

# THE CONCORD COALITION



1011 Arlington Blvd • Suite 300 • Arlington, VA 22209  
703-894-6222 / (Fax) 703-894-6231 / [concordcoalition.org](http://concordcoalition.org)

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**CONTACT:** Jeffrey Thiebert (703) 894-6222  
[jthiebert@concordcoalition.org](mailto:jthiebert@concordcoalition.org)

## **CONCORD COALITION WARNS THAT NEW ENTITLEMENT IS NOT A VALID HEALTH CARE REFORM OFFSET**

**WASHINGTON** – As House and Senate leaders negotiate the final details of their respective health care reforms bills, The Concord Coalition warned today that one provision under consideration, the Community Living Assistance Services and Supports (CLASS) Act, is structurally unsound and fiscally irresponsible. Moreover, the long-term cost of this new entitlement, which could be substantial, is hidden by the fact that it appears to produce a short-term windfall.

“The CLASS Act is a well-intentioned effort to create a voluntary public insurance program for community living assistance and long-term care benefits. However, as currently structured, premiums would likely be either too high to attract a sufficient risk pool or not high enough to pay for the program on a sustainable basis. This sets up a classic ‘death spiral’ of adverse selection, as necessary premium increases would make the program even less attractive for younger, healthier workers. As more people drop out, premiums would have to go even higher. There is a clear danger that large infusions of general revenues would ultimately be used to keep the program going. With health care spending already on an unsustainable track, the last thing Congress should do is create a new entitlement that would put further strain on the budget,” said Concord Coalition Executive Director Robert Bixby.

The Concord Coalition said that despite warnings about the long-term stability and fiscal consequences of the CLASS Act, congressional leaders will be tempted to include it in their health care reform legislation because it ‘scores’ as an offset to new spending over the next 10 years. This is the result of dubious pre-funding through a new government trust fund that would collect premiums for the first five years before any benefits were paid. In one estimate, the Congressional Budget Office (CBO) projected that the CLASS Act would generate an excess cash flow of \$57 billion through 2019.<sup>1</sup> On paper, this sum would count as an offset against other provisions of health care reform. However, this money is not a savings. It represents premiums that would be needed to pay benefits once the five-year vesting period ends.

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<sup>1</sup> CBO, Letter to Senator Kay Hagan from Director Douglas Elmendorf, July 6, 2009.

Once benefit payments begin in 2016 the annual cash surplus would rapidly dwindle. The CBO cautioned that, “Beyond the 10-year window, the effects of the program could be quite different and CBO expects that the HHS Secretary would need to reduce benefit payments and increase premiums to maintain the program’s solvency.”<sup>2</sup>

CBO further observed, “If premiums and benefits were set in subsequent years so as to draw down some of that accumulated [trust fund] balance, the program’s outlays after 2019 would exceed its premium income.”<sup>3</sup>

In other words, it would become a net drain on the budget.

“It would be the height of budget gimmickry to use a new health care entitlement to ‘offset’ new spending on health care subsidies. This kind of short-term thinking and sleight of hand is what got us into the fiscal hole we’re in. Creating yet another federal trust fund with phantom pre-funding is not the way to get us out of that hole,” Bixby said.

Two versions of the CLASS Act are contained in pending health care legislation. The House version, included in the Energy and Commerce Committee’s health care bill, authorizes creation of the program and leaves it up to the Secretary of Health and Human Services (HHS) to set premium and benefit levels. The Senate version, included in the Health, Education, Labor, and Pensions Committee’s bill (Section 191 of S. 1679) requires a minimum average daily benefit of \$50. It would guarantee coverage without exclusion for pre-existing conditions and allow enrollees to opt in and out of the program. Benefits would begin after a five-year vesting period.

Both bills require the program be actuarially sound. Yet, despite this requirement the American Academy of Actuaries (AAA) concluded in a July 2009 analysis of the Senate’s version that: “the proposed structure and premium requirements within the CLASS Act plan are not sustainable. Due to its design and the high level of required premiums, the program is unlikely to cover more than a very small proportion of the intended population or achieve its goal of broad participation.”<sup>4</sup>

In Concord’s view, the dramatic increase in projected premiums for the program over the past several months indicate great uncertainty as to the program’s stability and sustainability — regardless of any formal requirement to be actuarially sound.

The Senate bill introduced in March 2009 set the first year monthly premium at \$30. A later version more than doubled the premium to \$65. The current version does not set a specific premium, however, the AAA concluded that an actuarially appropriate premium for the CLASS Act — now required — would range from \$125 to \$160. The CBO has reached a similar conclusion, stating “to be actuarially sound CBO believes that

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<sup>2</sup> Ibid. p.2.

<sup>3</sup> Ibid. p.3.

<sup>4</sup> American Academy of Actuaries, Letter to the Senate Committee on Health, Education, Labor and Pensions, July 22, 2009, p.12.

premiums would have to exceed the average dollar amount of \$65 (adjusted annually for inflation) set by the legislation by \$35 to \$45.”<sup>5</sup>

The AAA observed that if the premium “is set at the actuarially appropriate level, it would be difficult to enroll enough healthier and unsubsidized lives to keep the program sustainable.”<sup>6</sup>

“The CLASS Act should not be slipped into a major health care reform bill with such scant attention paid to its basic structural flaws and potential fiscal consequences. Moreover, the thought that premiums for a costly new entitlement program could be used to satisfy a short-term deficit-neutrality goal is an outrage. Congress should not create another phony lock box to cover up its unwillingness to enact more legitimate offsets,” Bixby said.

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The Concord Coalition is a nonpartisan, grassroots organization dedicated to balanced federal budgets and generationally responsible fiscal policy. Former U.S. Senators Warren B. Rudman (R-NH) and Bob Kerrey (D-NE) serve as Concord's co-chairs and former Secretary of Commerce Peter G. Peterson serves as president.

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<sup>5</sup> Congressional Budget Office, Preliminary Estimate of Effect on Direct Spending of Section 191 of the Affordable Choices Act, as introduced on June 6, 2009.

<sup>6</sup> American Academy of Actuaries, Letter to the Senate Committee on Health, Education, Labor and Pensions, July 22, 2009, p.12.