

Long-Term Care in the Short-Term: Photos from a CLASS Act “Vacation”

Actuaries' Club of Hartford & Springfield
2011 Annual Meeting - Session 2C
Monday, May 23, 2011

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Topics

Overview of the Long-Term Care Industry
Review of the CLASS Program
A Team of 7 “Public Actuaries”

The LTCi Market

Bankers Life and Casualty Company
Continental Casualty Company
Genworth Financial
John Hancock Financial Services
LifeSecure Insurance Company
MedAmerica Insurance Company
Mutual of Omaha Insurance Company
New York Life Insurance Company
Northwestern Long-Term Care Insurance Company
Prudential Insurance Company of America
State Farm Mutual Automobile Insurance Company
Transamerica Life Insurance Company
Unum Life Insurance Company

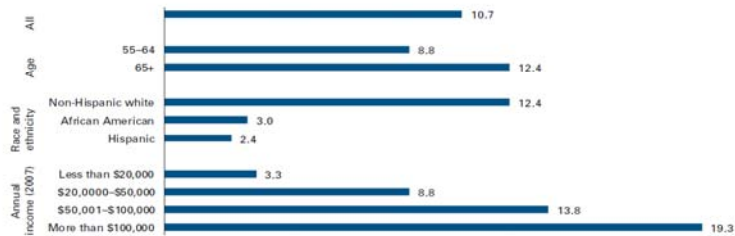
LTCi Market (2007 Form ABC)

| Company Type | Number of Companies (consolidated to the holding company level) | | |
|----------------------------|---|----------------|----------------|
| | Writing New Business | Total Business | Percent Closed |
| Fraternal | 3 | 6 | 50.0% |
| Life, Accident, and Health | 42 | 99 | 57.6% |
| HMDI Corporations | 4 | 14 | 71.4% |
| Property and Casualty | 2 | 9 | 77.8% |
| Total | 51 | 128 | 60.2% |

CLASS: Meeting an Unmet Need



Figure 1. Percentage of Adults Age 55 and Older with Private Long-Term Care Insurance, 2008



Source: Authors' calculations from the 2008 Health and Retirement Study (HRS).

Note: Estimates are restricted to adults living in the community (not in nursing homes).

"Who Purchases Long-Term Care Insurance?", The Urban Institute: Older Americans' Economic Security, Number 29, March 2011; Richard W. Johnson & Janice S. Park

Defining the LTCi Target Market

Assume 100 US Households:

impoverished: 15

working poor: 10

with assets > 1M: 15

100 – sum above = 60

The 25th to 85th percentile = the Middle Mass

4 Household Segments

"Middle Mass" Market

55 to 64 year-olds

| | | |
|--------------------|-----------|-----|
| # households | 9,100,000 | 51% |
| Avg. Income | \$56,857 | |
| Assets net of home | \$74,575 | |

65 to 74 year-olds

| | | |
|--------------------|-----------|-----|
| # households | 5,800,000 | 32% |
| Avg. Income | \$33,052 | |
| Assets net of home | \$63,052 | |

"Middle Affluent" Market

55 to 64 year-olds

| | | |
|--------------------|-----------|-----|
| # households | 1,800,000 | 10% |
| Avg. Income | \$102,611 | |
| Assets net of home | \$274,500 | |

65 to 74 year-olds

| | | |
|--------------------|-----------|----|
| # households | 1,200,000 | 7% |
| Avg. Income | \$69,833 | |
| Assets net of home | \$237,500 | |

Source: N. Abkeneler and B. Hamann, 2000. "Segmenting the Middle Market: RETIREMENT RISKS AND SOLUTIONS PHASE I REPORT." Society of Actuaries.

What Solutions Do We Offer?

Impoverished / Working Poor

The Middle Affluent

The Middle Mass

The Affluent

Why are we here?

- Community Living Assistance Services & Supports Act
- S. 1951: CLASS Act Introduced Nov 2, 2005
- S. 1758: CLASS Act Introduced Jul 10, 2007
- S. 697: CLASS Act Introduced Mar 25, 2009
- “As we work to reform our health care system, we must not forget those Americans in need of community services. The CLASS Act offers a new approach that is smart and compassionate. It will give those with functional disabilities the means to maintain their lifestyles, to stay with their families and to remain productive members of their communities.”
 - Reps. Frank Pallone (D-N.J.)
- “The bill we propose is a long overdue effort to offer greater dignity, greater hope, and greater opportunity....If you work hard and contribute, society will take care of you when you fall on hard times.”
 - Sen. Edward Kennedy

Why? (pt 2)

- “Affordable Health Care for America Act” – passed by the House on November 7, 2009
- “Patient Protection and Affordable Care Act” – passed by the Senate on December 24, 2009
- SOA Long-Term Care Insurance Section Council / American Academy of Actuaries’ Federal Long-Term Care Task Force
 - Actuarial Issues and Policy Implications of a Federal Long-Term Care Insurance Program; http://www.actuary.org/pdf/health/class_july09.pdf
http://www.actuary.org/pdf/health/class_nov09.pdf
 - Malcolm Cheung, Jim Glickman, Dave Plumb, Al Schmitz, Steve Schoonveld, Eric Stallard, and Bob Yee.
 - AAA & SOA staff – Heather Jerbi, Sara Teppema, Andrew Simonelli

A need for CLASS.

