APPENDIX Nd:

Presentation Entitled
“Comments on ‘The Long-Term Care Policy Simulator Model’”
Comments on

“The Long-Term Care Policy Simulator Model”

Richard W. Johnson
Urban Institute

CLASS Act Models Meeting
September 22, 2010
What Does Avalere LTC Policy Simulator Model Say About CLASS?

• Plan parameters
  – only workers may participate
  – 5-year vesting
  – $50/day lifetime cash benefit
  – No elimination period
  – those in poverty pay zero premiums
  – premiums cover all costs

• Model output
  – participation rate = 15% (approx)
  – avg monthly premiums = $116 (in 2010)
Generic Model Structure

- Establish pool of eligible participants
- Set benefits and premium schedule
- Identify those who choose to enroll
- Model their receipt of benefits
- Check that premiums cover costs
- Iterate
Avalere Developed a Cell-Based Model

- Start with SSA population forecasts
- Use 2007 ACS data to compute number of workers by age
- Assign enrollment rate based on benefits that plan provides
  - more generous plan reduces participation (because it raises premiums)
- Estimate benefits received by enrollees
  - attempt to account for adverse selection
- Set premiums to cover benefit payments
Participation Rates Seem Somewhat Arbitrary

• Assign points based on plan parameters
• Assume participation rates increase with number of points
• More generous plans get fewer points, because they charge higher premiums
  – exception: low-income subsidy
• Participation rates range from 5% to 35%
  – where do these rates come from?
• Implicit assumption is that enrollees minimize cost, not maximize utility
Participation Rates Increase with Age

- Increase participation rates by 2% per year above age 50 (not pct. points)
- Decrease participation rates by 1% for each year below age 50
- Example
  - age 30: 16%  age 50: 20%
  - age 65: 26%  age 90: 36%
- Should participation rates in CLASS increase in retirement?
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<tr>
<td>Cash benefit</td>
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<td>Length of benefit</td>
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<td>Waiting period</td>
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<tr>
<td>Eligibility</td>
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<td>workers</td>
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<td>Subsidy level</td>
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<td>100% pl</td>
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<td>Funded by govt</td>
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<td>25%</td>
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<tr>
<td>Participation rate</td>
<td>5%</td>
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Adverse Selection

• Economists assume that people who will use more services will be more likely to purchase coverage
  – assumes policyholders have private knowledge of their disability risk
  – problem is likely to be especially severe in program that does not underwrite risk

• Model assumes that those with “perfect knowledge” that they will need LTC risk enroll
  – in the long-run (10 years after program inception) assume that 25% of population has perfect knowledge
  – in short-run, assume 75% has perfect knowledge
Model Limitations

- No role for income in the enrollment decision
- Does not account for heterogeneity in the population
  - income and disability are correlated
- Does not account for population changes over time (other than age)
  - i.e., income growth
- How will automatic enrollment affect enrollment?
Dynamic Microsimulation Modeling Is an Alternative to the Cell-Based Approach

- Start with a nationally representative sample of the population
- Age population year by year
- Estimate equations of disability onset and duration
- Estimate equations of program enrollment
- Feedback to check that premiums cover benefit payouts
Relative Merits of Cell-Based vs. Dynamic Microsimulation Approaches

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Summary

• The Avalere LTC model carefully simulates plan participation and costs
  – may be best option currently available to model CLASS

• But it relies heavily on assumptions that have not been thoroughly tested

• Alternative approaches would be expensive to develop
A REPORT ON THE ACTUARIAL, MARKETING, AND LEGAL ANALYSES OF THE CLASS PROGRAM

For additional information, you may visit the DALTCP home page at http://aspe.hhs.gov/_/office_specific/daltcp.cfm or contact the office at HHS/ASPE/DALTCP, Room 424E, H.H. Humphrey Building, 200 Independence Avenue, SW, Washington, DC 20201. The e-mail address is: webmaster.DALTCP@hhs.gov.

Files Available for This Report

[HTML versions of Appendices will be added as they are formatted]

Main Report [48 PDF pages]

APPENDIX A: Key Provisions of Title VIII of the ACA, Which Establishes the CLASS Program [6 PDF pages]
http://aspe.hhs.gov/daltcp/reports/2011/class/appA.htm

APPENDIX B: HHS Letters to Congress About Intent to Create Independent CLASS Office [11 PDF pages]
http://aspe.hhs.gov/daltcp/reports/2011/class/appB.htm

APPENDIX C: Federal Register Announcement Establishing CLASS Office [2 PDF pages]
http://aspe.hhs.gov/daltcp/reports/2011/class/appC.htm

APPENDIX D: CLASS Office Organizational Chart [2 PDF pages]

APPENDIX E: CLASS Process Flow Chart [2 PDF pages]

APPENDIX F: Federal Register Announcement for CLASS Independence Advisory Council [3 PDF pages]
http://aspe.hhs.gov/daltcp/reports/2011/class/appF.htm

APPENDIX G: Personal Care Attendants Workforce Advisory Panel and List of Members [6 PDF pages]
Full Appendix
http://aspe.hhs.gov/daltcp/reports/2011/class/appG.htm

Ga: Federal Register Announcement for Personal Care Attendants Workforce Advisory Panel

Gb: Advisory Panel List of Members
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APPENDIX P:  June 22, 2011 Technical Experts Meeting
Full Appendix
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 Q:  Table 2: Actuarial and Demographic Assumptions

APPENDIX R:  Figure 1: Daily Benefit Amount for Increased Benefit