

From: Jacobs, Chris (RPC)
Sent: Sunday, October 16, 2011 10:05 PM
To: Jacobs, Chris (RPC)
Subject: CLASS Act Report Summary: We. Told. You. So.

As previously reported, HHS released their report outlining the reasons for shelving the CLASS Act [Ponzi scheme](#) late Friday (aka “[Take Out the Trash Day](#).”) The report and appendices have been put online and can be found [here](#).

In reading through the report, there are NUMEROUS examples where HHS belatedly – and begrudgingly – admitted truths that others, *including non-partisan career staff within HHS*, had been asserting all along. A partial list of examples and quotes from the report is below. These developments however continue to raise obvious questions: Why did HHS waste two years, and millions of taxpayer dollars, to conclude what was [obvious to the Medicare actuary on Day One](#) – that the program was inherently unworkable? And who will be held to account for allowing this fiscal and bureaucratic disaster to happen in the first place?

| | What Others Said | What HHS Finally Admitted |
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| High and Unattractive Premiums | “\$100...seems to be the consensus threshold needed to get decent participation and avoid catastrophic adverse selection” (i.e., encourage healthy people to enroll). – HHS career official, in a November 27, 2009 internal e-mail | “The average premium...range[d] from \$235/month to \$391/month...” – Actuarial analysis, p. 22 |
| An “Insurance” Benefit Attractive Only to Individuals Likely to Make Claims | “You can get a [private] policy...with a higher benefit, better inflation protection, and lower premium [than CLASS]. I don’t see any reason why anyone would opt for CLASS if they could pass the underwriting. And if you couldn’t make it through underwriting, you could simply enroll in CLASS to cover some of your current or likely future [long-term care] costs. <i>Seems like a recipe for disaster to me...</i> ” – HHS career official, in an October 22, 2009 internal e-mail | “In the current private long-term care insurance market, most buyers choose products that provide...daily benefit amounts that are significantly higher than the \$50/day lifetime benefit...Moreover, premiums for products similar to the CLASS benefit, when they are sold to an underwritten population in the private market, would cost much less than the estimated premiums above.” – Actuarial analysis, p. 22 |
| Low Take-up by Healthy Individuals | “For the sake of illustration, suppose 10 million people qualify for benefits of \$50 per day...About 234 million people, paying premiums of \$65 per month, would be needed to cover this cost (ignoring | “Most discussion of this...plan suggested that the assumed take-up rates used to compute premiums could not be achieved and were not plausible.” – Actuarial analysis, p. 22 |

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| | administrative expenses). The size of the U.S. population aged 20 and over is about 225 million, and about 165 million of these are employed. This rough—but probably not unrealistic—example further calls into question” CLASS’ solvency. – Medicare actuary Rick Foster, in a May 19, 2009 internal e-mail | |
| HHS’ Lack of Authority to Fix the Program | “Republicans are pointing to a new Congressional Research Service (CRS) report that questions just how much power Sebelius has to make changes to the voluntary program. The CRS report said a court may find the sweeping healthcare reform law does not provide the HHS secretary with the authority” to fix CLASS. – The Hill , March 28, 2011 | “There is concern regarding the legal authority for some of the plan features expected to increase solvency, and the more of those features that are incorporated into the plan, the greater the legal risk.” – Memo introducing the report |
| Necessity of a Federal Bailout | “Thirty-six years of actuarial experience lead me to believe that this program would collapse in short order and require significant federal subsidies to continue.” – Medicare actuary Rick Foster, in a July 9, 2009 internal e-mail | If the program becomes insolvent, “an argument can be made that, insofar as the government contracts to provide individuals with benefits in exchange for premium payments, it may not unilaterally repeal the contract.” – Legal analysis, p. 45 |

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