A voluntary long-term care program for workers created under President Obama’s health care law has become the first major health care program to be shelved by the administration.

Health and Human Services Secretary Kathleen Sebelius sent a letter to Congress admitting her employees could not find a way to make the Community Living Assistance Services and Supports (CLASS) program work, despite concerted efforts.

“Our department has worked steadily to find a financially sustainable model for CLASS. Over the last 19 months, we’ve examined the long-term care market, modeled possible plan designs, and studied the CLASS statute, consulting at every step of the way with outside actuaries, insurers, and consumer groups,” Sebelius wrote. “When it became clear that most basic benefit plans wouldn’t work, we looked at other possibilities…. We cast as wide a net as possible in searching for a model that could succeed. But as a report our department is releasing today shows, we have not identified a way to make CLASS work at this time.”

Sebelius’ letter followed the resignation of the chief actuary of the program. HHS officials told Health Care News the department planned to closed the CLASS office and had already reassigned the program’s seven workers.

Kennedy’s Dream

CLASS was based in large part of the efforts of the late Sen. Ted Kennedy (D-MA), who had long dreamed about a federal long-term health care program for workers. Under his approach, workers would pay about $100 a month through their employers and receive insurance coverage promising cash benefits averaging no less than $50 a day. They would use this money to pay for home health care services or to help with nursing home bills.

From the beginning, critics such as Devon Herrick, a senior fellow with the Dallas-based National Center for Policy Analysis, noted CLASS was plagued by a major design flaw: Unless large numbers of healthy people voluntarily signed up, soaring premiums for a smaller number of frail beneficiaries would eventually bankrupt the program.

“As long as the program was voluntary, adverse selection would always be very high,” Herrick says. “To qualify for the benefit, a worker only had to stay at his job for three years while paying premiums. And according to the law, there is nothing to discourage workers from waiting to enroll until they begin to experience physical impairment.”
Herrick points out a worker paying as little as $7,500 in premiums over five years could receive benefits worth $25,000 per year.

“If the only people who sign up are those that pay the $7,500 in premiums in return for a $25,000 annual benefit, the program will crash in short order,” Herrick said.

No Path to Sustainability

The Obama administration simply could not find an actuarial justification for going forward with this program, says Avik Roy, a Heartland Institute health policy expert and an equity research analyst at Monness, Crespi, Hardt & Co.

“Secretary Sebelius said she would not implement the program unless it was self-sustaining and did not rely on taxpayer assistance,” Roy said. “And there was no way they could do it.”

Roy points out a passage slipped into the law by former Sen. Judd Gregg (R-NH) required HHS to produce an actuarial calculation which would demonstrate the entitlement could be sustainable for 75 years.

“There are so many special interest groups that were invested in CLASS. Shutting it down will alienate the base,” said Roy.

‘A Ponzi Scheme of the First Order’

According to Kathryn Nix, a health policy analyst at the Heritage Foundation, the program would have eventually fallen into a death spiral. She referred to a Congressional Budget Office (CBO) estimate that “the program would begin to increase budget deficits by amounts on the order of tens of billions of dollars for each 10-year period.”

“The way CLASS was structured had beneficiaries paying modest premiums for only a few years and receiving benefits many times larger than what they paid in. This ensured that the program would have required ever larger premiums and lower benefits in order to remain solvent,” Nix said.

The problem was so obvious that Sen. Kent Conrad (D-ND) called the CLASS Act “a Ponzi scheme of the first order, the kind of thing that Bernie Madoff would have been proud of.”

“There are only three results that could have occurred under this model: The program would run off the general revenue; the government would require all workers to enroll; or the government reduces the level of benefits,” explained Nix.

Medicaid Problems Cited

Howard Gleckman, a resident fellow at the Urban Institute and author of the book *Caring for Our Parents*, points out the largest single payer for long term care today is Medicaid, which covers roughly 45 percent of the nation’s patients.
“Conservatives oppose CLASS because it would create an entitlement for long term care, but that’s effectively what we already have. Even by scrapping CLASS, we’re still at the status quo,” says Gleckman.

While acknowledging there are about 10 million to 12 million people who require long-term care, a number expected to double in the next 10 years, Kendall Antekeier, a legislative specialist for The Heartland Institute, says real reform begins with empowering consumers.

“With Americans living longer, there’s a greater need for long-term care, but clearly CLASS is not the solution,” explains Antekeier. “Medicaid in its current structure does not incentivize patients to take financial accountability for medical services received, including long term care. If patients had a greater financial stake in their health care, paired with rolling back government mandates on insurers, they would be empowered to make better choices in a more open marketplace.”