

Spreadsheets CLASS And Private LTC Insurance: *Apples to Amoebas*



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As the long term care insurance industry contemplates a post-Community Living Assistance Services and Supports (CLASS) Act environment, we want to encourage marketers and advisors to look deep before comparing private LTC insurance policies with CLASS.

For those considering using traditional spreadsheet comparisons of benefits and price, we are challenging you to take another look: This type of comparison does a disservice to all involved.

For solid reasons explained below, there cannot be an apples-to-apples comparison of private LTC insurance and CLASS. It would not even be apples-to-oranges—but, more accurately, apples-to-amoebas.

There are four critical differences between CLASS and private LTC insurance that we would like to highlight.

1. While the CLASS benefit has been reported to be \$50 a day, that amount as a fixed benefit is uncertain. As defined by the law, the daily benefit could be less than \$50 and, in some cases, more.
2. Current CLASS premiums are speculative and may be misleading.
3. Earned income requirements could leave some enrollees ineligible for claims payment.
4. Vesting requirements may leave some ineligible for claims since enrollees must pay premiums for five years to be eligible for benefits.

Unknown Daily Benefits

While several important issues about CLASS still need to be defined, quite a bit is stated in the law regarding plan benefits. We know once the earned income requirement and the five-year vesting requirement have been satisfied (see below) and benefits have been triggered, there is no elimination period or deductible for benefits. CLASS has no lifetime cap on benefits. But what will the daily cash benefit be?

There are three moving parts to consider when trying to answer this seemingly simple question.

Public Law 111-148, Section 3203 defines "minimum required amount" as "The benefit amount that provides an eligible beneficiary with not less than an average of \$50 per day (as determined based on the reasonably expected distribution of beneficiaries receiving benefits at various benefit levels)." There are two components that should be considered: The minimum average \$50 per day benefit and the reasonably expected distribution of benefits at different benefit levels.

Let's just imagine that half the claimants received a daily benefit of \$75, and the other half received \$25; the \$50 per day average could be met. It's unclear if the \$50 daily average per enrollee is over the course of an individual's claim year, the whole claim duration, or an average of all CLASS enrollees on claim. Could the benefit amount change weekly or monthly?

These answers are currently unknown.

Second, the law states that the benefit could be impacted by the number of enrollees receiving benefits at different levels. Does this mean that an individual's benefit level is not just based on the benefit for which he is eligible, but also on how many others are collecting CLASS benefits and at what level? It appears so.

In addition, another key phrase, yet to be defined, allows daily benefits to be an "amount scaled to functional ability. The benefit amount varies based on a scale of functional ability, with not less than two and not more than six, benefit level amounts" (*Public Law 111-148, Section 3203*). This functional limitation provision appears to mean that the \$50 daily benefit will likely not apply to all claimants.

Now let's compare all these possible moving parts of the CLASS daily benefit to private LTC insurance. Private policyholders have a specified benefit printed in their policies and, once claim criteria is met, they are eligible for that specific benefit. In addition, they have no concern that the amount that other policyholders collect could impact their own benefits.

For CLASS you must take into account what the final definition for minimum average benefit ends up being, how the yet-to-be-communicated levels of functional limitations may impact daily benefits, and what other claimants may receive. **In contrast, private LTC insurance truly is what you buy is what you can expect.**

Uncertainty of Ongoing Premiums

Although much has been written about what CLASS premiums will be, no one yet knows. Senate Bill 697—the CLASS Act as introduced by the late Senator Edward Kennedy on March 25, 2009—referenced a "\$30 monthly premium for enrollment in the first year of the program...regardless of age at enrollment." Much has changed since that proposed legislation.

The law mentions no specific premium for initial enrollees except an option for students and low income workers to enroll for \$5/month. Reputable organizations' projec-

tions of the monthly premium vary tremendously and are as high as \$240/month.¹ When will we know what premiums will be? October 1, 2012, is the date stated in the law when details of the plan must be released for a public comment period.

Eventual premiums are potentially much more problematic. The law states that no taxpayer funds can be used to pay benefits under CLASS (*Public Law 111-148, Section 3208*). Since CLASS does not ask medical questions at enrollment, many believe the premiums could be higher than private long term care insurance, which screens applicants' health before issuing a policy.

The law states that premiums (for all but the \$5/month enrollees) must be recalculated if required for program solvency.

This determination uses information including annual reports required by the board of trustees of the CLASS Independence Fund and the Inspector General of the Department of Health and Human Services.

Another note on premiums: Nothing is mentioned about a CLASS waiver of premium provision when a policyholder is on claim.

Many believe the anti-selection opportunities of those unable to buy private LTC insurance could rapidly create a "death spiral" which, without major program changes or an influx of taxpayer dollars, could be disastrous for those planning on and needing benefits later. This likely will not be apparent until year six of CLASS—the first year in which claims benefits will be paid.

As LTC insurance carriers move away from unlimited benefits and individual guaranteed issue, CLASS includes features private insurers have already learned cannot be sustained without the risk of premium increases.

Although private LTC insurance premiums are also not guaranteed to remain unchanged, an understanding of modern pricing of such policies and the regulatory environment leads us to believe that a reasonable person would judge the long term risk of premium uncertainty to be less for private LTC insurance versus CLASS.

Three-Year Earned Income Requirement

Private LTC insurance has no earned income requirement, but CLASS enrollees must have earned income of a certain level, for three calendar years in their first five years of enrollment to be eligible for benefits. According to the law: "...at least an amount equal to the amount of wages and self-employment income which an individual must have in order to be credited with a quarter of coverage under Section 213(d) of the Social Security Act for the year.

Regardless of the degree of need or how many premium payments were made, this requirement must be met before a claim can be paid.

Five-Year Vesting

Another requirement that must be met in order for an enrollee to be eligible for CLASS benefits is that premiums be paid for 60 months. This five-year premium-paying requirement is distinct from the earned income requirement (explained above) and is not an elimination period. **In contrast, those with private LTC insurance enjoy immediate eligibility for benefits (subject to policy terms), if a claim happens any time after coverage is in force.**

In Summary

Private long term care insurance funding mechanisms are based on a clearly defined list of benefits and triggers for how benefits are determined for individual claimants. In addition, private LTC is not impacted by the experience of any other claimant, and benefit eligibility is not dependent on either earned income or vesting waits.

For those working individuals ineligible for private LTC insurance due to health, CLASS offers protection against a future LTC need. However, when comparing CLASS to private LTC insurance...*well, it's like comparing apples to amoebas.* 🍏

1. "Community Living Assistance Services and Supports (CLASS) Provisions in the Patient Protection and Affordable Care Act (PPACA)," Congressional Research Service, Mulvey, Colello, June 4, 2010. 7-5700. www.CRS.gov (R40842(p.6)).