

# **How Classy is CLASS?**

*Course #246048 Provider #20643*

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# Today's Discussion

- ▶ **What is the CLASS Act?**
- ▶ **How might it work?**
- ▶ **Competing and winning with CLASS**
  - *The multi-life LTCi advantage*
- ▶ **What's going on with long-term care planning?**
  - *Consolidation in traditional LTCi markets*
  - *Expanding world of insured long-term care planning options*
- ▶ **How can BJFIM/Paradigm help you become a long-term care planning machine?**
- ▶ **After CE is over (50 minutes) – Traditional Product Review**
- ▶ **Questions & answers**

# How Classy Is CLASS?

*Community Living Assistance Services & Supports Act, Title VIII of the Patient Protection & Affordable Health Care Act of 2010*

- ▶ **Recognition that Medicaid/Medi-Cal long-term care is broken**
  - *Pays for most long-term care services in the United States*
  - *LTC is becoming an ever increasing percentage of overall costs*
  - *Loopholes allow more than just the truly needy to receive benefits*
  - *Availability of an easy "safety net" encourages people not to plan*
    - Center for Long-Term Care Reform – Steven Moses -- <http://www.centerltc.com/>
  
- ▶ **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*
    - "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
  
- ▶ **Is it a *FIRST CLASS* ticket?**

# CLASS at a Glance

*Government Sponsored Voluntary Guaranteed Issue Long-Term Care Insurance (?)*

## ▶ Eligibility

- **18 years and older**
- **Actively at work (\$1,200/year income)**
- **Employers may offer plan with a negative opt-out for employees**

## ▶ Benefits

- **Qualification – Loss of 2 out of 6 ADLs or a cognitive impairment**
  - *HIPPA LTC qualification & definitions*
- **Minimum \$50 per day indexed for inflation (CPI?)**
- **Lifetime CASH coverage**
- **0-day elimination period**
- **Five year benefit deferral from date of enrollment**
  - *Able to "bounce" in and out under the original legislation*

## ▶ Funding

- **Premiums level for life increasing with CPI-U each year**
- **Nominal premium for low income enrollees and students (\$5/month)**
- **No taxpayer funding**
- **Medicaid "claw-back" if eligible at time of claim**
- **Must be actuarially sound over 75 year period**

# Define CLASS

***"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"***

**Does this sound like insurance to you?**

▶ **Who is eligible?**

- ***Can you fog a mirror?***
  - ***No underwriting***
- ***Are you 18 years or older?***
- ***Are you actively at work?***
- ***Earn more than \$1,200 per year?***

▶ **What will a \$50 per day benefit cost?**

- ***Estimates run from \$123 to \$240 per month (CBO)***
- ***UNLESS a full-time student 18 to 21 or under the Federal poverty level***
  - ***\$5 per month***

# Problems In CLASS

## ▶ **Budget gimmick**

- ***Offset \$38 to \$70 billion of PPACA***

- CBO & CMS respectively
- Senator Kent Conrad (D-ND) Chairman of the Senate Budget Committee – "...a Ponzi scheme of the first order".