“... to establish a national voluntary insurance program for purchasing community living assistance services and supports in order to—

- (1) provide individuals with functional limitations with tools that will allow them to maintain their personal and financial independence and live in the community through a new financing strategy for community living assistance services and supports;
- (2) establish an infrastructure that will help address the nation’s community living assistance services and supports needs;
- (3) alleviate burdens on family caregivers;
- (4) address institutional bias by providing a financing mechanism that supports personal choice and independence to live in the community.”

Insurance Mechanism Proposals

“Beta” Dental Insurance Company:

- A child dental insurance PPO which covered adult teeth.

“PetsPlus” Pet Insurance Company:

- Premiums for small dogs/cats are \$5 per month, \$50 for all others.

“Lizard” Auto & Home:

- State program for the uninsured initiative which included coverage of a recent accident with a 5 year premium commitment.

The “Freedom” Mutual Insurance Company:

- Homeowners insurance program with a \$750k coverage minimum.

“Louisiana Barn” Bureau:

- An insurance program included a state requirement that all Louisiana residents purchase hurricane insurance.

The CLASS Act is without Actuarial class.

Government sponsored voluntary guaranteed issue long-term care insurance

VOLUNTARY & GUARANTEED ISSUE

- Eligibility
 - Age 18 with minimal actively at work requirement (employers may offer plan with negative opt out for employees)
 - IMPACT =
- Benefits
 - To qualify need help with (2 or 3) of 6 activities of daily living or be cognitively impaired with a provision for presumptive eligibility
 - IMPACT =
 - Minimum \$50 per day cash benefit – indexed with inflation
 - IMPACT =
 - Lifetime coverage / zero day elimination period
 - IMPACT =
 - Five year waiting period from enrollment until benefits are available
 - IMPACT =

The CLASS Act is without Actuarial class.

Government sponsored voluntary guaranteed issue long-term care insurance

- Funding
 - Premiums level for life of the plan (CBO estimated \$123 per month)
 - IMPACT =
 - Nominal premium for low income and students (\$5 per month)
 - IMPACT =
 - No taxpayer funds used to support the program
 - IMPACT =
 - Actuarial soundness required over 75 years
 - IMPACT =
- Timing – Likely 2013
 - IMPACT =

Overview of Joint AAoA/SOA Analysis

Concerns:

- Absence of a material underwriting approach at enrollment.
- The ability to timely enroll in the program after the initial eligibility offering with no underwriting and with relatively limited restrictions.
- The use of a five-year waiting period as a light underwriting proxy.
- The limited expense levels (3%) do not allow for the type of meaningful educational and marketing efforts that are required to drive reasonable participation.
- The use of a presumptive eligibility approach without a benefit assessment provision is likely to increase claim incidence when services are not truly needed.
- If premiums are set at the actuarially appropriate level, it would be difficult to enroll enough healthier and unsubsidized lives to keep the program sustainable.
- Future rate increases are likely and are magnified by the burden placed on new enrollees.

A copy of the joint work group's initial letter can be found on the Academy's website:

http://www.actuary.org/pdf/health/class_july09.pdf

Overview of Joint AAoA/SOA Analysis

Recommendations:

- Enhanced "actively-at-work" definition
- Underwriting approach for the coverage of spouses who are not actively at work.
- Opt-out and subsequent opt-in restrictions
- Product changes:
 - A benefit elimination period
 - A benefit period duration that is less than lifetime
 - Benefits that are paid based on a reimbursement provision rather than on a cash basis
- Premium structure changes
- Consistent definition of benefit eligibility

http://www.actuary.org/pdf/health/class_july09.pdf

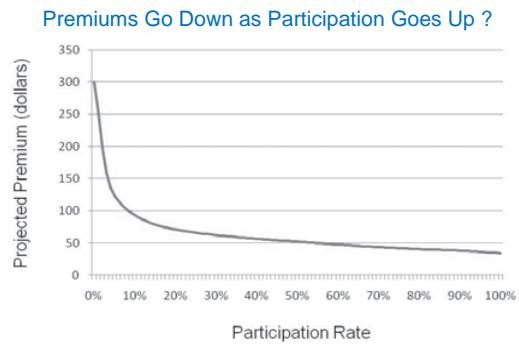
Premiums / Participation

Why is this true in general?

1. A greater spread of the risk
2. Expense economies
3. Reduced volatility

Why is this not valid for CLASS?

1. Immediate adverse selection
2. Ongoing adverse selection
3. Premium subsidies
4. The long-term view and reliance on investment returns.



