

**Fact, Fiction or Folly! What We Currently Know, Don't Know or Can Only Guess About the CLASS Act**

<b>What Is CLASS?</b>	CLASS can be found in Title VIII of the Patient Protection & Affordable Health Care Act (PPACA), March 23, 2010. It is designed to provide some amount of long-term care benefit as described below.
<b>Is CLASS Insurance as we know it?</b>	No the program, as it has been conceived in the mind of Congress, this program is a future benefit for those folks that are already the working disabled. Since there is no underwriting (see below) actively at work people with disabilities can enroll and receive a benefit after paying premiums for five years (also see below)
<b>When will it be available?</b>	Your guess is as good is as good as ours. It appears the program must be outlined and operational by Oct. 2012, and it is anticipated to begin in 2013 and benefits would not then be available until five years later.
<b>Who is eligible?</b>	Generally actively at work individuals and their spouses. For self-employed individuals they must be earning the minimum for Social Security purposes. In addition, you must be at least three years from retirement to participate. Therefore assuming retirement at age 65 then minus three years or age 62 then minus eight more years before any benefits. We think that no one over age 54 will ever see anything from this program.
<b>How will the employer opt-out work?</b>	This is the big opportunity for agents interested in helping consumers with high quality long-term care insurance from a real insurance company. Employers will have to affirmatively opt-in or opt-out of CLASS benefits for their employees. Self-employed individuals will get the opportunity as well. Individuals who work for a company that opts-out will also be given a chance to enroll in CLASS. The government will be spending big-bucks to promote CLASS which means that business owners and consumers will be sensitized to the issues and this is your chance to show them why CLASS isn't a good deal for them. Add this to the list of other poorly administered and bankrupt social entitlement and welfare subsidies and we just have another government program to sell against!
<b>When can people sign-up?</b>	Your guess is as good as ours. Speculation runs from late 2011 to early 2013. That being said the imminent nature of CLASS and its inherent problems will provide you with a plethora of issues to discuss with clients starting TODAY!
<b>Is there underwriting?</b>	No; it is guaranteed issue. How dumb is that? Which risk pool do you want to count on to protect your retirement? A non-underwritten black hole of adverse selection or an underwritten adequately priced benefit reserve?
<b>When do enrollees become eligible for benefits?</b>	After five years of paying premiums. See below for how enrollees can pop in and out of paying premiums further "gaming" the program.
<b>How do enrollees qualify for benefits?</b>	Yet to be determined but will probably mirror tax qualified benefit triggers or be slightly more restrictive. There is also a "presumptive" qualification trigger should someone already be in a nursing facility or hospital.
<b>What is covered?</b>	Home & community care, assisted living and institutional care.
<b>How much can someone buy?</b>	Minimum benefit will be \$50/day with CPI inflation adjustment. Upper limits yet to be determined. As proposed this would be a "one- size-fits-all benefit. Customized risk assessment tied to individualized benefit design is not available.

