

CLASS Act: Saved By the Bell?

SEAC 2010 Spring Meeting
Pre-Meeting Seminar
Palm Beach, FL
June 16, 2010

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The new national healthcare reform laws are complex and currently there is much uncertainty on many underlying details and implications. We expect that levels of uncertainty will decrease as regulations are promulgated and new infrastructure is created. However, at this point in time, few, if any, final regulations exist. This presentation represents our understanding of the law as enacted and may not reflect its final implementation.

Agenda

- CLASS Introduction
- Sounds Great
- Realistic Excitement
- Decisions, Decisions, Decisions
- Profound Unawareness
- I am what I am
- Back for More
- Final Grades

CLASS Introduction: Mr. Belding

“Hey, hey, hey. What is going on here?”



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- CLASS Act: Community Living Assistance Services and Supports Act
- From the White House website:

“It is a self-funded and voluntary long-term care insurance choice. Workers will pay in premiums in order to receive a daily cash benefit if they develop a disability. Need will be based on difficulty in performing basic activities such as bathing or dressing. The benefit is flexible: it could be used for a range of community support services, from respite care to home care.

No taxpayer funds will be used to pay benefits under this provision. The program will actually reduce Medicaid spending, as people are able to continue working and living in their homes and not enter nursing homes. Safeguards will be put in place to ensure its premiums are enough to cover its costs.”

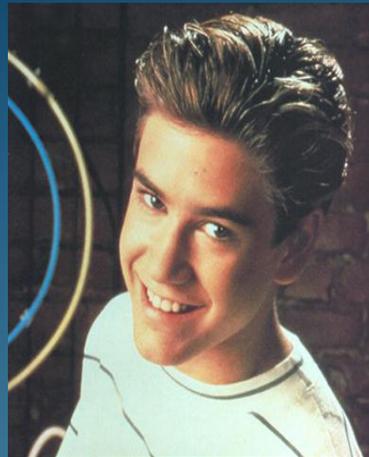
CLASS Introduction: Mr. Belding

“Hey, hey, hey. What is going on here?”

- Voluntary pre-financing of long-term care through payroll deductions
 - Fully deductible above the line
 - \$35/month or \$240/month
- Cash benefit to purchase services or care
 - \$75/day (no less than \$50/day)
 - Triggers
 - Five years of payments
- CBO projects Senate’s health-care bill will reduce federal deficits by \$130B over the next 10 years (\$72.5B from CLASS)

Sounds Great: Zack

“I like school. It's just too bad classes get in the way.”



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- Issues learned from previous efforts to predict and model the costs of other social programs:
 - Original program costs underestimated
 - Environment changes have increased the cost
 - Program has also changed, increasing the cost
 - Politicians have been unwilling to deal with the problems
 - Result: An off-balance-sheet unfunded liability of \$140T has been created, although Social Security and Medicare were intended to be self-supporting

Realistic Excitement: Jessie

“I'm so excited, I'm so excited, I'm so, I'm so... scared!”



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- Reduces Medicaid expenses
- According to the CBO, will save \$72.5B from 2010-2019
- Will be self-supporting

Realistic Excitement: Jessie

“I'm so excited, I'm so excited, I'm so, I'm so... scared!”

- Solution for the uninsurable
- Benefit is modest, but enough to help pay for care coordination
- Positive visibility to the need for LTC insurance

Decisions, Decisions, Decisions: Kelly

“Guys, this is hard. It's like choosing between two great pieces of chocolate.”



Decisions, Decisions, Decisions: Kelly

“Guys, this is hard. It's like choosing between two great pieces of chocolate.”

