

A REPORT ON THE ACTUARIAL, MARKETING, AND LEGAL ANALYSES OF THE CLASS PROGRAM

APPENDIX P:

JUNE 22, 2011 TECHNICAL EXPERTS MEETING

Pa: AGENDA AND DISCUSSION ISSUES AND QUESTIONS

**Pb: PRESENTATION ENTITLED “CORE ASSUMPTIONS AND
MODEL OUTPUTS”**

**Pc: PRESENTATION ENTITLED “ACTUARIAL RESEARCH CORPORATION’S
LONG TERM CARE INSURANCE MODEL”**

**Pd: PRESENTATION ENTITLED “THE AVALERE LONG-TERM CARE
POLICY SIMULATOR MODEL”**

**Pe: PRESENTATION ENTITLED “ALTERNATIVE APPROACHES TO CLASS
BENEFIT DESIGN: THE CLASS PARTNERSHIP”**

APPENDIX Pa:

AGENDA AND DISCUSSION ISSUES AND QUESTIONS

Technical Expert Panel Meeting
on
Actuarial Modeling of the Community Living
Assistance Services and Supports (CLASS) Program
Agenda

June 22, 2011
9:00 am – 3:30 pm

Hubert H. Humphrey Building, Room 705A
200 Independence Avenue, SW
Washington, DC 20201

Contact: Marie Belt or Goldwyn Smith at (202) 690-6443

- | | |
|----------------------|--|
| 9:00 – 9:15 | Welcome and Introductions

Ruth Katz
Acting Deputy Assistant Secretary for Disability, Aging, and Long-Term Care Policy

Kathy Greenlee
Assistant Secretary for Aging |
| 9:15 – 9:45 | Overview of CLASS and Major Modeling Issues

William Marton
Director, Division of Disability and Aging Policy

Bob Yee
Actuary, CLASS Program Office |
| 9:45 – 10:15 | Actuarial Research Corporation (ARC) CLASS Model

John Wilkin
Senior Actuary, ARC |
| 10:15 – 10:45 | Questions and Comments on the ARC CLASS Model |
| 10:45 – 11:00 | Break |

11:00 – 11:30 **Avalere Long-Term Care Policy Simulator (LTC-PS)**

Anne Tumlinson

Senior Vice President, Avalere Health

Eric Hammelman

Director, Avalere Health

11:30 – 12:00 **Questions and Comments on the Avalere LTC-PS**

12:00 – 12:45 **Lunch**

12:45 – 2:00 **Review and Discussion of Core Assumptions and Model Output**

John Wilkin

Senior Actuary, ARC

Eric Hammelman

Director, Avalere Health

2:00 – 2:15 **Break**

2:15 – 3:30 **Presentation and Discussion of Alternative Approaches**

William Marton

Director, Division of Disability and Aging Policy

Bob Yee

Actuary, CLASS Program Office

3:30 **Adjourn**

Issues and Questions to Discuss at the June 22nd TEP Meeting

Thank you for your participation on the Technical Expert Panel on Actuarial Modeling of the Community Living Assistance Services and Supports (CLASS) Program. The agenda for the meeting is organized around addressing six major questions (below) and our efforts to develop estimates of premiums, participation and other important aspects of the CLASS program. Please review the questions and materials prior to the meeting. After the meeting, we would very much appreciate it if you could provide follow up comments or thoughts within a week so that we can incorporate them into our future modeling efforts.

1. Who is likely to enroll in the CLASS program?

- a. Do you think that the models' approach to adverse selection is reasonable?
- b. Can you suggest approaches to validate the models with regards to their treatment of adverse selection?
- c. What alternative approaches would you recommend?

2. What is the future long-term care utilization of enrollees likely to be?

- a. Do you think that the approach for estimating future claim costs is reasonable?
- b. What are the strengths and weaknesses of the survey data that are the basis for estimating future claim costs?
- c. What other data could be used to model future claims?

3. Are other key assumptions reasonable?

- a. Are the interest rate assumptions reasonable (e.g., 4.7%, 5.7%, 6.7% average annual rate of return)?
- b. Are the annual voluntary lapse assumptions reasonable (e.g., .5%, .75%, 1% per year)?
- c. How should the progression of disability among workers be modeled during their working years and beyond?
- d. Are the assumptions of morbidity improvement reasonable (.25%, .5%, .75% per year for 20 years; 0% thereafter)?
- e. Are the mortality improvement assumptions reasonable (e.g., 1.31%, .78%, .32% per year)?

4. What level of participation should we expect?

- a. What are reasonable lower and upper bounds to participation? What do you think is the best point estimate of participation?
- b. Do you think the models reasonably reflect the dynamic between participation and adverse selection?
- c. How should we model the interaction between program demand and premium levels?

- 5. What alternative designs would put the program on stronger financial footing?**
 - a. Other than underwriting and mandatory enrollment, what features would you suggest to mitigate adverse selection?
 - b. What aspects of the program should be changed to maximize participation?