- ***5-year benefit deferral***

## ▶ **Budget Commission recommends fix it or nix it**

- ***AAA & SOA calls CLASS "actuarially unsustainable".***

## ▶ **Most middle class Americans won't be able to afford premiums**

## ▶ **All cash benefits with minimal claims oversight means high utilization**

## ▶ **Adverse selection spiral**

- ***The worst risk pool imaginable!***

## ▶ **Cuts in benefits or increases in premiums are likely because HHS must have actuarially sound rates**

- ***Or the program can be cancelled***

## ▶ **Eventually to keep program solvent Feds will likely require employers to purchase on all employees**

## ▶ **Vests a great deal of authority in HHS Secretary**

- ***The "Uber-Insurance Company Executive!"***

# Budget Commission

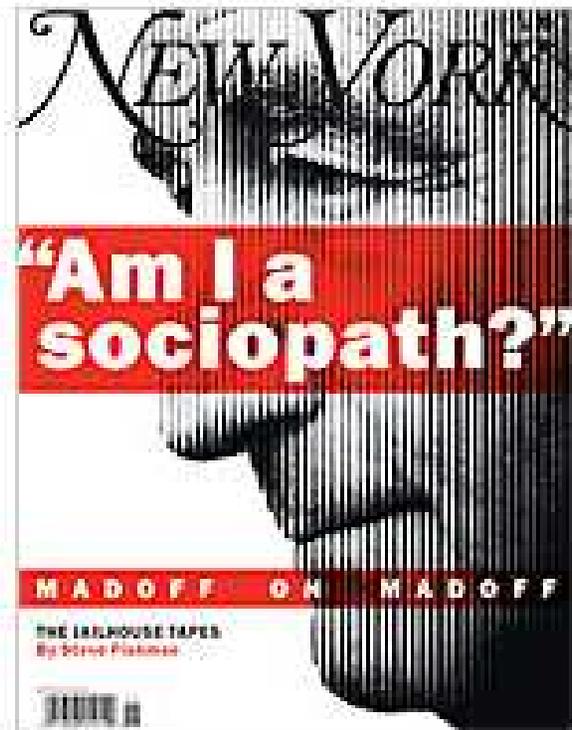
## RECOMMENDATION 3.2: REFORM OR REPEAL THE CLASS ACT

*(Costs \$11 billion in 2015, \$76 billion through 2020)*

The Community Living Assistance Services and Supports (CLASS) Act established a voluntary long-term care insurance program enacted as part of the Affordable Care Act (ACA). The program attempts to address an **important public policy concern** – the need for non-institutional long-term care – **but it is viewed by many experts as financially unsound. *The program's earliest beneficiaries will pay modest premiums for only a few years and receive benefits many times larger, so that sustaining the system over time will require increasing premiums and reducing benefits to the point that the program is neither appealing to potential customers nor able to accomplish its stated function.*** Absent reform, the program is therefore likely to require large general revenue transfers or else collapse under its own weight, Commission advises the CLASS Act be reformed in a way that makes it credibly sustainable over the long term. To the extent this is not possible, we advise it be repealed. Technically, repealing the CLASS Act will increase the deficit over the next decade, because the program's premiums are collected up front and its benefits are not paid out for five years. To address this, we would replace the deficit reduction on paper from the CLASS Act with real options that truly save the federal government money and put it on a more sustainable path.

Ponzi  
Scheme

# Who Would Know Better About Ponzi Schemes than.....



*“The whole government is a Ponzi scheme”*

*“It was the people who came very late into the game that got hurt. Most of my friends, the individual clients are not net losers.”*

**Bernie Madoff**  
*New York Magazine*

# Backgrounder

No. 2444  
July 29, 2010



Published by The Heritage Foundation

**No CLASS: How Congress Saddled Taxpayers with  
Another Costly Entitlement**

*Brian Blase*

- ▶ **Budget gimmick**
- ▶ **Adverse selection spiral**
- ▶ **Better private alternatives**
- ▶ **Government intrusion in private market place**
- ▶ **HHS Secretary becomes CEO of insurance company**
- ▶ **Looming problems for taxpayers, employees and employers**
  - *Increasing premiums*
  - *Cuts in benefits*
  - *Mandatory participation*
  - *Taxpayer bail-out*

# The Latest on CLASS

## February 2011

- ▶ **Kathy Greenlee, Assistant Secretary for Aging**
  - ***Reiterates the CLASS "Untouchables"***
    - **Consumers must direct their own services**
    - **No underwriting**
    - **Program must be solvent in the short-run and over a 75 year horizon**
    - **No Federal funds will be used for benefits**
  
- ▶ **Kathleen Sebelius, Secretary Health & Human Services**
  - ***Congressional Testimony***
    - **\$1,200/year income may go to \$12,000**
    - **Use of increasing premium likely**
    - **Sustainability is a big concern**
      - ***2% to 3% enrollment will not do it! Must have 6%***
    - **Strong anti-gaming measures likely**
    - **Five full years of employment + on the plan before benefits will be paid**

## Long-Term Care Needs Changes, Officials Say

By ROBERT PEAR

Published: February 21, 2011

WASHINGTON — One of Senator [Edward M. Kennedy](#)'s legacies in the new health care law, intended to allow the chronically ill and people with disabilities to continue living in their homes, is too costly to survive without major changes, Obama administration officials now say.

[Enlarge This Image](#)



Jim Lo Scalzo/European Pressphoto Agency  
Kathleen Sebelius, the health secretary, says she can fix the long-term care program in the Obama administration's health care reform package.

[Enlarge This Image](#)

Republican lawmakers, who have vowed to repeal the health care law, cite the administration's acknowledgment as yet another reason to do so. But the health and human services secretary, [Kathleen Sebelius](#), says the law gives her plenty of authority to make the necessary changes to the program without Congressional action.