- Employers can opt in or out
- Employees can opt in or out
 - Currently penalties are greater for those who start, drop out and rejoin than for those who don't sign up in the beginning at all
 - Is lapse supported, i.e., funds paid in by people who later lapse offset losses for others

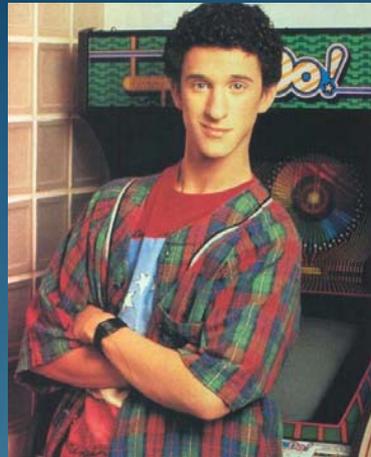
Profound Unawareness: Screech

“Wow, my first Hollywood party. I wonder if the Simpsons are gonna be there?”

Screech: Zack, something terrible has just happened.

Zack: You found out "Alf" was a puppet?

Screech: He is?



Profound Unawareness: Screech

Zack: You found out "Alf" was a puppet?

Screech: He is?

- No underwriting (adverse selection)
- Average cost of a private nursing home bed (\$219 per day)
- High inflation in the home care industry is probable because:
 - More 'acceptable'
 - Fiscally-sound
 - Demand will greatly exceed supply

Profound Unawareness: Screech

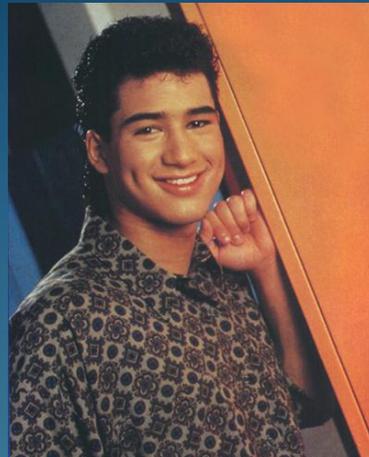
Zack: You found out "Alf" was a puppet?

Screech: He is?

- Using budget accounting, over half of the deficit reduction alleged for "health reform" comes from counting the CLASS Act's claims reserves as available surplus revenue
- Varying opinions on whether CLASS is actuarially sound
- People will assume they have coverage
- Others will expect to be able to enroll whenever they may need care

I am what I am: Slater

Jessie: You macho pig.
Slater: Oink oink, baby.



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- CLASS is not "insurance"
- Does not price and spread risk based on sound actuarial principles
- It is a pre-payment of LTC funded by healthy, insurable people for the benefit of the otherwise uninsurable disabled
- Government-induced charity

I am what I am: Slater

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- No reserves set aside
 - All premiums borrowed immediately by the federal government and replaced with Treasury bonds
- No contract like private LTC insurance
 - Secretary of Health and Human Services can change everything as costs exceed revenues
 - No guaranteed benefits or premium levels

Back for More: Lisa

“Girl, if I were Leslie I woulda slapped you until my hand hurt, and then I woulda slapped you for making it hurt.”



Back for More: Lisa

“Girl, if I were Leslie I woulda slapped you until my hand hurt, and then I woulda slapped you for making it hurt.”

- Benefits are not clear
 - To be set by the Secretary of Health and Human Services
 - Not less than \$50 per day per the statute
- Premiums are not clear
 - To be set by the Secretary of Health and Human Services
 - Can be increased
 - Premium is not allowed to increase more than 50% at one time, nor to more than double the original premium

Back for More: Lisa

“Girl, if I were Leslie I woulda slapped you until my hand hurt, and then I woulda slapped you for making it hurt.”

- Promised that “no taxpayer funds will be used to pay benefits under this provision”
- May be ‘good reasons’ or ‘political reasons’ to invade the CLASS Act trust fund with a 60% vote
- Proponents say money would go into a lock-box—but then they say it reduces the cost of the health care reform bill

Final Grades: Mr. Belding Revisited

“Go to class, learn something.”

or

“Zack, I am not a matador so take the bull outside.”