- 6. Other than specific changes to the benefit plan, what strategies should we pursue to mitigate program risk?**

Summary of CLASS

Program Features	CLASS Benefit in Statute
Enrollment Requirements:	
- Age 18+	Yes
- Taxable Wages/Income	Yes
- Actively Employed	Yes
- Not in Institution	Yes
Coverage/Benefits:	
- Primary Benefit	Cash
- Daily Benefit Amount (DBA)	\$50 (Average)
- Unit of Payment	Daily or Weekly
- Minimum Duration in Years	NA - Lifetime
- Total Value	TBD
- Inflation Protection	CPI-U
- Advocacy Services	Yes
- Advice and Asst. Counseling	Yes
Eligibility for Benefits:	
- 5 Year Vesting Period	Yes
- Work Req. Over Vesting Period	At Least 3 Years
- Earnings Req. Over Vesting Period	\$1,120/Year
- 24 Months of Prior Prem. Payment	Yes
- Minimum Benefit Trigger	2 or 3 of 6 ADLs ¹
- Tiered Benefit	Yes
- Elimination Period in Days	0
- Presumptive Eligibility	Yes - if in Inst. ²
- Administrative Expenses	3%
Monthly Premium:	
- Underwritten (Other Than Age)	No
- Indexed to Inflation	No
- Low Income Premium	Yes
- Full Time Student Premium	Yes
- Waiver of Premium	TBD
- Level Premium	After Age 65 ³
- Return of Premium	TBD

CLASS: Issues for Discussion

1. Who is likely to enroll in the CLASS program?

- Modeling adverse selection/antiselection
- Data limitations

2. What is the future long-term care utilization of enrollees likely to be?

- Modeling future claim costs
- Data limitations

3. Are other key assumptions reasonable?

- Return on Investment (4.7%, 5.7%, 6.7% average annual rate of return)
- Lapsation (.5%, .75%, 1% per year)
- Morbidity Improvement (.25%, .5%, .75% per year for 20 years; 0% thereafter)
- Mortality Improvement (1.31%, .78%, .32% per year)

CLASS: Issues for Discussion

4. What level of participation should we expect?

- Range of 1% to 4%
- Premium-demand interaction

5. What alternative program designs would put the program on stronger financial footing?

- Minor changes (e.g., higher earnings requirements, indexed premiums, etc.)
- Major changes (e.g., “family of options”; phased enrollment)

6. What strategies should we pursue to mitigate program risk?

- Waiver of premium
- Cross-subsidization
- Other strategies?

Summary of CLASS Plans

Program Features	CLASS Benefit in Statute	Modified
Enrollment Requirements:		
- Age 18+	Yes	Yes
- Taxable Wages/Income	Yes	Yes
- Actively Employed	Yes	Yes
- Not in Institution	Yes	Yes
Coverage/Benefits:		
- Primary Benefit	Cash	Cash
- Daily Benefit Amount (DBA)	\$50 (Average)	\$50 (Average)
- Unit of Payment	Daily or Weekly	Daily or Weekly
- Minimum Duration in Years	NA - Lifetime	NA - Lifetime
- Total Value	TBD	TBD
- Inflation Protection	CPI-U	CPI (2.8%)
- Advocacy Services	Yes	Yes
- Advice and Asst. Counseling	Yes	Yes
Eligibility for Benefits:		
- 5 Year Vesting Period	Yes	Yes
- Work Req. Over Vesting Period	At Least 3 Years	5 Years (or 40 Qs) ¹
- Earnings Req. Over Vesting Period	\$1,120/Year	\$12,000/Year
- 24 Months of Prior Prem. Payment	Yes	Yes
- Minimum Benefit Trigger	2 or 3 of 6 ADLs ²	TBD
- Tiered Benefit	Yes	Yes
- Elimination Period in Days	0	0
- Presumptive Eligibility	Yes - if in Inst. ³	Yes - if in Inst. ³
- Administrative Expenses	3%	3%
Monthly Premium:		
- Underwritten (Other Than Age)	No	No
- Indexed to Inflation	No	Yes (2.8%)
- Low Income Premium	Yes	Yes
- Full Time Student Premium	Yes	Yes
- Waiver of Premium	TBD	TBD
- Level Premium	After Age 65 ⁴	After Age 65 ⁴
- Return of Premium	TBD	TBD

APPENDIX Pb:

**PRESENTATION ENTITLED “CORE ASSUMPTIONS
AND MODEL OUTPUTS”**

Core Assumptions and Model Outputs

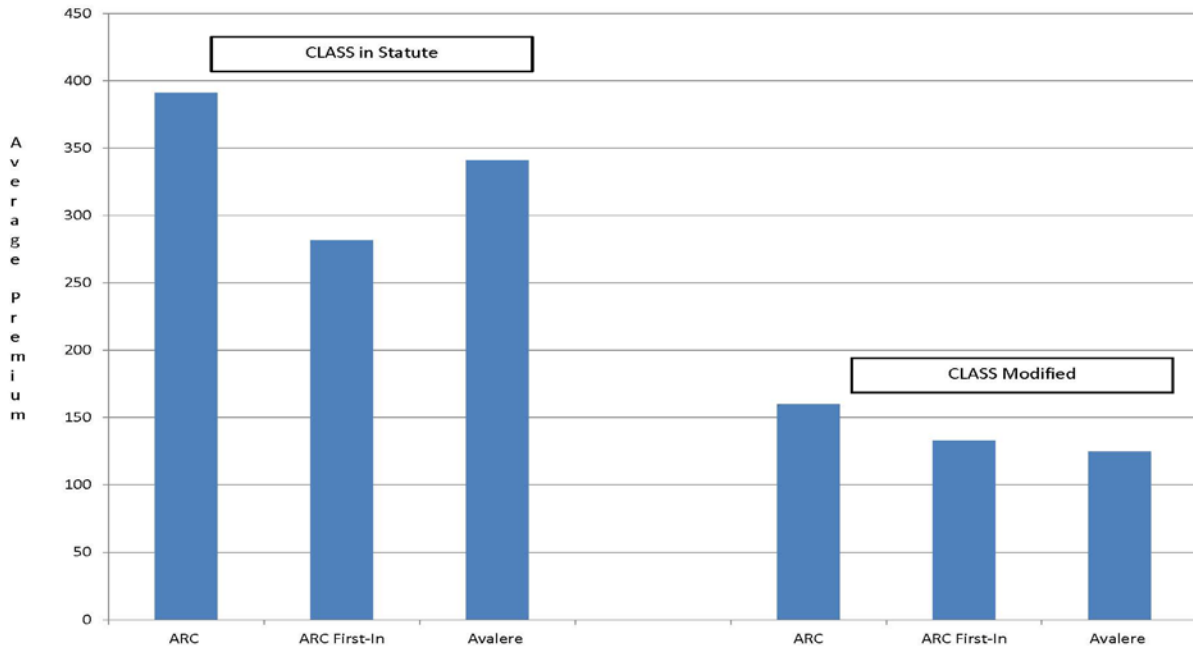
John Wilkin, ARC

Eric Hammelman, Avalere Health

	CLASS Benefit in Statute	Modified CLASS
Enrollment Requirements		
Age 18+	Yes	Yes
Taxable Wages/Income	Yes	Yes
Actively Employed	Yes	Yes
Not in Institution	Yes	Yes
Coverage/Benefits		
Primary Benefit	Cash	Cash
Daily Benefit Amount	\$50 (Average)	\$50 (Average)
Unit of Payment	Daily or Weekly	Daily or Weekly
Minimum Duration in Years	NA-Lifetime	NA-Lifetime
Total Value	TBD	TBD
Inflation Protection	CPI-U	CPI-U
Advocacy Services	Yes	Yes
Advice and Asst. Counseling	Yes	Yes
Eligibility for Benefits		
5 Year Vesting Period	Yes	Yes
Work Req. Over Vesting Period	At Least 3 Years	5 Years (or 40 Qs)
Earnings Req. Over Vesting Period	\$1,120/Year	\$12,000/Year
24 Months of Prior Prem. Payment	Yes	Yes
Minimum Benefit Trigger	2 or 3 of 6 ADLs	TBD
Tiered Benefit	Yes	Yes
Elimination Period in Days	0	0
Presumptive Eligibility	Yes - if in Inst.	Yes - if in Inst.
Administrative Expenses	3%	3%
Monthly Premium		
Underwritten (Other than Age)	No	No
Indexed to Inflation	No	Yes (2.8%)
Low Income Premium	Yes	Yes
Full Time Student Premium	Yes	Yes
Waiver of Premium	TBD	TBD
Level Premium	After Age 65	After Age 65
Return of Premium	TBD	TBD

Modified CLASS changes these three options

**Average Premium for CLASS in Statute vs. CLASS Modified
with Full Waiver of Premium, 2+ADL trigger, and 2% Participation**



CLASS Modeling Assumptions: 3 Scenarios

Scenario	I Worse than Expected	II Expected	III Better than Expected	Description
Antiselection: ARC	0.85	0.70	0.55	Dampening factor: 1=perfect antiselection
Antiselection: Avalere	0.85	0.70	0.60	
Relative Claim Costs	1.2	1.1	1.0	Increased incidence from survey data
Return on Investment	4.70%	5.70%	6.70%	Average annual rate of return
Lapsation	0.50%	0.75%	1.00%	Percentage lapse per year
Morbidity Improvement	0.25%	0.50%	0.75%	Annual percentage improvement for first 20 years; 0% thereafter
Mortality Improvement	1.31%	0.78%	0.32%	Annual percentage improvement over the 75 year period
Participation	1%	2%	4%	

