

CRITICAL ISSUES IN HEALTH REFORM

Community Living Assistance Services and Supports Act (CLASS Act)



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A recent analysis by a joint work group of the Health Practice Council of the American Academy of Actuaries and the Society of Actuaries¹ on the *Community Living Assistance Services and Supports Act* (CLASS Act) included in the U.S. Senate Health, Education, Labor and Pensions health reform bill and the House of Representative's Affordable Health Care for America Act (H.R. 3962) concluded that an actuarially sound program may not be possible to achieve unless the issues explored in the study are addressed. The Academy's Health Practice Council neither advocates nor opposes the concept of a long-term care services program, but, in order to ensure the program is sustainable, certain issues must be considered.

Q: Why is broad participation in the CLASS Act program not likely?

A: Given the proposed benefit structure of the CLASS Act long-term care (LTC) program, the required "actuarially sound" premiums are likely to be unaffordable for much of the intended population. Private insurers have only been able to achieve participation rates that average in the mid-single digits (percentage) and the federal long-term care insurance program participation rate is 5 percent. The joint work group's model assumed a 6 percent participation rate. The challenge in realizing an increased participation rate in the program established by the CLASS Act would be compounded by the absence of funding for a comprehensive marketing and education effort.

Q: How do these benefit levels compare to actual LTC services?

A: The CLASS Act provides eligible indi-

viduals with a cash-benefit for the lifetime of the claim—initially set at a minimum average of \$50/day. However, for the majority of participants, an average benefit of \$50/day is inadequate and could result in considerable out-of-pocket expenditures and continued stress on the Medicaid program. The table below provides the average daily base rate by facility type for long-term care services and illustrates the increasing cost for these types of services.

Average Daily Base Rate by Facility Type		
	2006	2008
Nursing home: private room	\$203	\$217
Nursing home: semi-private room	\$180	\$194
Home health care	\$20/hr	\$21/hr
Assisted living facility	\$95	\$106

Source: Prudential, Research Report 2008: Long-Term Care Cost Study

Thus, the CLASS Act provides a very basic level of coverage for formal care services. While the program does encourage the use of cash benefits for informal care, the lack of a substantial provision for formal care should be clearly disclosed to the participants.

Q: How will the actuarial soundness of the program be determined?

A: The program will be "actuarially sound" if the projected premiums and interest income are adequate to provide for the projected costs of program benefits and administration over a 75-year period starting with the first year of the CLASS program; assessment of the program's actuarial soundness each year

ADDITIONAL RESOURCES

Original analysis on the Community Living Assistance Services and Supports (CLASS) Act – Actuarial Issues and Policy Implications of a Federal Long-Term Care Insurance Program: http://www.actuary.org/pdf/health/class_july09.pdf

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thereafter would employ a 1-year shift of the start/end of the 75-year period. Actuarially sound premium rates will establish a balance between the present values of the projected program income and outgo over the indicated 75-year period.

Q: What would be the premium levels required to ensure a sustainable program?

A: Based on an approach that assumes premiums are level after enrollment (entry-age level), the average monthly premium required to maintain solvency over a 75-year horizon and maintain benefit levels as described in the CLASS Act, assuming an average daily benefit of \$75, would be \$160. Under an alternative approach with annually increasing premiums (entry-age increasing), the average monthly premium would be \$125 per month, increasing annually with CPI. It is critical to understand that this premium level is only estimated to be actuarially sound under the spread of risks achieved through the current design of the program with the changes necessary to mitigate the issues explored in this study

Required Premiums by Age at Enrollment (\$75 daily benefit)		
Entry-age (age at enrollment)	Entry-age level premium \$160/mo (average)	Entry-age increasing premium \$125/mo (average)
18-39	\$136	\$106
40-49	\$144	\$112
50-59	\$152	\$119
60-69	\$231	\$180
70-79	\$277	\$216
80+	\$305	\$238

fully addressed. The premium levels would be impacted by changes in the design and marketing of the program that may increase or decrease the anticipated participation rates. In addition, the expenses associated with the marketing and education efforts necessary to achieve at least a 6 percent participation level are not included. Finally, the estimates do not include provisions for moderately adverse deviations as required through NAIC Model law.

Q: What would be the impact of the Congressional Budget Office’s recently estimated \$123 premium,² assuming an average daily benefit of \$75, on the actuarial soundness of the program?

A: Under the assumptions identified above, an average level premium of \$160 per month is actuarially sound. A \$123 average level premium is not close to being actuarially sound; it provides only 77 percent of the required funds. Alternatively, an average increasing premium starting at \$125 per month and increasing with CPI is actuarially sound. Allowing the \$123 premium to increase annually with CPI would provide 98 percent of the required funds, which would be close to being actuarially sound.

Q: How will the opt-out and guaranteed issue provisions in the CLASS Act affect adverse selection?

A: A sound insurance plan requires a reasonable spread of risk among the participants. In our view, the opt-out and guaranteed issue provisions of the plan will attract a disproportionate share of higher-risk individuals such that, in a relatively short time period, future increases in premiums and/or reductions in benefits may be required to make the program

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² Kaiser Family Foundation, *Focus on Health Reform: The Community Living Assistance Services and Supports (CLASS) Act*, October 2009.

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sustainable. As premiums increase, fewer relatively low-risk individuals would choose to participate in the plan.

Q: Why is the five-year waiting period an insufficient underwriting tool?

A: The presence of a five-year waiting period will not be enough to reduce the risk associated with the guaranteed issue to employees and spouses. Those with pre-existing or developing chronic conditions, such as Parkinson's disease or multiple sclerosis, can begin to receive benefits immediately after the five-year waiting period as conditions persist. Furthermore, individuals will delay program participation until such a need is apparent, as the limited earning requirement of the employee is not a sufficient proxy for underwriting. The potential magnitude of this adverse selection, both at inception of the program and ongoing, could put the viability of the entire program at risk.

Q: What program design changes are necessary to minimize the impact of adverse selection?

A: One alternative approach to reduce the impact of adverse selection would be to require eligible participants to be actively at work for at least 30 hours per week at the time they enroll in the program. This would encourage early participation and provide for a sufficient underwriting proxy to minimize the timing of entry. In this manner the current disabled do not adversely affect the initial success of the program. Similarly enrollment by spouses of employees on a guaranteed issue basis is a significant source of adverse selec-

tion, which should be addressed for the program to be actuarially sound. Spouses should be subject to the actively-at-work requirement as suggested above, or subject to a short-form questionnaire that may serve as a proxy for the actively-at-work requirement. Ultimately, a program with an individual mandate would eliminate the impact of participants waiting until an immediate need for long-term care benefits arises and would enable program coverage of a full cross-section of the risk.

Q: What other issues should policy-makers address to ensure that the program is sustainable?

A: A successful voluntary federal long-term care program can be developed so that the program is sustainable and minimizes the impact of adverse selection if the issues presented above are resolved. Additional program changes may include:

- The use of a benefit elimination period, a benefit period duration that is less than lifetime, and/or benefits that are paid based on a reimbursement provision rather than on a cash basis.
- An initial premium structure that provides for scheduled premium increases for active enrollees at either a CPI or an alternative annual rate.
- A consistent definition of eligibility for all benefits and benefit levels with use of the HIPAA-defined ADL triggers and cognitive impairment definitions.
- A marketing/education allowance in the premiums to increase participation levels.