



HEALTH CARE REFORM AND THE CLASS ACT

Summary

On March 23, 2010, the President signed the Patient Protection and Affordable Care Act into law.¹ The health reform law, as amended by the Health Care and Education Reconciliation Act of 2010,² establishes a national, voluntary insurance program for purchasing community living services and supports known as the Community Living Assistance Services and Supports program (CLASS Act). The CLASS program is designed to expand options for people who become functionally disabled and require long-term services and supports. The CLASS program is effective on January 1, 2011. The HHS Secretary is expected to define the CLASS benefit by October 2012 with enrollment to begin subsequently. This issue brief describes the major components of the CLASS program including eligibility, benefits, financing, and interaction with Medicaid.

Key elements of the CLASS program:

- **WHO CAN ENROLL IN CLASS?** Working adults will be able to make voluntary premium contributions either through payroll deductions through their employer or directly.
- **WHO IS ELIGIBLE FOR BENEFITS?** Adults with multiple functional limitations, or cognitive impairments, will be eligible for benefits if they have paid monthly premiums for at least five years and have been employed during three of those five years.
- **WHAT ARE THE BENEFITS?** Adults who meet eligibility criteria will receive a cash benefit that can be used to purchase non-medical services and supports necessary to maintain community residence; payments for institutional care are permitted. The amount of the cash benefit is based on the degree of impairment or disability, averaging no less than \$50 per day.
- **HOW IS THE PROGRAM FINANCED?** CLASS is financed by voluntary premium contributions paid by working adults, either through payroll deductions or direct contributions.
- **HOW DOES CLASS INTERACT WITH MEDICAID?** CLASS will generally be the primary payer for individuals who are also eligible for Medicaid.

The CLASS program gives working adults the opportunity to plan for future long-term care needs by providing a basic cash benefit to those who meet work requirements and have either functional or equivalent cognitive limitations. CLASS is designed to help individuals with functional and/or cognitive limitations remain in the community by purchasing non-medical services and supports such as home health care and adult day care. While the CLASS benefit is not designed to cover the entire costs associated with long-term care needs, it is structured to help offset the costs incurred by millions of adults with chronic and disabling conditions. CLASS has the potential to reduce reliance on Medicaid and provide relief for family caregivers. However, the payout of CLASS benefits will not take effect until 2017, leaving many current seniors and people with disabilities without affordable options to finance long-term care in the short-term. Going forward it will be important to monitor the affordability of premiums and the adequacy of benefits for CLASS enrollees as well as participation rates that will impact the solvency of the program.

Overview of the CLASS Program

The CLASS program will provide individuals with functional and cognitive limitations a cash benefit to purchase non-medical long-term services and supports. CLASS is a national, voluntary insurance program that offers working individuals some protection against the cost of paying for long-term services and supports. Individuals who pay into the program for at least five years (and work during at least three of those five years) and meet eligibility criteria will receive a daily cash benefit, for as long as they meet the eligibility criteria, to purchase services and supports necessary to remain independent and to maintain community residence. Examples of these services and supports can include home health care, adult day care, assistive technology, home modifications, personal assistance services, respite care, accessible transportation and homemaker services. Individuals who move into assisted living facilities or nursing homes can use CLASS benefits to offset the cost of those expenses. The CLASS benefit also includes voluntary counseling services for assistance in choosing care and care providers, and making decisions about accepting or rejecting care. The CLASS program is effective on January 1, 2011.

Financing and Administering CLASS

CLASS is financed through monthly premiums paid by voluntary payroll deductions or payments made directly from individuals. Adults who work for a participating employer will be automatically enrolled in the program, unless they choose to opt-out. Spouses of working adults must meet all requirements on their own. Self-employed people or those whose employers do not offer the CLASS program will be able to join CLASS through an alternative enrollment mechanism. Exceptions include institutionalized individuals. Premium payments will be placed in a "Life Independence Account" on behalf of each eligible beneficiary and federally administered by the Department of Health and Human Services (HHS) as a new insurance program. HHS and the Treasury Department will work together to establish procedures to determine enrollment and payment systems to ensure that an individual is not automatically enrolled in the CLASS program by more than one employer.

CLASS benefits will be paid out of a trust fund consisting of enrollees' premiums and interest earned on accumulated fund balances. The law explicitly states that no taxpayer funds can be used for payment of benefits. This program is solely financed by premiums paid by individual enrollees. Monthly premium amounts will be determined by the HHS Secretary with respect to maintaining 75 year program solvency. Younger participants will pay less than older participants. Those with incomes below the federal poverty level and full-time students who are actively employed will pay nominal premiums, starting at \$5 per month.

