



THE CLASS ACT

Advisor Insurance Resource's Guide to What You Need to Know
About the "Public Option" for Long-Term Care Insurance



SUMMARY

The CLASS act stands for Community Living Assistance Services and Support Act, and is Title VIII of the Health Care Reform Bill. It is a legacy of the late Senator Ted Kennedy.

The plan creates a voluntary government run long-term care insurance program and is effective January 1, 2011. However, the Department of Health and Human Services has until October 1, 2012 to design the plan, and it is not anticipated to be ready until 2013.

ELIGIBILITY

All actively at work Americans 18 and older will be eligible. The actively-at-work requirement is anticipated to have a low income threshold based on Social Security.

Claim eligibility will be determined by the Department of Health and Human Services, but will be similar to tax-qualified LTC insurance.

BENEFITS

The program will probably provide a benefit amount of at least \$50 cash per day for participants who fail two of six activities of daily living or have cognitive impairment. The benefits last for an unlimited period of time and should increase annually to the consumer price index (CPI).

It is also anticipated that the benefits will increase with disabilities. For example, three of six ADL's at \$75 per day, four or more ADL's at \$100 per day. These benefits are yet to be determined.

UNDERWRITING

The plan is guaranteed issue with no underwriting except for the actively-at-work requirement.

It is official; a voluntary cash benefit long-term care insurance program has now become law. Below is Advisor Insurance Resource's advice on how the CLASS Act insurance program will work — and more importantly, affect you.



WAITING PERIOD

Individuals must pay premiums for a 60-month period before being able to access benefits, creating a “vesting” period for plan participants.

Since the plan may not be available until 2013, it may be years before anyone could access benefits.



PREMIUMS

The premiums will be determined by the Secretary of Health and Human Services and are based on a 75-year solvency requirement. The premiums are designed to remain level, but may be increased annually depending on the solvency of the plan. Premiums should be rated based on age.



ENROLLMENT

Employers may provide payroll deduction for the plan. Employers will have the option of having an auto-enrollment feature such as with 401(k) plans. Self-employed will also be eligible to enroll with a mechanism to be determined.



FUNDING

The law specifically prevents tax dollars from being used for the plan. The entire plan must be self-sustaining through voluntary employee enrollments.

ADVISOR INSURANCE RESOURCE'S ADVICE

Based on experience with private LTC insurance, the adverse selection due to a voluntary guaranteed issue long-term care insurance means the CLASS act must get a high level of participation to be fiscally viable in the long term. In our opinion, the Congressional Budget Office has unrealistically optimistic projections about enrollment in the plan. These projections allow the plan to offset part of the initial 10-year cost of health care reform.

The law allows only 3% of money to be used for marketing or administration. Private LTC group insurers spend much more in order to increase awareness in a voluntary program, underwrite risk and manage claims properly.

The \$50 average daily benefit is a fraction of what is needed for quality home, assisted living and private nursing home care.

For example, according to the 2010 Genworth Cost of Care Survey the national average for home care is \$19 per hour and the average private nursing home costs \$206 per day.

Because private group LTC insurers can medically and demographically underwrite groups, they should be able to offer more attractive premiums and rates than the CLASS act program. In addition, those interested in case management will be attracted to the private plans.

Current LTC carriers may be able to attract a healthier, wealthier and more educated customer while the government option will struggle to attract this key buying audience. Increasing awareness of the issue could lead to renewed interest in LTC planning.

FEATURE

ELIGIBILITY

PREMIUMS

WAITING PERIOD

THE "CLASS" ACT PROGRAM

Actively at work 18 or over and cannot be on Medicaid

Premiums to be determined by Secretary of Health and Human Services. Premiums are based on age and are designed to remain level

Must be enrolled five years before benefit eligible

Actuaries¹ estimate premiums will average \$160 per month:

- \$136 per month for ages 18-39
- \$144 for ages 40-49
- \$152 for ages 50-59
- \$231 for ages 60-69
- \$277 for ages 70-79

PRIVATE LTC PROGRAM

Typically 18 and older

Age based and are designed to remain level, although premiums can be raised for a class in a state

Immediately after satisfying elimination period

Sample premiums for \$80 per day plan (CPI compound inflation rider) and max. lifetime benefit of \$146,000 (5 years of coverage) plus \$1,000,000 if exhausted:

- Age 20 - \$61.18
- Age 30 - \$64.50
- Age 40 - \$81.13
- Age 50 - \$114.38
- Age 60 - \$166.25
- Age 70 - \$331.84

THE AMERICAN ACADEMY OF ACTUARIES

predicted that to maintain solvency of the program, 6% of eligible Americans would have to participate at a monthly premium cost of \$160. The Chief Actuary of the Centers for Medicare and Medicaid services predicts that only 2% of those eligible would participate, and that premiums would be as high as \$240 per month.

UNDERWRITING	BENEFIT AMOUNT	BENEFIT PAYMENT METHOD	CONTRACT	CLAIM ELIGIBILITY
<p>No underwriting - guaranteed Issue</p>	<p>Fail two of six ADL's or cognitive impairment- average \$50 per day indexed for inflation.</p> <p>Additional ADL loss may increase benefits</p>	<p>Cash model</p> <p>There is no limit duration</p> <p>Benefits inflation increases with the CPI</p>	<p>Based on promise from federal government</p>	<p>Automatic if discharged from a hospital, nursing home or mental care facility for long-term care. HHS to determine claim process</p>
<p>Ranges from fully underwritten to guaranteed issue depending on group size and demographics</p>	<p>Range of options available from \$50 per day to \$300 per day and higher</p>	<p>Either reimbursement or cash disability model</p> <p>Duration is typically bought as a "years of care" (2,3,4,5 lifetime) or as a pool of money from \$100K to \$1,000,000 or more</p> <p>Benefit inflation coverage optional</p>	<p>Based on contract between carrier and individual</p>	<p>Insurance carrier based on contract language</p>



About Advisor Insurance Resource

Advisor Insurance Resource is a firm committed to providing expert advice and service on disability, life and long-term care insurance. We work on a referral only basis and act as a third-party expert insurance advisor. Our mission is to provide fast, accurate and knowledgeable solutions to meet financial planning objectives related to these insurance policies.

Advisor Insurance Resource is committed to providing the clients of financial professionals the most competitive disability, life and long-term care insurance available. We have experience working with attorneys, business owners, consultants, dentists, executives, financial advisors, physicians, retirees and top sales people.

We are experienced in explaining the advantages and disadvantages of the available options and aiding in the policy selection process. Once the insurance option that best meets the needs of the client has been identified, we will provide the best customer service to implement and service the insurance policy.

Our continued service will keep both financial professionals and their clients up to date on the status of the policy and newly available options that may increase coverage and/or reduce costs. Please explore our website that offers instant quotes for term life insurance as well as quote request forms for life, long-term care and disability insurance policies. We will provide a custom multi-company comparison within 48-hours.

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