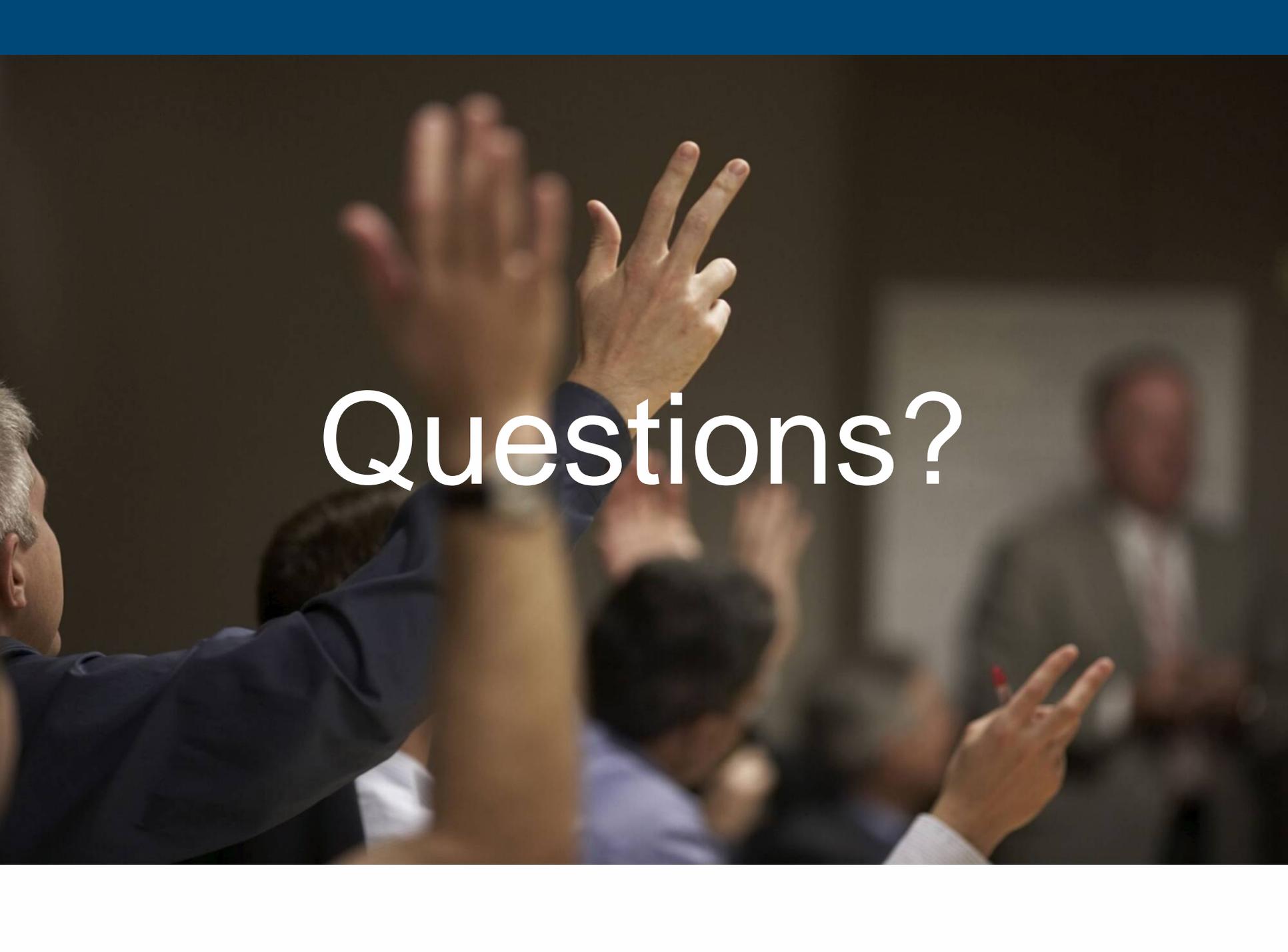
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- Effective January 1, 2011
- Secretary of HHS has until October 1, 2012 to develop an implementation plan
- Many experts believe not much will happen until 2013
- More than likely by that point, if it still exists at all, CLASS will be much different than what was signed into law on March 23, 2010



Questions?