To make the program viable, Ms. Sebelius said, she is considering changes in the eligibility criteria, including employment and earnings requirements, to ensure that only active workers may enroll. She also said she favored adjusting premiums to rise with inflation.

Senator [Tom Harkin](#), Democrat of Iowa and chairman of the Senate health committee, encouraged the administration to make any changes that might be required to keep the program fiscally sound, so "no one with a disability will be forced to live in an institution."

RECOMMEND

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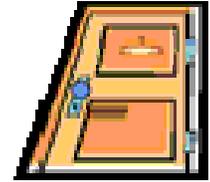
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# Current CLASS Timeline?

- ▶ **CLASS Advisory Council now in place**
- ▶ **Hiring actuaries to crunch the numbers**
- ▶ **Anticipated benefit plan release October 1, 2012**
- ▶ **Must “go-live” January 1, 2013**
  - *Like to roll-out sooner*
- ▶ **Calls for repeal**
- ▶ **Stay tuned!**

# Is There A Pony In That CLASS?



- ▶ **Potential of raising consumer awareness**
- ▶ **Original bill provides little in marketing dollars**
- ▶ **Non-profits and other social welfare organizations are likely to promote**
- ▶ **At some point the employer will need to make a decision**
- ▶ **Now is the time to start talking to your business owner clients about likely choices and the fact that CLASS "at best" will be a narrow gauge program for the uninsurable**
- ▶ **Long-term care planning with private insurance is the way to go for the vast majority of consumers**

# **To CLASS or Not To CLASS**

## **What Does The Employer “Opt-Out” Mean?**

**“If employers choose to participate in the CLASS program, all of their employees are automatically enrolled. The program is voluntary because employees can “opt-out”. If a person enrolls in CLASS, his or her employer is responsible for withholding premiums through payroll deductions. The HHS Secretary is required to develop procedures for an alternative enrollment process for individuals who are self-employed or whose employers do not participate in CLASS.”**

*The Heritage Foundation*

# **The M/E/L Hazards In CLASS For Licensed Insurance Agents**

**IF A CONSUMER CANNOT PURCHASE PRIVATE  
LONG-TERM CARE INSURANCE DUE TO HEALTH ISSUES SHOULD AN  
AGENT RECOMMEND THAT THEY ENROLL IN CLASS?**

**Would you ever recommend that a consumer purchase an  
insurance product with bad provisions or from an insolvent  
company?**

**Is a licensed insurance agent obligated to discuss and disclose  
non-insured government programs to consumers?**

**Will your E & O cover you if misinform or the government  
program changes in the future?**

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# Competing & Winning With CLASS!

- ▶ **Employer centric discussion**
- ▶ **CLASS may be coming but it isn't here yet**
- ▶ **Advise that there are better solutions for owners, key employees and rank and file**
  - *Solutions can be implemented incrementally or all at once*
  - *But its important to begin planning from the top down*
- ▶ **Multi-life long-term care insurance is the answer for anyone who is insurable**
- ▶ **Multi-life LTCi has richer benefits, lower premiums, and actuarially sound rate stability compared to CLASS**

# Multi-Life LTCi Advantage

- ▶ **Multi-life LTCi means individual policies sold to a qualified employer group, which offers:**
  - *Discounted standard premiums*
  - *Simplified underwriting for employees, and for spouses or partners under specific circumstances*
  - *Tax-free benefits to employees*
  - *Tax-deductible premiums to employers*
  - *Vested renewals for the agent*
- ▶ **Because policies are owned by the employee, not the employer:**
  - *Completely portable without COBRA or portability (conversion)*
  - *Employees who leave the company can keep their discounts*
  - *Simple administration for the employer*

# Multi-Life LTCi Advantage

## ▶ Multi-life options in California

- ***2-6 employee lives***
  - 5% discount with full underwriting
- ***4 + employee lives***
  - 5% discount with full underwriting
- ***7 + employee lives***
  - 5% discount with simplified underwriting

**Carrier Review  
After CE Is  
Complete**

## ▶ Multi-life options in most other states

- **Same as above PLUS**
  - ***3+ employer-paid lives with simplified underwriting***
    - 7+ lives in 30-days!
  - ***10+ eligible employees and 3 participating***

