



THE CLASS ACT

MS Consulting Group'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 MS Consulting Group'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.

MS CONSULTING GROUP'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 unrealistic 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
No underwriting - guaranteed Issue	Fail two of six ADL's or cognitive impairment- average \$50 per day indexed for inflation. Additional ADL loss may increase benefits	Cash model There is no limit duration Benefits inflation increases with the CPI	Based on promise from federal government	Automatic if discharged from a hospital, nursing home or mental care facility for long-term care. HHS to determine claim process
Ranges from fully underwritten to guaranteed issue depending on group size and demographics	Range of options available from \$50 per day to \$300 per day and higher	Either reimbursement or cash disability model 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 Benefit inflation coverage optional	Based on contract between carrier and individual	Insurance carrier based on contract language



About MS Consulting Group, LLC

MS Consulting Group is the nation's leading long term care, high net worth broker and risk management advisors. As well-known industry experts in long-term care planning, MS Consulting Group has extensive experience in product and benefit design. Their industry experts develop and deliver long-term care insurance solutions which continuously exceed client's expectations.

Based on a unique consultative needs analysis, MS Consulting Group leverages their product expertise to create personalized plans which include balanced, unbiased solutions with the most appropriate benefits. Their industry experts successfully partner with the top-ranked wealth management firms and client service agencies to ensure the client's best interests are being met.

MS Consulting Group is strongly committed to high-level service even after a client's plan is in place. Post-sale services include; On-going management, administrative support, and access to information about tax advantages, all from a team of experts ready to service their client's needs.

As a single solution provider, MS Consulting Group has demonstrated significant marketplace success in helping to ensure their most valued clients protect their assets, preserve their wealth and put into motion the legacy they've worked so hard to create.

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