



Does CLASS Have Actuarial Class?

“Not Yet.”

LifePlans

2010 Centers of Influence Breakfast

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Defining the LTCi Target Market

Assume 100 US Households:

impoverished:

15

working poor:

10

with assets > 1M:

15

100 – sum above =

60

Or the 25th to 85th percentile.

Affordability – Market Segmentation

"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	

Affordability – Market Segmentation

"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	



The LTCi Market



The LTCi Market

Bankers Life and Casualty Company

Genworth Financial

John Hancock Financial Services

MedAmerica Insurance Company

Metropolitan Life 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

Unum Life Insurance Company

LTCi Market

Consolidated Company

Number of Companies (2007)

3% Threshold Calculation

	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%



What Solutions Do We Offer?

Impoverished / Working Poor

The Middle Affluent

The Middle Mass

The Affluent

IN THE SENATE OF THE UNITED STATES

Mr. KENNEDY (for himself, Mr. DODD, Mr. HARKIN, Mr. BROWN, Mr. CASEY, and Mr. WHITEHOUSE) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend the Public Health Service Act to help individuals with functional impairments and their families pay for services and supports that they need to maximize their functionality and independence and have choices about community participation, education, and employment, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Community Living As-
5 sistance Services and Supports Act” or the “CLASS Act”.

Why is CLASS

Here?

Why Are We Here?



Medicaid

6%



CLASS Background

- » An existing and persisting need to reduce Medicaid dependence and the institutional bias within.

 - » Community Living Assistance Services & Supports Act – 2003
 - » S. 1951: CLASS Act Introduced November 2, 2005
 - » S. 1758: CLASS Act Introduced July 10, 2007
 - » S. 697: CLASS Act Introduced March 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.”
Rep. Frank Pallone

 - “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

CLASS Act at a Glance

Government sponsored voluntary guaranteed issue long-term care insurance

» Eligibility

- Age 18 with minimal actively at work requirement (employers may offer plan with negative opt out for employees)

» Benefits

- To qualify need help with (2 or 3) of 6 activities of daily living or be cognitively impaired
- Minimum average \$50 per day cash benefit – indexed with inflation - may be tied to other claimants
- Lifetime coverage / zero day elimination period
- Five year waiting period

» Funding

- Premiums level for life of the plan increasing with CPI-U for each issue year
- Nominal premium for low income and students (\$5 per month)
- No taxpayer funds used to support the program
- Actuarial soundness required over 75 years

» Timing – Likely 2013



Similarities and Differences Between CLASS and Private Insurance

Insurance Mechanism Proposals

“Beta” Dental Insurance Company:

- A child dental insurance PPO which covered adult teeth.

“PetsPlus” Pet Insurance Company:

- Premium for small dogs \$5 per month, \$10 for all others.

“Lizard” Home:

- State program for uninsured students 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.

HUMOR

CLASS Source of Potential Failure

Program eligibility

Underwriting – limited “Stealth Underwriting”

Benefits and Benefit Eligibility – level of assistance needed, presumptive

Sources of Adverse Selection:

- Opt-in / opt-out capability,

- GI for Spouses (initially),

- Current Disableds

Subsidies for impoverished and students

Gregg Amendment which required an actuarially sound program over 75 yrs

Participation – varies with generally accepted at 6%

Pricing....

