in measuring the viability and success of the program. While higher participation generally does make it easier to obtain a reasonable spread of risk necessary to sustain the program, it should be made clear that it is the mix of individuals with different risk characteristics enrolled in the program at any one time, and not participation alone, that is the key to long-term sustainability. High participation from only higher-risk individuals will threaten the program.

Key factors influencing participation are affordability and marketing.

The premium levels must be affordable, competitive with what is available in the private long-term care insurance market, and of good value to consumers. But the CLASS program design includes features that increase adverse selection and result in relatively unaffordable premiums.

A strong marketing program would significantly increase participation and aid in obtaining a reasonable spread of risk. In addition, it would encourage individuals to plan for their future long-term care needs—and getting people to plan for their future LTC needs could help reduce pressure on the government, which currently pays for a majority of long-term care.

A sustainable voluntary program will have provisions to address many of the adverse selection concerns I have outlined. On behalf of the Academy, I offer the following recommendations for modifying the CLASS program:

- An actively-at-work definition with a minimum requirement of 20 to 30 hours of scheduled work or a comparable requirement;

- Restrictions on the ability to opt out and subsequently opt in with the use of either a long second waiting period for benefits or an alternative underwriting mechanism(s);
- The use of a benefit elimination period or duration limits;
- Benefits that are paid on a reimbursement rather than cash basis;
- An initial premium structure that provides for scheduled premium increases for active enrollees at either a consumer price index or alternative rate.

These modifications, along with an effective marketing effort, will improve the sustainability of this voluntary long-term care program. Without these modifications, the program is likely to be unsustainable.

We are encouraged that Congress and the administration are considering changes to the program design that could help address adverse selection. Significant additional changes, however, are necessary to address the concerns I have raised here today, or the CLASS program may not be sustainable. Again, I thank you for the opportunity to appear before you today and would welcome any questions you might have.