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Federal LTC program raising questions

Employers reviewing current benefits, awaiting guidance

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LONG-TERM CARE INSURANCE

Projected premiums, usage and cost savings of voluntary long-term care insurance through 2019 as provided by the Patient Protection and Affordable Care Act.

- Average monthly premium: **\$123**
- Minimum benefit: **\$50 per day**
- Years to vest, or collect on the coverage: **5**
- Percentage of U.S. workers expected to enroll: **3.5%**
- Estimated federal budget reduction: **\$72.5 billion**

Source: Congressional Budget Office

WASHINGTON—Although the new health care reform law establishes the first-ever national voluntary long-term care insurance program for U.S. workers, few employers are likely to begin enrolling their employees when it officially launches on Jan. 1, 2011.

In fact, some benefit consultants are advising employers against instituting the automatic enrollment provisions prescribed in the bill until after Health and Human Services Secretary Kathleen Sebelius issues regulations governing the new program, which is not expected until sometime in 2012.

The program, originally introduced by the late Sen. Edward Kennedy, D-Mass., as the Community Living Assistance Services and Supports Act, or the CLASS Act, was added to the health care reform bill last summer as it moved through the committee he chaired.

Open only to workers, the program requires participants to pay a monthly premium for five years, after which they will become eligible for a cash benefit of at least \$50 a day that can be used to offset the cost of long-term care services.

The legislation directs the secretary of HHS to establish procedures for auto enrollment by employers, similar to that used for automatically enrolling employees in defined contribution retirement plans, such as 401(k) plans.

Employees must opt out if they do not want to participate. Premiums will be paid via payroll deduction on an after-tax basis, similar to those paid for private long-term care insurance.

Because the legislation requires that the program be in actuarial balance for 75 years, the Congressional Budget Office estimates that monthly premiums will average approximately \$123 based on a projection that only about 10 million individuals—about 3.5% of the U.S. working population—are likely to enroll in the voluntary program.

Moreover, because the program is open to all working Americans, regardless of health status, it is likely to attract enrollees with a higher-than-average probability of eventually receiving benefits, the CBO notes. Premiums would vary only according to the enrollee's age when he or she enters the program. Once enrolled, an individual's premium generally would remain the same for as long as that individual remains in the program.

The CBO estimates that the program should reduce “federal outlays” by \$72.5 billion by 2019 by reducing Medicaid spending on long-term care by \$2 billion over the next 10 years. Between 2011 and 2019, premium receipts should total \$88 billion, while benefit payments, which are not slated to begin until 2016, would total just \$14 billion. Administrative costs associated with operating the program are projected to take up 3% of premiums collected.

Although the program is described as voluntary in the Patient Protection and Affordable Care Act, benefit consultants report that some employers have expressed concerns that they will be required to begin enrolling their employees beginning on its Jan. 1, 2011, start date.

“There has been some misconception about it,” said Amy Bergner, a partner at Mercer L.L.C. in Washington. “Some people think employers will be required to establish these programs. But the way we interpret the law is that employers will have the option to establish a CLASS Act program.”

Ann Marie Breheny, a consultant in Towers Watson L.L.C.'s Arlington, Va., research office, said she is advising her employer clients to take “a watch-and-wait approach.”

“It's an area employers might need to assess, but it's not clear that they have all the information by Jan. 1 that they'll need to make that assessment,” she said.

Karen Frost, health and welfare outsourcing leader at Hewitt Associates Inc. in Lincolnshire, Ill., said the introduction of the new federal program is prompting many of her employer clients to rethink their long-term care benefit strategies.

“Employers are asking themselves whether they already have a long-term care strategy and whether it fits in or competes with (the CLASS Act),” she said. “If they suspect it competes, they probably won't participate. If they decide it either complements it, or if they don't have a long-term care strategy in the first place, it is possible it will make them think about having one and whether the CLASS Act or a private insurance approach will be more appropriate for their populations.”

Rich Stover, a principal at Buck Consultants L.L.C. in Secaucus, N.J., said the clients that have expressed interest in the new program are those that don't offer their employees access to private LTC programs but have been considering adding one.

“This is something that an employer can make available to employees without having to go through the work of selecting and managing a vendor,” he said.

Regardless of whether they decide to implement the new program, Michael J. Thompson, a consultant at PricewaterhouseCoopers L.L.P. in New York, is advising his employer clients to be prepared for a potential onslaught of questions from employees as the program gains media attention.

“There's going to be a communications challenge,” he warned. “As people become aware of it, they're going to be asking about it. At a minimum, employers need to be aware of it and they need to be able to explain it.”

Those employers that decide to go ahead and begin enrolling employees will have an even greater communications challenge, Mr. Thompson said.

“What if an employee defaults in, starts getting \$123 taken out of their paycheck every month, and then starts asking why?” he asked.

The program's cost ultimately could end up being a deterrent to employers offering it because it is significantly higher than that of private LTC insurance products, benefit consultants and LTC experts note.

Typical group premiums for LTC insurance ranges from a low of \$430 annually for employees between ages 45 and 54 to a high of \$1,400 a year for employees between ages 55 and 64, according to Jesse Slome, executive director of the American Assn. for Long-Term Care Insurance in Los Angeles.

Moreover, benefit levels for private LTC products are significantly greater than those that will be offered under the government program, he said.

“Only 14% of those enrolled in group LTC plans pick the daily benefit of less than \$99,” he said.

A recent AALTCI survey of 65,000 new enrollees in group LTC plans in 2009 found that 31% chose daily benefit levels ranging between \$100 and \$149; 20.4% chose daily benefit levels of \$150 to \$199; and 34.2% chose benefit levels of \$200 or more per day.
