



THE WALL STREET JOURNAL.
Small Business WSJ.com

Essential Tools
Smart Reads
Best Advice

Visit
WSJ.com/smallbusiness
today

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.
WSJ.com

OPINION | DECEMBER 13, 2009, 7:05 P.M. ET

Congress's Long-Term Care Bomb

Another new entitlement that will make future costs explode.

By SCOTT HARRINGTON

The public is growing wary of the cost of ObamaCare. Yet there is one budget-busting provision that hasn't received the attention it deserves: a new long-term care entitlement.

Known as the Community Living Assistance Services and Supports Act, or Class Act, this entitlement is in both the House and Senate bills and was a top priority of the late Sen. Ted Kennedy. It would provide at least \$50 a day toward home or institutional care, equipment and supplies, or home improvements to assist the daily living of those who are enrolled. It is also a significant part of the reason that Democrats claim that ObamaCare is fiscally responsible, but this turns out to be a short-term budget ruse.

The Congressional Budget Office (CBO) projects that the House and Senate health-care bills will reduce federal deficits over the next 10 years by \$138 billion and \$130 billion, respectively. The lion's share of the savings, \$101.6 billion and \$72.5 billion, would be realized by the long-term care program.

How can a new entitlement reduce deficits? With budget accounting, the program will pile up more revenues than its costs. But only in the short run. In the long run, it will blow a hole in the federal budget.

Private long-term care insurance works like other insurance policies. Those who buy policies pay premiums over a prolonged period of time. The premiums pay for the benefits they may eventually receive and cover the benefits for those who need immediate care.

To make sure that a premium paid today can pay for a benefit promised for tomorrow, an insurer determines the amount it will need for future benefits, marks that amount as a liability, and puts aside funds to pay for it. An insurer also creates an additional pool of capital to act as a buffer, just in case.

That isn't how the Class Act would work. The House and Senate bills stipulate that premiums would be calculated to cover benefit payments over a 75-year horizon without federal subsidies. And the bills do authorize the secretary of Health and Human Services to adjust premiums and benefits to maintain solvency. But CBO and the Centers for Medicare & Medicaid Services (CMS) have identified parts of the program that will subject it to considerable financial risk.

First, those who enroll would likely be more apt to need care and will be more expensive to cover than those who buy private insurance. To cover its costs, the program would have to charge more than private insurers.

On Friday, CMS Chief Actuary Richard Foster said in a memo on the (less costly) Senate version of the program that premiums would be set so high they would discourage healthier people from buying in. As the healthy stayed on the

sidelines, the program would have to charge more to those who did enroll. This in turn would price more people out of the program, risking what the memo called an "insurance death spiral."

Mr. Foster does project the program will lower the federal deficit in its first decade (by \$39 billion and \$38 billion for the House and Senate bills respectively, much less than the CBO estimates). But neither CMS nor the CBO include in their 10-year projections the program's future liabilities. Of course, that's exactly when the government will have to make good on its promises, putting pressure on the federal budget. Why? Because unlike private insurance, the program won't invest its early surpluses.

Instead the program will hand over its revenues to the feds, who will promptly spend it. In return, the program's administrators would receive federal IOUs, just as Medicare and Social Security do. But these are nothing more than liabilities that have to be repaid, either by taxes or borrowing.

Under the House bill, CBO projects that the entitlement would bring in \$123 billion in premiums from 2010-2019 and pay out only \$20 billion in benefits. CBO also projects that the Senate's version would generate \$88 billion in premiums and \$14 billion in benefits.

But in a letter late last month to Sen. Tom Harkin, CBO Director Douglas Elmendorf explained that while the Class Act would likely reduce federal budget deficits during 2020-2029, it would do so "by smaller amounts than in the initial decade."

By the third decade, CBO says the program would pay more in benefits than it received in premiums and what it saved Medicaid (which currently pays for long-term care for millions of elderly). Mr. Elmendorf concludes that "the programs would add to budget deficits in the third decade—and in succeeding decades—by amounts on the order of tens of billions of dollars for each 10-year period." These long-term demands on the Treasury would coincide with shortfalls in Medicare and Social Security projected to be in the hundreds of billions of dollars.

Sen. Kennedy notwithstanding, it is hard not to conclude that a major motivation for the Class Act is to make ObamaCare look fiscally better over CBO's official 10-year budget horizon. Without the new long-term care program, CBO's projected deficit reductions for the House and Senate bills would be \$36 billion and \$58 billion, respectively, rather than \$138 billion and \$130 billion. This makes the overall Democratic reform look fiscally more responsible than it really is. The real danger comes after 10 years, when the long-term care program will increase deficits and create even greater pressure for government rationing of medical care.

Mr. Harrington is professor of health-care management and insurance and risk management at the University of Pennsylvania's Wharton School and an adjunct scholar at the American Enterprise Institute.

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit

www.djreprints.com