



THE CLASS ACT

Program Overview and LifeSecure Opportunity Assessment (as of April 2010)

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act. This new health reform law also contained a federal government sponsored long term care insurance program provision known as the Community Living Assistance Services and Support (CLASS) Act.

1) What is the CLASS Act?

The sweeping health care reform bill, known as the Patient Protection and Affordable Care Act signed into law by President Obama on March 23, 2010, also contained a provision known as the Community Living Assistance Services and Support (CLASS) Act. This important element of the healthcare legislation was originally spearheaded by the late Senator Edward Kennedy, D-Mass and first introduced in its early form as early as 2003. The CLASS Act, as passed, creates a new federal government administered long term care insurance program to be funded through voluntary, payroll-deduction participation among working adults.

2) What were the reasons behind the design of the Class Act?

The CLASS Act was originally designed in recognition of the increasing challenges we face in the U.S. of an ever-growing aging population and the lack of broad-based solutions to address long term care needs and costs (other than through a welfare-based Medicaid model). A few of the guiding principles supporting the design included:

- Roughly 9 million Americans over age 65 will require some amount of long term care services this year; the number is expected to increase to 14 million by 2030.
- An estimated 65% of those 65 and older today will spend some time in need of long term care services.
- Approximately 5 million people under the age of 65 and living in the community have long term care needs today.
- Over 70,000 workers with severe disabilities need daily assistance to maintain their jobs and their independence.¹
- For various reasons, the private long term care insurance industry has struggled to even cover less than 10% of the eligible population.

Finally, the CLASS Act is intended to better address the realities that long term care supports and services are often not affordable or accessible for millions of Americans.

3) What are the goals of the CLASS Act?

One particular goal is to begin to move long term care funding away from a welfare-based Medicaid system, as it exists today, to an insurance-based system. This transition will help relieve already-stretched state and federal government budgets (mainly through Medicaid savings) as relates to long term care costs among a growing user population.

Other primary goals of this new government insurance program include:

- To help Americans with disabilities or chronic conditions be able to stay independent at home;
- To provide financial assistance to the working disabled;
- To alleviate or reduce family caregiver burdens;

- To reduce Medicaid's institutional bias for long term care services;
- To encourage people to start insuring for long term care risks at younger ages.

[Note: The legislation allows the U.S. Department of Health and Human Services (HHS) until October 2012 to publish the final plan designs, terms, conditions and rules of the overall program. Although many details are yet unknown, the responses to Questions 4 – 8 below address some of the preliminary framework of the program known as of April 2010; however, such framework is subject to change until details are finalized through HHS.]

4) What amount of coverage will be provided by the CLASS program?

The benefits under the program are expected to average from \$50 to \$75 per day initially, with annual adjustments based on the Consumer Price Index (CPI). The actual benefit amounts may vary based on level of disability. Benefits will be payable whether or not any formal services are received. Claimants will receive a lifetime cash benefit after meeting the benefit eligibility criteria. Such benefits will continue as long as the claimant remains disabled.

Overall, the benefits of the CLASS program are designed so that a claimant can maintain independence at home or in the community, and should be sufficient to cover typical (moderate) costs of home care services or adult day care. The benefits can also be used to offset a portion of the costs of assisted living and nursing home care.

5) What are some of the preliminary known terms of the CLASS program?

Some of the known terms of the CLASS program (as of April 2010) include:

- Employers can decide whether or not to participate in the program.
- Employees of participating employer groups will be automatically enrolled in the program unless they opt out; spouses of employees may also enroll.
- Participants will pay a monthly premium through payroll deduction.
- All enrollees will be covered on a guaranteed-issue basis; no medical underwriting is allowed.
- To be eligible for benefits, enrollees must pay premiums for at least 5 years and be working for at least 3 of those 5 years.
- Self-employed individuals and those whose employers do not offer the benefit will be able to join the CLASS program through a separate government payment mechanism.
- The program must be fully funded through participant premiums; U.S. tax dollars cannot be used to support the program.

6) When will the CLASS program be implemented?

Since HHS has until October 2012 to finalize details, it is unlikely the program will be implemented prior to 2013. Assuming the CLASS program is rolled out in 2013, the earliest date that participants could begin to access the long term care benefits would be 2018, due to the 5-year minimum premium payment requirement. [*Note:* It is possible that guidelines for the program could be finalized by HHS before October 2012, and the program could potentially be implemented earlier than 2013.]

7) What will be the cost for CLASS coverage (i.e., the monthly premiums)?