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<b>How are the benefits paid?</b>	Daily or weekly, cash benefit.
<b>What does it cost?</b>	Yet to be determined. Initial premium calculations were deemed "unsustainable" by American Academy of Actuaries and the Society of Actuaries. See below for additional comments.
<b>What would it cost if the program were actuarially sound?</b>	You think about it; guaranteed issue, cash benefit, ability to come in and out of the program without underwriting? Probably more than most people can afford. Of course, those under the Federal poverty level will be able to opt-in for a nominal fee (est. @ about \$5.00 per month) so cost is generally irrelevant. Congress will either borrow more money from China, increase our tax burden in the future or do both.
<b>Are premiums level?</b>	They're supposed to be. Remember it is very difficult to call this insurance. Health and Human Services (the Feds) in order to maintain the program can raise premiums, reduce benefits or change eligibility at their discretion.
<b>Can premiums be raised?</b>	After 10-years the Feds can re-jigger what they are charging. It is difficult to characterize the changes as premiums or rates. This is not insurance at least as we understand the concept. It's a politically inspired guess at a charge for a future benefit that has to actuarial integrity or logic.
<b>Can enrollees drop in and out of the program?</b>	Yes. And the general rule of thumb for benefit eligibility appears to be 5-years of premium payment with at least 24-months prior to the first claim.
<b>Is there underwriting if they do so?</b>	No. How dumb is that? The ability to rejoin in the face of a current or imminent disability dooms the program to failure or massive government subsidy. What else is new?
<b>How does it coordinate with Medicaid</b>	If a CLASS enrollee is receiving benefits and is Medicaid eligible Medicaid is expected to "claw back" anywhere from 50% to 95% of the cash benefits paid by CLASS. This will depend on whether the enrollee is receiving institutional care (95%) or home and community care (50%).
<b>How does it coordinate with traditional LTCi</b>	CLASS provides pure cash benefits. Just as reimbursement TQ LTCi coordinates with Medicare the same will hold true when a consumer has both. Per diem or cash benefit TQ LTCi will not coordinate benefits.
<b>Can the program be cancelled?</b>	Yes, unlike guaranteed renewable private LTCi, but when was the last time you saw a government program cancelled.
<b>What else do the experts say?</b>	The American Academy of Actuaries and the Society of Actuaries performed an exhaustive analysis of the CLASS Act introduced on June 9, 2009. In their conclusions that state that "due to its design and the high level of required premiums the program is unlikely to cover more than a very small proportion of the intended population or achieve its goal of broad participation." Based on sound actuarial scrutiny the two groups labeled CLASS "unsustainable" as "there is a considerable risk of adverse selection". The non-

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	<p>existence of underwriting both on initial application and reinstatement, coupled with cash benefit and the presumptive eligibility benefit trigger are likely to result in a high incidence of claims and as well as utilization.</p>
<p><b>Why did Congress include CLASS in Health Care Reform?</b></p>	<p>There are varying opinions on this topic ranging from good to evil intentions. <i>It is our opinion</i>, however, that CLASS is an integral component of the funding scheme that allowed Congress to keep the overall cost of PPACA under \$1 trillion; CLASS was "scored" by the CBO as a + \$70 billion contribution to the overall cost of PPACA in the first ten years of the program. Like much of the rest of health care reform CLASS will collect premiums for years before any beneficiaries will receive benefits. In essence, CLASS is a Ponzi scheme within a Ponzi scheme. If an insurance company tried to market a long-term care insurance product like this to consumers you'd see their executives and actuaries "perk-walked" out on the evening news. Additionally, <i>it is our opinion</i> that CLASS is designed to shore-up the failing Medicaid system. This is evidenced by the "claw-back" provisions for enrollees who are also Medicaid eligible. So in effect, the premiums collected for CLASS, some of which may actually be employer paid, will find its way back into our welfare program.</p>
<p><b>What does CLASS mean to existing long-term care insurance policy owners?</b></p>	<p>Presuming that the consumer purchased a high quality tax qualified product with adequate benefits, CLASS probably means very little unless CLASS acts to somehow skew the availability of services. Current policyholders should keep what they have, review to make sure that their coverage is sufficient and only get involved with CLASS if they cannot qualify for private LTCi coverage.</p>
<p><b>What does this mean to consumers considering the purchase of LTCi</b></p>	<p>It depends on the consumer. Lower income and asset clients may get some benefit from CLASS. However, the vast majority of long-term care insurance purchasers reside at the other end of the economic spectrum; they have assets and income to protect. In this case nothing will protect them and their assets better than high quality traditional or linked term care insurance.</p>
<p><b>Do I change what I'm selling?</b></p>	<p>No and in fact you ought to accelerate your efforts to educate your clients on their long-term care planning options. The public is currently energized by the health care reform debate. There is no better time like the present to talk to employers and individuals about long-term care insurance and why private coverage is almost always superior to a government plan.</p>
<p><b>Should I tell consumers to wait?</b></p>	<p>No! It will be years until the details of CLASS are available and even further down the line until any benefits will be paid from the program. When we do know all the facts it is likely to be either more expensive than what some think it will be, the benefits will be worse or probably both. If your prospect is insurable, get them locked into private long-term care insurance.</p>
<p><b>What does CLASS mean to me?</b></p>	<p>CLASS is a big opportunity for you to raise the issues of long-term care planning with consumers and increase your efforts to sell more long-term care insurance. You'll be doing consumers a favor by providing meaningful income and asset protection.</p>



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