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Should Long-Term-Care Insurance Be Part of Health Reform?

By Kate Pickert

Tucked deep inside the Senate health reform bill — beginning on page 1,926 — is a plan for a new federal insurance program. Average premiums could be as high as \$180 per month and could be automatically deducted from the paychecks of some American workers. The nonpartisan Congressional Budget Office (CBO) predicts this new program would "add to budget deficits ... by amounts on the order of tens of billions of dollars." This is not, however, the so-called public option that is the focus of much heated debate on Capitol Hill. It's an entirely different Democratic plan for a new kind of government-run health insurance — one that would help provide long-term care for the elderly and infirm.

And while it may not be getting nearly as much attention as the public option, this once obscure provision has already made waves on the Senate floor. To supporters, it's the fulfillment of a long-deferred dream of Senator Ted Kennedy, a chance to improve the current options available to the elderly and disabled who need care (Medicare does not cover long-term nursing-home stays, and Medicare funding for home health care would be cut under health reform); to critics, it's a fiscally unsound budget gimmick, "a classic definition of a Ponzi scheme," as Republican Senator John Thune of South Dakota described it late last week. ([See 10 players in health care reform.](#))

The new program — called the Community Living Assistance Services and Supports (CLASS) Act — would be funded by premiums and would pay enrollees \$50 or more per day if they became too disabled to perform normal daily activities like eating and bathing. Employers who chose to participate would sign up their employees, who would then have the ability to opt out. The cash benefits could be applied to nursing-home care, but in an effort to encourage enrollees

to stay in their own homes, payouts could cover such things as wheelchair ramps and wages for home health care aides.

Home care is much cheaper than nursing-home care, which averages about \$200 per day. Yet millions of Americans who need long-term care but can't afford to pay for it have to "spend down" all their assets, become poor enough to qualify for Medicaid and then move to nursing homes, which the program covers. (Medicaid coverage for home health services varies from state to state.) This does not come cheap for the government, which pays about 60% of all long-term-care costs in the U.S.; only about 5% of Americans currently have private long-term-care insurance. "Medicaid is invaluable," says Judy Feder, a health policy expert at Georgetown University and a senior fellow at the Center for American Progress. "But it's not insurance. It doesn't protect you from catastrophe. It takes care of you after catastrophe." ([See 10 health care reform ads.](#))

While everyone agrees that allowing elderly and disabled Americans to stay in their homes is better from a fiscal standpoint, certain details of the CLASS Act have made it an easy target for critics. Examining the merits of these criticisms provides a window to understanding both the complexity of health care reform and why it's so ripe for mischaracterization. For instance, to prevent people from purchasing long-term-care coverage when they are already in need, the CLASS Act requires that enrollees be employed and pay into the system for five years before becoming eligible to collect benefits. But because the CBO evaluates the costs of legislation — like the Senate reform bill — based on 10-year periods, the CLASS Act — which would begin collecting premiums in 2011 but wouldn't begin payouts until 2016 — appears to generate \$72.5 billion in savings between 2010 and 2019. On paper, these savings are used to offset spending in the bill, which even CLASS Act supporters admit has the appearance of budget gimmickry.

But opponents are just as guilty of fiscal shenanigans. It's true, as Thune pointed out, that the CBO says the CLASS Act will increase budget deficits in the long term, but that's only because of the peculiar way the deficit is calculated. Premiums collected would be invested in federal securities, and when the interest earned is transferred back to the CLASS Act trust fund, the transaction would be recorded as an increase in the deficit. The Senate bill also requires that the CLASS Act trust fund be solvent over a 75-year period, and the bill would give the secretary of Health and Human Services power to raise premiums and reduce benefits to keep it afloat. ([See the top 10 medical breakthroughs of 2009.](#))

Still, Republicans are not the only ones protesting the CLASS Act on the grounds that it won't work financially. In October, seven Democrats wrote to Senate majority leader Harry Reid urging him to exclude the CLASS Act — already included in the passed House health reform bill

— from the Senate's legislation, saying they had "grave concerns that [the CLASS Act would] create a new federal entitlement program with large, long-term spending increases that far exceed revenues." The chief actuary for the federal Centers for Medicare and Medicaid Services wrote that the CLASS Act provisions in the House bill "face a significant risk of failure."

These are damning statements, but here again, the devil is in the details. The CLASS Act in Reid's Senate bill is considerably stronger in fiscal terms, according to the American Academy of Actuaries (AAA), than the much criticized act as outlined in the House and HELP committee bills. "There have been quite a few changes in the right direction," says Steven Schoonveld, an actuary who wrote the original critical AAA report on the CLASS Act in the HELP bill.

One major change is in eligibility. The original CLASS Act would have allowed nonworking Americans to enroll in the long-term-care plan if their spouse worked, which could have led to "adverse selection," attracting people to the program who were too disabled to hold a job and therefore sure to file claims. Of course, excluding these people also means that spouses who stay at home just to care for their children (or for other reasons) are excluded from eligibility. The House bill also did not include the 75-year solvency requirement. ([See "The Year in Health 2009."](#))

There is still plenty of room for improvement, according to the AAA. The CLASS Act doesn't include sufficient funding to market the program, meaning participation will be low — the CBO says 5% of the population would sign up, the CMS actuary says 2.5%, and AAA says 6%. Such low participation would not allow risk to be spread out enough to keep premiums affordable; in that case, the program could end up in an "insurance death spiral," in which premiums are so high, only those who know they'll need coverage sign up, driving up premiums even further until they are unaffordable for everyone. And the premiums, which the CMS actuary has predicted would need to start at about \$180 per month, are not indexed to inflation — a structural flaw, according to AAA.

Paul Van de Water, a longtime CBO analyst and now senior fellow at the Center for Budget and Policy Priorities, says the CLASS Act doesn't have strong enough work requirements, which are intended to be a proxy for physical fitness. Americans who perform only seasonal work, for example, could qualify for the program. He adds that penalties for letting premium payments lapse are not strong enough. "The criticisms are absolutely true, but you design things the best you can. If we only did [legislation] that entailed no risk, I don't think we'd ever do much of anything."

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