Source: Avalere Health, LLC (2010)

Affordability – Anticipated Premiums

Initial CLASS Act provision - \$30/month

Revised - \$65/month

AAA/SOA - \$160 / month

CBO – initial \$65, revised to \$120

ACLI - \$140 / month

CMS Actuary - \$240 / month

Average private insurance premium: \$181 per month for 2010 issues

Impact of the CLASS Program

- Medicaid:
 - Delayed and muted due to vesting period and low participation
 - Benefit levels are insufficient for institutional care
- Private Long-Term Care Insurance
 - Potential for increased consumer awareness
 - Limited supplement opportunity
- Employers
 - May enhance benefit programs
 - Additional administrative burden
- Consumers
 - Increased care opportunities
 - Monthly premiums may be excessive
 - Offers a limited solution

Implications of a Public Plan

- For the Private Insurance Market
- For Medicaid
- For the Partnership Program
- For Consumers
- For Providers
- For Distribution
- For Taxpayers

CLASS - Update

“Given the rising demand for these services, we want to make the CLASS Program a success. To do so, we are committed to three basic principles that adhere to the cornerstones of the CLASS statute:

- Consumers who choose to must be able to direct their own services.
- There will be no underwriting of the type found in private long-term care insurance.
- The program will be solvent in the short term and over a 75 year horizon. No federal funds will be used to pay for benefits to enrollees of the CLASS program.”

“Ensuring Independence As We Age” <http://www.healthcare.gov/news/blog/CLASS.html>, Posted February 07, 2011
Kathy Greenlee, Assistant Secretary for Aging

Industry Analysis of CLASS



AMERICAN ACADEMY of ACTUARIES

July 22, 2009

U.S. Senate Committee on Health, Education, Labor and Pensions
428 Senate Dirksen Office Building
Washington, DC 20510

Re: Actuarial Issues and Policy Implications of a Federal Long-Term Care Insurance Program

Dear Senator:

To address increased expenses under state Medicaid programs and impending demographic changes that will further threaten these programs, proposals for the public financing of long-term care (LTC) services have been offered in recent years. This letter presents the comments of a joint work group of the American Academy of Actuaries¹ and the Society of Actuaries² on one of these proposals, the Community Long-Term Care Service and Support Act (CLASS Act). Our comments are based on an objective actuarial review of the version of this act included in section 211 of the affordable Health Care Act, which was introduced on June 9, 2009 by certain members of the Senate Committee on Health, Education, Labor and Pensions and passed with amendments by the committee on July 15, 2009. This analysis was industry and population statistics, with comments derived from expert participant behavior under program with elements of the CLASS Act design. Any subsequent changes to the proposed legislation could alter the direction and interpretation of our comments.

This document is not intended to replace the actuarial analysis of the 75-year costs for the program called for in Senate Cong's amendments to the June 9 legislation. Instead, it is intended to provide a summary of the issues that require consideration and a general analysis of the program provisions and their financial implications.

Executive Summary

Our actuarial analysis indicates that the proposed structure and funding approaches in the CLASS Act, as introduced on June 9th, will not only be unworkable within the foreseeable future, but are unlikely to cover more than a very small proportion of the intended population. In the absence of an actuarially sound requirement, we present that the fund will be insolvent as early as 2021, or within 11 years. The up-front and guaranteed issue provisions of the plan pose a significant and likely risk that, in a relatively short time period, the program will either need increased premiums and/or significant reductions.

The version of the bill reported on July 15th includes an amendment requiring an actuarially sound program over a 75-year period. We comment on this change in the legislation, with the caveat that the requirement may not be possible to achieve unless the issues outlined in this letter are addressed. There is considerable risk of adverse selection, which could necessitate future increases in premiums or reductions.

¹ The American Academy of Actuaries is a 501(c)(6) nonprofit professional association whose mission is to serve the public on behalf of the U.S. insurance profession. The Academy issues public publications on all issues relating to providing actuarial, objective expertise, and technical advice on risk and financial security issues. The Academy also sets qualification criteria and performance standards for members of the United States. ² The Society of Actuaries (SOA) is the largest professional organization dedicated to serving 20,000 members and the public in the United States and Canada. The SOA's focus is on the education and training of actuaries in the measurement and management of financial risk. To learn more, visit www.soa.org.

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Industry Analysis of CLASS

Timeline:

| | |
|---------------|--|
| March 2009 | Discussion with AHIP leaders and the SOA LTC Section Council at the ILTCI conference - Team of 7 began work – AAoA LTC Federal Task Force and the Council |
| July 15, 2009 | Senate HELP Committee advances health reform bill - A voluntary version of CLASS is included |
| July 22, 2009 | AAoA/SOA Analysis sent to all members of Congress - CBO response time – ~ 30 minutes |
| November 2009 | AAoA/SOA Q&A issued |
| December 2009 | US Senate passes PPACA with major and minor CLASS provision changes - Senator Gregg amendment - Removal of the guaranteed issue for spouses of employees |
| March 2010 | House passes Senate version of PPACA, President signs - Some changes were anticipated in the proposed reconciliation |

- “Discussion and Debate” period

| | |
|----------------|--|
| January 2011 | CLASS office established under HHS and Bob Yee selected as CLASS Actuary |
| March 2011 | AAoA Hill visits |
| March 17, 2011 | Al Schmitz testimony to the Subcommittee on Health of the US House Energy and Commerce Committee |

- Destiny period

| | |
|-----------------|---|
| January 1, 2013 | Anticipated launch of the CLASS program |
|-----------------|---|

The Press

Thank You

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