The information below on CLASS Act is from a larger document with the estimated financial affects of healthcare reform. For a complete copy of this document please contact EM-Power Services at 800-483-1115.

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CENTERS for MEDICARE & MEDICAID SERVICES

Office of the Actuary

DATE: November 13, 2009

FROM: Richard S. Foster Chief Actuary

SUBJECT: Estimated Financial Effects of the "America's Affordable Health Choices Act of 2009" (H.R. 3962), as Passed by the House on November 7, 2009

CLASS Program

Section 2581 would establish a new, voluntary, Federal insurance program providing a cash benefit if a participant were unable to perform at least two or three activities of daily living or had substantial cognitive impairment. The program would be financed by participant premiums, with no Federal subsidy. Participants would have to meet certain modest work requirements during a 5-year vesting period before becoming eligible for benefits. Benefits are intended to be used to help purchase community living assistance services and supports (CLASS) that would help qualifying beneficiaries maintain their personal and financial independence and continue living in the community. Benefits could also be used to help cover the cost of institutional long-term care.

As shown in the table on page 2, we estimate a net Federal savings for the CLASS program of $39 billion during the first 9 years of operations—the first 5 of which are prior to the commencement of benefit payments. After 2015, as benefits were paid, the net savings from this program would decline; in 2025 and later, projected benefits exceed premium revenues, resulting in a net Federal cost in the longer term.[12]

We estimate that about 2.8 million persons would participate in the program by the third year. This level represents about 2 percent of potential participants, compared to a participation rate of 4 percent for private long-term care insurance offered through employers. Factors affecting participation in CLASS include the program's voluntary nature, the lack of a Federal subsidy, a relatively high premium as a result of adverse selection, a new and unfamiliar benefit, and the availability of lower-priced private long-term care insurance for many. Compounding this situation would be the probable participation of a significant number of individuals who would already meet the functional limitation requirements to qualify for benefits. In the sixth year of the program (2016), these participants would begin to receive benefits, along with others who had developed such limitations in the interim. We estimate that an initial average premium level of about $180 per month would be required to adequately fund CLASS program costs for this level of enrollment and antiselection. (Individuals enrolling in a given year would pay a constant premium amount throughout their participation, unless trust fund deficits necessitated a premium increase. Premiums would vary by age at enrollment and year of enrollment.)

In general, voluntary, unsubsidized, and non-underwritten insurance programs such as CLASS face a significant risk of failure as a result of adverse selection by participants. Individuals with health problems or who anticipate a greater risk of functional limitation would be more likely to participate than those in better-than-average health. Setting the premium at a rate sufficient to cover the costs for such a group further discourages persons in better health from participating, which may lead to further premium increases. This effect has been termed the "classic assessment spiral" or "insurance death spiral." Although section 2581 includes modest work requirements in lieu of underwriting, and specifies that the program is to be "actuarially sound" and based on "an actuarial analysis of the 75-year costs of the program that ensures solvency throughout such 75-year period," there is a significant risk that the problem of adverse selection would make the CLASS program unsustainable.

[12] The CLASS program is intended to be financed on a long-range, 75-year basis through participant premiums that would fully fund benefits and administrative expenses. If this goal can be achieved, despite anticipated serious adverse selection problems (described subsequently), then annual expenditures would be met through a combination of premium income and interest earnings on the assets of the CLASS trust fund. The Federal budget impact would be the net difference between premium receipts and program outlays. Thus, the trust fund would be adequately financed in this scenario, but the Federal budget would have a net savings each year prior to 2025 and a net cost each year thereafter.

[13] An analysis of the potential antiselection problems for the CLASS program was performed by a nonpartisan, joint workgroup of the American Academy of Actuaries and the Society of Actuaries. Their report was issued on July 22, 2009, and is available at http://www.actuary.org/pdf/health/class_july09.pdf .