Premiums / Participation

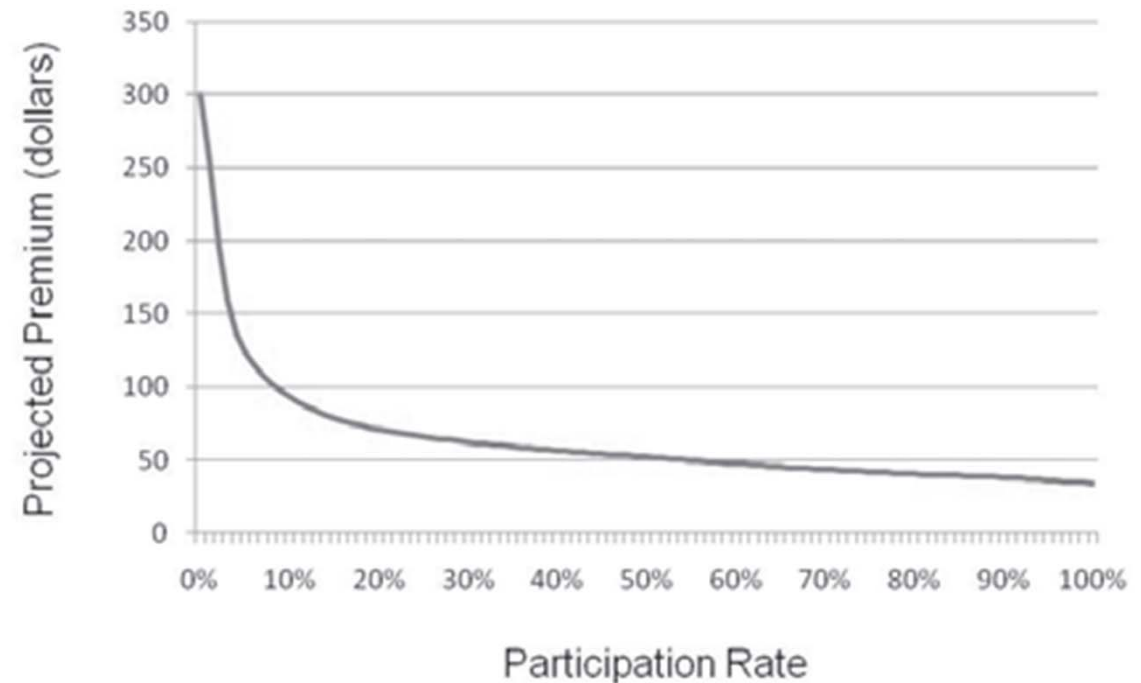
Why is this true in general?

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.

Premiums Go Down as Participation Goes Up ?



Source: Avalere Health, LLC (2010)

Affordability – Anticipated Premiums

Initial CLASS Act provision - \$30/month across all ages

Revised - \$65/month

AAA/SOA – an aggressive \$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



Alternatives?

Fixing CLASS

1. The current bill does not enable a means for non-working spouses to obtain coverage either on their own or with a covered spouse.

fix: Allow a limited underwriting approach to cover non-working spouses.

2. There are two sources of significant subsidies; 1. the impoverished, 2. the currently working disabled

fix: Allow for external funding from Medicaid or other resources to limit the adverse impact on premiums.

3. The impact of those who are benefit eligible at enrollment and will receive benefits after the waiting period is significant.

fix: Allow for external funding from Medicaid or other resources to limit the adverse impact on premiums.

4. The CLASS program is a one size – fits all program. Individual risks, needs, and means for which to mitigate, vary greatly and require varied solutions.

fix: Provide options within coverage levels and therefore enable premium levels to be affordable.

5. The ability to purchase in the future when and individual's health deteriorates.

fix: Enable steeper penalties or limit coverage levels for guaranteed issue following initial offering.

A Distribution Designed CLASS Program

Goals:

- Able to coordination with private insurance
- Enables a safety net but an improvement over Medicaid
- Encourages individual responsibility and planning for potential care
- Is indeed “insurance”
- Meets generally accepted insurance law
- Understands the varying needs of US households and income brackets

Selling With and Against CLASS

Pre-2013

2013 and beyond

When CLASS is the right solution to recommend.

When is CLASS inappropriate?

The Middle Mass – are their needs met?

Providing guidance without slamming the opposition

Demonstrations

Selling LTCi Today

What's working?

What's needed?

What solution do you offer for which client?

What's next?

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 funding 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 those proposals, the *Community Living Assistance Services and Supports Act* (CLASS Act). Our comments are based on an objective actuarial review of the version of this act included in section 191 of the *Affordable Health Choices 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 uses industry and population statistics, with scenarios derived from expected participant behavior under programs 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 Senator Gregg's amendment 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 unsustainable 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 project that the Fund will be insolvent as early as 2021, or within 11 years. The opt-out 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 commend this change in the legislation, with the caveat that the requirement may not be possible to achieve unless the issues explored 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 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
² The Society of Actuaries (SOA) is the largest professional organization dedicated to serving 20,000 actuarial members and the public in the United States and Canada. The SOA's vision is for actuaries to be the leading professionals in the measurement and management of financial risk. To learn more, visit www.soa.org.

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Implications of a Public Plan

For the Private Insurance market – opportunity or competition?

For Distribution

For the Partnership Program

For Medicaid

For Providers

For Taxpayers