Eligibility for CLASS Benefits

Eligibility for CLASS benefits is limited to adults with functional limitations, and adults with equivalent cognitive impairments, as defined by the Secretary, who have paid monthly premiums to the program for at least five years and have worked during at least three of those five years. Eligibility for benefits will be determined by yet unspecified organizations and will be limited to individuals who are unable to perform two or more ADLs (e.g. eating, toileting, bathing, dressing, transferring), or individuals who have an equivalent cognitive disability that requires supervision or hands-on assistance to perform those activities (e.g. traumatic brain injury, Alzheimer's disease, multiple sclerosis, mental retardation). People receive benefits when they present a functional limitation of this type that is expected to last for a continuous period of more than 90 days, as certified by a licensed health care practitioner.

CLASS Benefits

Benefits will vary based on degree of disability or impairment averaging no less than \$50 per day. The HHS Secretary will set the benefit amount based on the degree of impairment, which according to the Congressional Budget Office, is expected to average roughly \$75 per day or more than \$27,000 per year.³ The law calls for a scale

of functional ability based on no less than two, and not more than six, benefit level amounts. No underwriting based on pre-existing conditions can be used to prevent an individual from enrolling in CLASS or to determine monthly premiums. The benefit may be paid on a daily or weekly basis. The cash benefit will be posted to a debit account available for withdrawals. Individuals who do not use the full monthly amount may roll it over from month to month, but not year to year. The benefit is not subject to any lifetime or aggregate limit. Once an individual becomes ineligible for CLASS benefits (by improvement in functional status or death), CLASS benefits end. Any balance of available services remaining on an individual's account will not be payable.

Impact of CLASS on Medicaid

CLASS will work in conjunction with other long-term services and support programs such as Medicaid. Eligibility for CLASS program benefits will have no effect on eligibility for Medicaid, Medicare, Social Security retirement, survivors, or disability benefits or Supplemental Security Income (SSI) benefits. If an individual is eligible for both CLASS program benefits and long-term services and supports under Medicaid, CLASS benefits will be used to offset the costs of Medicaid. For example, a Medicaid beneficiary who resides in an institution will be able to keep five percent of the daily or weekly cash benefit amount. That amount will be added to their personal needs allowance with the remainder of the benefit being applied to the facility's cost of providing their care. Medicaid beneficiaries who receive PACE or home and community-based services, will retain 50 percent of their daily or weekly cash benefit with the remainder of the benefit going toward the costs to the state of providing such assistance. A state can only receive the remaining 50 percent of CLASS benefits for home and community-based services if the provision of these services through a waiver or state plan amendment does not include a waiver of statewideness or comparability and offers at a minimum, case management services, personal care services, habilitation services, and respite care.

Policy Implications

Over 10 million Americans need long-term services and supports to assist them in life's daily activities and that number is expected to grow with the aging of the population and growing number of people with disabilities.⁴ With the creation of the CLASS program, working adults will be given the opportunity to plan for future long-term care needs. By providing a basic cash benefit to those who meet work and functional limitation requirements, CLASS enrollees will be able to purchase non-medical services and supports such as home health care or adult day care. The CLASS program is not designed to replace the need for basic health insurance or for long-term care coverage through Medicaid or private long-term care insurance, rather it will supplement this coverage by providing a mechanism to pay for non-medical expenses that allow a person with a disability to remain independent. Individuals who wish to purchase more comprehensive long-term services and supports coverage can continue to do so through the private insurance market. Individuals who are low-income, or become low-income as a result of their medical expenses or other factors, will still qualify for Medicaid long-term services and supports.

The CBO estimates that the CLASS Act will reduce the federal deficit by \$70.2 billion over the course of a ten year period.⁵ These estimates are based on an average monthly premium of \$123 and a cash daily benefit of \$75 for life, with no underwriting.⁶ The CBO also estimates a reduction in Medicaid spending over 10 years because more individuals would be served in community-based settings than in institutional settings and some individuals who receive CLASS benefits would avoid qualifying for Medicaid. The estimated reduction in the federal budget deficit over the 10 year period is the result of the five-year vesting requirement – requiring individuals to contribute premiums for a minimum of five years before they can begin to collect benefits.

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CLASS benefits will not take effect until 2017, leaving many current seniors and people with disabilities without affordable options to finance long-term care in the short-term. The HHS Secretary is expected to define the CLASS benefit by October 2012 with enrollment to begin subsequently. Going forward it will be important to monitor the affordability of premiums and the adequacy of benefits for CLASS enrollees as well as participation rates that will impact the solvency of the program.

¹ http://docs.house.gov/rules/hr4872/111_hr3590_engrossed.pdf

² http://docs.house.gov/rules/hr4872/111_hr4872_amndsub.pdf

³ <http://dpc.senate.gov/healthreformbill/healthbill71.pdf>

⁴ Health Policy Institute, Georgetown University, analysis of data from the 2005 National Interview Survey and the 2004 National Nursing Home Survey.

⁵ Congressional Budget Office, March 20, 2010,

<http://www.cbo.gov/ftpdocs/113xx/doc11379/Manager%27sAmendmenttoReconciliationProposal.pdf>

⁶ Kaiser Commission on Medicaid and the Uninsured, The Community Living Assistance Services and Supports (CLASS) Act, October 2009. <http://www.kff.org/healthreform/7996.cfm>



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