



CLASS: Friend or Foe?

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THE ELEVENTH ANNUAL INTERCOMPANY LONG TERM CARE INSURANCE CONFERENCE

ILTci



CLASS: Friend or Foe?

- *We are assuming that you are familiar with the provisions of the CLASS Act.
- *A pamphlet is available as you leave this meeting.
- *Our discussion will center on the larger issues involved.
- *CLASS is a tiny portion of the Patient Protection and Affordable Care Act.
- *Although this session is being recorded, I have encouraged a frank and open discussion by the speakers.



The Agenda:

- *What factors and process led the Congress to enact CLASS?
- *Should the federal government take on this role?
- *How can CLASS survive with its imperfections?
- *How can the LTCL industry successfully market in a CLASS environment?



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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

The 25th to 85th percentile = the Middle Mass



4 Household Segments

"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	

"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	

Source: N. Abkemeier and B. Hamann, 2009. "Segmenting the Middle Market: RETIREMENT RISKS AND SOLUTIONS PHASE I REPORT." Society of Actuaries.



What Solutions Do We Offer?

Impoverished / Working Poor

The Middle Affluent

The Middle
Mass

The Affluent



CLASS - Update

“Given the rising demand for these services, we want to make the CLASS Program a success. To do so, we are committed to three basic principles that adhere to the cornerstones of the CLASS statute:

- Consumers who choose to must be able to direct their own services.
- There will be no underwriting of the type found in private long-term care insurance.
- The program will be solvent in the short term and over a 75 year horizon. No federal funds will be used to pay for benefits to enrollees of the CLASS program.”

“Ensuring Independence As We Age” <http://www.healthcare.gov/news/blog/CLASS.html>, Posted February 07, 2011 Kathy Greenlee, Assistant Secretary for Aging



Enabling CLASS to “Cooperate”

1. CLASS, in it's current expected design, 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. The \$5 monthly premium for students and the impoverished are two sources of significant subsidies that is a significant source for premium uncertainty.

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

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. Adverse selection continues with the ability to purchase in the future when and individual's health deteriorates despite penalties.

fix: Limit coverage levels for guaranteed issue following initial offering.

6. Determine how Medicaid and the Partnership programs can efficiently coordinate with CLASS.



A Distribution Designed Public 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” and meets generally accepted insurance law
- Understands the varying needs of US households and income brackets



Selling With and Against CLASS

Pre-2013 versus 2013 and beyond

When is CLASS the right solution to recommend?

When is CLASS inappropriate?

The Middle Mass – are their needs met with CLASS? With private insurance?

The need for holistic product and planning demonstrations.



Insurance Mechanism “Proposals”

“Beta” Dental Insurance Company:

- A child dental insurance PPO which covered adult teeth.

“PetsPlus” Pet Insurance Company:

- Premiums for small dogs/cats are \$5 per month, \$150 for all others.

“Lizard Auto Home:

- State program for the uninsured motorist which will cover all accidents prior to enrollment but with a 30-day waiting period.

HUMOR

The “Freedom” Mutual Insurance Company:

- Homeowners insurance program with a flat \$750k, no exceptions.

“Georgia Barn” Bureau:

- Designed an insurance program requiring that all residents, not only homeowners, purchase hurricane insurance



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If CLASS is the Answer We're Probably Not Asking the Right Questions!

- Where does the responsibility lie for providing long-term care?
 - *Individual*
 - *Family*
 - *Community*
 - *Government (State and/or Federal)*
- Many have “leaped” to the conclusion that the answer is another Federal government program designed to fix a Federal government program that’s already broken
- My suggestion is that many of the problems we now face in the delivery of long-term care has been caused by government and the erosion of traditional mechanism for coping
 - *Government intervention has crowded out personal responsibility*
 - *Government intervention has infantilized individuals*
- At what point does the government’s authority to set this agenda go to far?
- At what point does the government’s ability to reach into one citizen’s pocket to engineer a particular end cease to be acceptable?



Albert Einstein

*"We can't solve problems
by using the same kind
of thinking we used
when we created them."*



When A *Want* Becomes A *Right*

- Where is it said the Federal government should be providing funding for LTC at all?
 - *What happened to the notion of “enumerated powers”*
- Who did this before the government intervened
- What makes us think that the government is going to do better with CLASS than they have Medicaid? Social Security? Medicare?
- Are we just creating another unsustainable entitlement program?
- In light of the fact that a key supporter of CLASS called it a “Ponzi scheme” (Sen. Kent Conrad (D)) why would anyone in their right mind support CLASS?
- Why would anyone in their right mind buy into it?



Why Is Government Run Anything A Bad Idea

- Decision making becomes political
- Driven by special interest groups who profit from government largess
- Decision making at the farthest point away from the end user; the Federal government
- Costs are not controlled due to the nearly unlimited ability to tax, borrow or print money
- Once instituted programs never go away because they create their own constituency also represented by special interest groups
- The government that has the ability to give also has the ability to take away (paraphrasing George H.W Bush)
 - *Think about the expansion of IRS under PPACA*



Is CLASS another example of National Munchausen's Syndrome?

- Munchausen (MOON-chou-zun) syndrome is a serious mental disorder in which someone with a deep need for attention pretends to be sick or gets sick or injured on purpose. People with Munchausen syndrome may make up symptoms, push for risky operations, or try to rig laboratory test results in their effort to win sympathy and concern.
 - Munchausen syndrome belongs to a group of conditions, called factitious disorders, that are either made up or self-inflicted. Factitious disorders can be psychological or physical. Munchausen syndrome refers to the most severe and chronic physical form of factitious disorder.
 - Although it has been recognized for centuries, Munchausen syndrome remains mysterious and difficult to treat. Medical help is critical, however, to preventing serious injury and even death that can result from the self-harm typical of Munchausen syndrome.
- Mayo Clinic Online
 - Or is it Munchausen by Proxy?



Who Said?

"Insanity is repeating the same mistakes and expecting different results"

- Albert Einstein?
- Rita Mae Brown in her book *Narcotics Anonymous*



What Should LTCi Industry Role Be?

- Fight CLASS at every turn for moral, ethical constitutional reasons
- Work within current system to fix Medicaid so that it is only for the truly needy and remove incentives for people to go on welfare for long-term care
- Gradually wean people off the notion that the government can or should solve this problem
- Align societal incentives so that people plan for this risk personally not at someone else's expense
- Work with charities, non-profits religious groups in order to re-create community based solutions
- Work with state legislators and regulators to allow LTC planning product innovation



Edward Gibbon

On Athens

"In the end, more than freedom, they wanted security. They wanted a comfortable life, and they lost it all – security, comfort, and freedom. When the Athenians finally wanted not to give to society but for society to give to them, when the freedom they wished for most was freedom from responsibility, then Athens ceased to be free and was never free again. "



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Is this our fault?

- We've sold the wrong way to the wrong people
- No unified PR
- Allowed LTCi to be used as a political tool
 - NAIC 8-hour training (Partnership only required 2)
 - No significant agent abuses
 - It's NOT a senior product
 - Imagine if the NAIC proposed additional 8-hours of CE to sell life insurance? Where's the mandatory annuity training?
- Message is private LTCi has "failed"



Working with CLASS

- Imagine a private carrier created this plan
 - What would we say?
 - Is there room at the table?
 - What is the ethical response once implemented?
 - How do we compete?
- Approaches
 - Direct competitor
 - CLASS + private LTCi
 - CLASS as provider of last-resort



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