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CLASS: A New Voluntary Long-Term Care Insurance Program

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The new health reform law establishes a federal, voluntary long-term care insurance program, known as Community Living Assistance Services and Supports, or CLASS.[1] This brief paper describes the need for CLASS, explains its benefits and financing, and corrects some misconceptions about the program's effect on the federal budget.

Why is CLASS needed?

Millions of Americans who need long-term care just to get by — to eat, bathe, or get dressed — face serious financial difficulty. Neither private health insurance nor Medicare covers basic long-term services and supports (although Medicare does cover care in a skilled nursing facility for up to 100 days following a hospitalization). Private long-term care insurance is available in the individual health insurance market, but policies tend to have high premiums and limited benefits. With nursing home costs averaging more than $75,000 a year, and home care averaging about $20 an hour, many families deplete their resources and are forced to turn to Medicaid to pay for long-term care. These difficulties are not limited to frail seniors; 40 percent of the people who need long-term care are non-elderly individuals with serious disabling conditions.[2]

How will a person become eligible for CLASS?

Working-age adults will be able to choose to have premiums deducted from their paychecks to purchase public long-term care insurance through CLASS, most likely starting in 2012 or 2013. *No one will be required to participate in CLASS*. Employers may elect to enroll their workers automatically, but if so, a worker will be able to opt out. The younger the age at which a person enrolls, the lower will be the premium. Enrollees can continue to participate by paying premiums after they leave the labor force or retire. Poor individuals and full-time students will have to pay only a nominal premium. If they become disabled, enrollees who have contributed for at least five years will automatically qualify for help to purchase home-based services, assisted living, or nursing home care.

What benefits will CLASS provide?

CLASS will provide a daily cash benefit to insured individuals who become limited in several basic activities of daily living. The cash benefit can be used to help the beneficiary continue living and working in the community or to defray part of the cost of institutional care, if that becomes necessary. CLASS will supplement — not replace — family care, personal saving, and private insurance. The benefit will be meaningful but modest — at least $50 a day for recipients to use as best meets their particular needs.

Does CLASS create a big unfunded entitlement?

No. Unlike some other recent programs, such as the Medicare drug benefit, *CLASS is fully paid for by beneficiary premiums, not deficit-financed*. The law specifically requires the Secretary of Health and Human Services to design the program's benefits and set the premiums to assure that the program takes in as much money as it pays out for each generation of workers. The Congressional Budget Office (CBO) has affirmed CLASS's solvency over the long term. Based on conservative assumptions — an initial average premium of $123 a month and an average daily benefit of $75 — CBO estimates that CLASS will be fully self-financing over the next 75 years.[3]

Are premiums from CLASS being used to finance health reform?

No. By its very nature, a premium-financed program such as CLASS reduces the federal budget deficit in its early years, when many people are paying premiums and few have yet become eligible for benefits. Congressional leaders, however, crafted the health reform legislation so that it is fully paid for *without* relying on premiums from CLASS. The CBO estimate clearly shows that if one excludes the $70 billion in premiums from CLASS that are expected to be paid over the first ten years, health reform still reduces the deficit by $73 billion over this period.[4] The effects of CLASS are also excluded in determining whether Congress has met the new statutory pay-as-you-go requirement for legislation affecting mandatory spending and revenues.[5]

CLASS would begin to add slightly to the deficit after 2029, as the benefit payments made in those years would somewhat exceed the premiums collected in those years. The program is designed to be fully self-financing over 75 years without needing to have premiums precisely match benefit costs in each year. Moreover, CBO has determined that CLASS's impact on the deficit after 2029 will be small and that the health reform legislation as a whole — including CLASS — will reduce deficits modestly in future decades.

How could CLASS be strengthened?

Simple improvements in the law could increase participation in CLASS, reduce premiums, and further secure the program's fiscal soundness. For example, a full five years of work could be required to establish eligibility, penalties for late or lapsed enrollment could be strengthened, and premiums could be indexed for inflation. Congress also should provide adequate funding for the program's start-up costs, including a sufficient marketing effort to attract a broad base of participants; a broad participant base will strengthen the program, both financially and otherwise, for the long term.

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[1] Patient Protection and Affordable Care Act (Public Law 111-148), title VIII and section 10801.

[2] For a discussion of the need for a better long-term care system, see Sheila P. Burke, Judith Feder, and Paul N. Van de Water, *Developing a Better Long-Term Care Policy: A Vision and Strategy for America's Future*, Washington: National Academy of Social Insurance, November 2005.

[3] Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable George Miller, November 25, 2009.

[4] Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Nancy Pelosi, March 20, 2010.

[5] Statutory Pay-As-You-Go Act of 2010 (Public Law 111-139), section 4(d)(6).