The precise monthly premiums are as of yet unknown; however, most recent estimates from the American Academy of Actuaries and from Centers for Medicare & Medicaid Services (CMS) range from \$160 to \$240 per month. It is assumed these monthly premiums relate to a 60-year old enrollee. Subsidies will be made available for lower income enrollees.

Final premiums will be worked out over time; however, two requirements of the legislation include: 1) the government must ensure the solvency of the program over a 75-year horizon; and 2) no taxpayer dollars can be used to fund the program. Because of these requirements, the CLASS program premiums can be adjusted annually by the Secretary of HHS to ensure the program's solvency. However, premiums cannot be increased if an enrollee has attained age 65, has paid premiums for at least 20 years *and* is not actively employed.

8) How does one become eligible to begin receiving CLASS benefit payments?

The benefit triggers for the CLASS program are similar to those in private long term care policies in the market today. The claimant must need assistance with two or more Activities of Daily Living (ADLs), or have a cognitive impairment which requires substantial supervision. The ADLs include: bathing, dressing, eating, toileting, transferring and continence. The qualifying impairment must be expected to last 90 days or more – meaning, related to a 'chronic' condition. Once the benefit trigger is met, the claimant is able to start receiving benefits immediately, and for as long as needed. There is no elimination period included in the CLASS program – other than the requirement that an enrollee must pay premiums for at least 5 years before benefits can be accessed.

¹ Information from <http://dpc.senate.gov/healthreformbill/healthbill71.pdf>

LIFESecure'S VIEW OF THE CLASS PROGRAM – OPPORTUNITIES AND CHALLENGES

The following comments represent LifeSecure's preliminary assessment of the CLASS program, as of April 2010. Since the new law allows the U.S. Department of Health and Human Services until October 2012 to further define key details of the program – such as final plan designs, pricing, terms and conditions – LifeSecure will continue to carefully monitor such developments as they become known. Accordingly, LifeSecure's assessment and opinions regarding the opportunities and challenges may be modified over time.

LifeSecure supports the Act's goal to address the needs of disabled Americans in need of long term care support and services. LifeSecure also recognizes the value of the mass education that will arise from this program's introduction. Such education will result in greater awareness across the country as the topic of long term care insurance protection is placed front and center at millions of U.S. worksites. Employees will become more aware of their own personal responsibilities in covering long term care risks.

As a preliminary assessment, LifeSecure perceives new potential opportunities to market alongside the CLASS program. The CLASS program is not designed to replace private long term care insurance. A LifeSecure policy can be marketed as: 1) a supplement to a CLASS policy; 2) an alternative to a CLASS policy, in order to provide more comprehensive benefits; 3) a more affordable insurance solution, especially for healthier and married individuals; 4) a viable insurance protection choice for all those Americans not eligible for the CLASS program due to their current non-working status.

Separately, LifeSecure also sees a number of potential challenges that will need to be addressed in order for the CLASS program to be successful. HHS has time to figure out some solutions; however, certain challenges may prove difficult to overcome. Some key issues include:

- The guaranteed-issue aspect may require premium levels which do not compete well with private long term care policies – resulting in very high adverse selection as those most likely to need future benefits will lean toward the CLASS program as an insurer of last resort.
- Long-term sustainability of the CLASS program may require substantial rate increases over time in order to remain solvent – due primarily to the adverse selection risks mentioned.
- The minimal benefit amount (\$50 to \$75 per day) will not provide adequate coverage for those needing more intense care (i.e., 24-hour) or for those requiring facility-based care and services.

POSITIONING FRAMEWORK FOR LIFESECURE AGENTS (PRE-CLASS IMPLEMENTATION)

While many details of the CLASS program are yet to be determined, significant market opportunity still exists in the private long term care insurance market. LifeSecure encourages its agents to not pause in their efforts to promote long term care protection for their clients.

A few compelling pre-CLASS marketing positions which support a continued focus on private long term care insurance solutions are outlined below:

Less than 1% of small businesses offer LTC insurance today.

Target small businesses (1-500 employees) which are still dramatically un-tapped with less than one percent offering an LTC insurance benefit today.

Your clients could experience a long term care need ***before 2018***.

Provide now-coverage for a client's unforeseen LTC need which could arise before 2018, which is likely earliest date someone could access CLASS benefits.

Higher age = Higher price

LTC insurance premiums are less the younger the buyer. Why wait?

Pre-retirees should consider private long term care insurance.

Approach your pre-retiree prospects today – because they may be ineligible for CLASS protection due to the 3-year working requirement.