# Multi-Life LTCi vs. True Group

- ▶ **Multi-life policies (because they are individual) fall under rate stabilization and are likely to have fewer premium increases over life of the policy – underwritten risk pool**
  - *Carriers can only raise premiums on all policyholders in a state on a single policy form – cannot discriminate by individual based on claims experience*
  - *Carriers must get approval from state regulators for any increase on existing policyholders*
  - *Benefits are likely to be richer and premiums more competitive, especially when inflation options are chosen and couples discounts are in play*
- ▶ **Group policies give carrier more opportunities to increase premiums with less regulator restrictions – less underwriting in the pool, therefore greater risk**
- ▶ **Group policies can be taken by another agent with a Broker of Record letter: individual policies cannot**

# Consolidation In Traditional LTCi

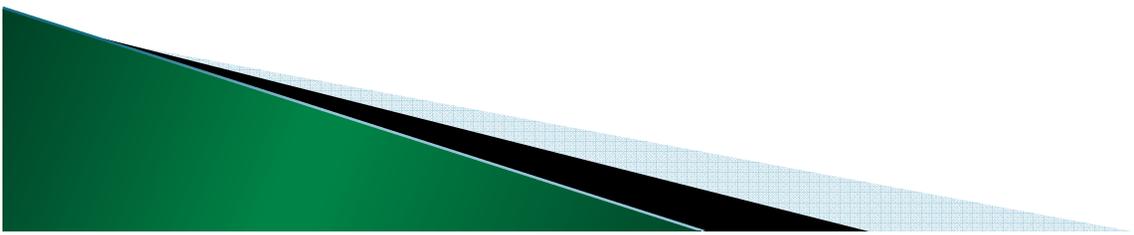
- ▶ **Traditional LTCi sales flat or up slightly in Q3 2010**
  - *In this sort of economy I think this is pretty good!*
  - *Linked product sales are UP!*
- ▶ **Carrier consolidation**
  - *MetLife – GONE!*
  - *John Hancock (CA only) – more on this later*
  - *Assurity, Allianz, Guardian – GONE or GOING!*
- ▶ **Low to no lapses on all blocks of business continue**
  - *Bad news for product pricing -- good for agents!*
- ▶ **Higher than expected home care claims are a concern**
- ▶ **Assisted living claims anticipated to be higher than expected**
- ▶ **Constricted capital markets**
- ▶ **Low interest rate environment creates reserving issues**
- ▶ **Stock companies need to make ROE projections for Wall St.**

# Other Issues

- ▶ **Too much business**
- ▶ **Not enough business**
- ▶ **Underwriting inconsistency**
- ▶ **Assumptions on older (pre-rate stabilized) blocks of business continue to be problematic**
- ▶ **5% compound inflation protection causes concerns**
- ▶ **Ongoing in-force premium increases unsettles agents & consumers**
- ▶ **Regulatory environment**
- ▶ **Market penetration for traditional products remains low**
  - *Maybe market for traditional products, due to pricing pressures, because it isn't necessarily a "middle market" product*

# **Sales Initiated By Agent**

**13 %**



# Reasons Why Not?

- ▶ **I don't understand the product**
- ▶ **Client is too affluent**
- ▶ **Commission is too small for me to bother with it**
- ▶ **LTCi underwriting will screw-up my big life/health sale**
- ▶ **Client said "no" last year**
- ▶ **I don't believe the client will ever need it**

**REGARDLESS OF THE CHANGES AND  
CHALLENGES  
THE NEED FOR LONG-TERM  
CARE PLANNING  
HAS NOT DISAPPEARED**

*Traditional policies and their  
benefits will not get any less  
expensive per unit of coverage  
than they are today!*

# Reason Why

*It's the Right  
Thing To Do!*

Make Long-Term Care Insurance  
Your Product  
Du jour

# **Expanding World of Long-Term Care Products/Planning Alternatives**

*Life, Annuity, Disability & Critical Illness Insurance With Benefits for Chronic Illness*

## **Our Mission Defined**

- ▶ **There is no substitute for traditional long-term care insurance when it comes to:**
  - *How one qualifies for benefits*
  - *The comprehensive nature of the benefits*
  - *The cost to benefit relationship (leverage)*
  - *Tax deductible premiums and tax-free benefits*
  
- ▶ **There are a growing number of insurance products: life, annuity, disability, and critical illness, that pay benefits when the insured suffers from a chronic illness.**
  
- ▶ **These policies can be purchased on a standalone basis and in conjunction with traditional long-term care insurance throughout one's lifetime, to create a long-term care plan that suits a client's personal situation and budget at various stages of life.**

# **Expanding World of Long-Term Care Products/Planning Alternatives**

*Life, Annuity, Disability & Critical Illness Insurance With Benefits for Chronic Illness*

## **CAUTION!**

- ▶ **Benefit eligibility is not always HIPAA Qualified LTCi**
  - *Loss of 2 of 6 ADLs or a severe cognitive impairment*
  - *Premiums are generally not deductible*
- ▶ **Cost of the "chronic illness benefit" is not always transparent**
  - *Some price additional morbidity cost into the plan*
  - *Some policies will have a clear additional charge*
  - *Others "discount" the "acceleration" for chronic illness at time of claim*

## **These Product Do Have Their Place!**

- ▶ **Sometimes one dollar needs to do more than one thing**
- ▶ **Some don't believe they'll need LTC but they'll hedge their bets**
- ▶ **Alternatives may provide underwriting leverage not available with traditional products**

# **BJFIM/Paradigm**

## ***Is Committed To Long-Term Care Planning***

- ▶ **Traditional long-term care insurance**
  - *Individual & multi-life*
- ▶ **Life insurance + accelerated benefits for chronic illness**
  - *Single premium whole and universal life*
  - *Annual premium whole, universal and term life*
- ▶ **Pension protection act annuity products (Q-LTCi)**
  - *Non-qualified single premium deferred annuities*
  - *Immediate annuity*
- ▶ **Non-Can disability with enhanced benefits for “catastrophic illness”**
- ▶ **Critical illness with “loss of independent living” benefit eligibility**
  - *Lifetime benefits!*

▶ **BJFIM/Paradigm offers all of these and more!**



# How Can We Help You?

- ▶ **BJFIM/Paradigm website ([www.bjfim.com](http://www.bjfim.com))**
- ▶ **Info Long-Term Care ([www.infolongterm.com](http://www.infolongterm.com))**
  - *Generic Consumer Website for your website*
- ▶ **We do help you make the sale**
  - *Live, in-person consumer presentations by marketer, Susan or Barry*
  - *Webinar or teleconference assistance with clients and their financial advisors*
  - *Simple & Easy to use individual and corporate sales presentations along with your proposals*
  - *Great training seminars and webinars*
  - *We'll help you or do it for you!*
- ▶ **Lyte-Speed Learning Discounts**
  - *Online 8-hour LTC-2004 continuing education class only \$19.50*



# **Traditional Product Top-Picks**

## *Independent Brokerage Channel*

### ▶ **Genworth**

- *36 year history and commitment to long-term care insurance*
- *Priced right in the 50-65 year old couples market*
- *0-day home care elimination period and lifetime benefits*
- *Only California Partnership play for independent agents*
- *Multi-life discounts in CA with 4 employer paid lives*
- *Multi-life simplified underwriting outside of CA at 3 employer paid lives*
- *Expect "rate refresh" by year end*

### ▶ **Prudential**

- *"Top of mind" name recognition*
- *Priced right in the 50-65 year old couples market*
- *Cash alternative benefit allows for more benefit flexibility at time of claim*
- *150% home care rider allows for robust cash benefits at the right price*
- *Calendar day elimination period*
- *Multi-life discounts & simplified underwriting with 7 participating lives*
- *Expect "rate refresh" by year end*

# **Traditional Product Top-Picks**

## *Independent Brokerage Channel*

### ▶ **American General**

- ***Purchase lifetime maximum***
  - ***\$100,000, \$250,000, \$400,000, \$500,000, \$600,000, \$750,000 or \$1,000,000***
- ***"Dial-In" monthly benefit***
  - ***\$2,000 to \$12,000***
- ***Calendar day elimination period***
- ***Share care benefit – 3<sup>rd</sup> pool of money***
- ***Online application process & credit cards accepted***

### ▶ **Mutual/United of Omaha**

- ***Client's state of domicile will determine best product choice***
- ***Multi-life with 3 employer paid lives (not in CA)***
- ***Many benefit choices and options***
- ***Older ages can be pricing "sweet-spot"***

# John Hancock

- ▶ **Not out of the long-term care insurance business**
  - *Just not in California at the moment but they are filed and trying to get back in the game*
- ▶ **View 2011 as a “time-out” opportunity**
- ▶ **Working on new products for 2012 and beyond**

**THANK YOU**

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