

WHEN CLASS COMES TO ORDER

Employers Face Challenges with Federally-Sponsored New LTC Program

Imagine that you are the CEO of a company with 1,500 employees. Along with the daily challenges of managing a successful business, you also now have myriad new health benefit obligations under Health Care Reform. Some may not require any change on your part — e.g., you already offer health coverage sufficient to meet the requirements of the legislation.

But what about the CLASS Act?

While of vital importance to the long-term care (LTC) and disability community — the CLASS Act (see side box) is one of the often overlooked provisions of the massive Patient Protection and Affordable Care Act (PPACA).

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Employer Response

How will employers respond? To date, with many new health care reform requirements impacting employers, CLASS has gotten little attention. The primary groups representing employers — the National Business Group on Health, American Benefits Council, and the Society for Human Resource Management (SHRM), among others — have neither articulated a *policy position* nor developed an *action plan* with regard to CLASS. Most employer-focused analyses of health care reform

provide but a sentence or two on CLASS — in fact, the American Benefits Council’s “Health Care Reform: Employer Responsibilities” presentation to its members doesn’t even mention CLASS.

The employer-sponsored long-term care insurance (LTCI) market is a critical one for the industry. It has historically been the market segment with the most aggressive growth, even sometimes during periods of flat growth and sales declines for the industry overall. Despite this consistent growth, the market segment remains small — accounting for just under 30 percent of the roughly 7 million policies in force today. Therefore, it is unknown to what extent employers will embrace this program and establish a payroll deduction mechanism to support it. Given the vast array of new requirements facing employers as part of general health care reform, and a questionable economic recovery, employers may be reluctant to take on any new obligations.

While large employers were the initial adopters of LTCI as a voluntary workplace benefit, the offer of LTCI at the workplace today has of late grown more rapidly among small and midsize firms. Although that opens up a broader employer population base through which to offer CLASS, it comes with challenges. Small and midsize employers may be less willing to take on voluntary

ABOUT CLASS

The Community Living Assistance Services and Supports Act (CLASS Act) establishes a new federally-sponsored long-term care insurance (LTCI) program to begin sometime after October 1, 2012, at which time many of the critical program details will have been specified by the Secretary of the Department of Health and Human Services. CLASS will be funded entirely with premiums paid by individuals who enroll, not tax dollars. It will be offered, without underwriting, both directly to individuals who satisfy a minimal “at work” definition and through participating employers.

When employers agree to offer CLASS, they are required to offer payroll deduction for the voluntary benefit and — unlike other optional benefits — they must automatically enroll all employees in the program and then provide a voluntary “opt-out” for those who wish to do so.

benefits or, if they do offer them, to take an active role in promoting them. By definition, small and midsize employers do not offer CLASS as large an enrollment base as would be desired. This could exacerbate existing concerns about the potential for adverse selection within CLASS if the primary “take up” is a low penetration rate within mostly small and midsize employers.

Employers who offer the CLASS program also must con-

front the logistics of establishing an additional entry for payroll deduction and then automatically enrolling employees (as required) — and then dis-enrolling them as they elect to opt out. Given the expected high monthly premium for older employees, the lack of salience of LTCI for younger employees, and penetration rates for voluntary LTCI historically in the single digits, it is likely that a significant number of employees will opt out. Participation is expected to be small — estimates vary, but indeed the CLASS program itself assumes a roughly 3 percent participation rate across all employees.

The World of Voluntary Benefits and LTCI

For some hint of how CLASS might fare in the employer market, it is helpful to look at trends in voluntary benefits, in general, and for LTCI, specifically. As LIMRA’s 2007 *Voluntary Benefits Report Card* notes, as of 2006, just over half (53 percent) of employers offered voluntary benefits. This is the employer base that is better suited to offering CLASS, given that they currently offer other voluntary benefits and have the payroll deduction mechanisms for doing so already established. This figure, however, represents a decline in the percentage of employers offering voluntary benefits, which — according to LIMRA’s 2010 *Shifting Paradigms: Examining*

Employee Benefits in the Midst of Economic Uncertainty study findings — was 64 percent in 2002. Data from the same study for December 2008/January 2009 shows that an overwhelming share of employers (89 percent) do not plan to add any voluntary benefits within the next year. Of those planning to add a voluntary benefit, only 9 percent say they are considering adding LTCI — amounting to less than 1 percent of *all* employers.

While health care reform may inspire employers to think twice before eliminating health benefits (cited in LIMRA research by 22 percent of employers as the benefit they would eliminate in the coming year), those employers looking to slim down on voluntary benefits may well consider foregoing LTCI. The fact that it is overwhelmingly offered as employee-pay-all may help persuade some employers to maintain the benefit where cost is the driving factor. LIMRA reports that other at-risk voluntary benefits — with 20 percent or more of employers saying they plan to eliminate them — are life insurance, medical insurance, and short-term disability.

While employer awareness of LTCI as a voluntary benefit is high — 87 percent in 2006 (as reported in LIMRA's 2007 *Voluntary Benefits Report Card*) — even today only 15 percent of all employers offer it. Given that awareness is strong but few employers currently offer LTCI, it is important to understand the factors that motivate them to offer the coverage and the barriers they face in adding LTCI as a voluntary benefit.

Employers that have considered LTCI — but do not offer it — cite a variety of reasons: lack of employee interest, concern over the administrative cost, and complexity of making the offer, among other factors. Findings from the “Small Business Market, Big Growth Opportunity?” study presented at the Tenth Intercompany Long Term Care Insurance Conference in March 2010 found that 40 percent of employers believe that the



administrative time and effort needed to support the benefit is similar to that of long-term disability insurance — putting it just below health insurance or a 401(k) plan, but rating it as more complex than offering group life insurance.

What Must Be Done If CLASS Is to Succeed?

To succeed in penetrating the employer-sponsored market, the entities responsible for implementing CLASS must consider (and answer) the following questions:

- Which employer market segments have the greatest interest in offering CLASS?
- How well does the size and nature of this workforce fit with the objectives of CLASS with respect to broad and varied participation?
- What information do employers need to motivate an interest in offering CLASS where interest in offering LTCI may not exist currently?
- How will employers currently offering group and multi-life LTCI feel about modifying their existing plan to accommodate CLASS?
- Are those employers currently offering LTCI the better prospects or is the program likely to find more success in those without a competing plan?
- What support and resources will employers want to help them communicate to employees about CLASS? A survey conducted by the Minnesota Board on Aging — *Study of Employer Interest in Long Term Care Insurance* — among employers not offering LTCI found that they would be significantly more willing to do so if the state were to provide educational and motivational materials so that human resources personnel did not have to

take on that responsibility. This is similar to how many voluntary benefits are offered today — the employer selects an insurer and provides access to its employees, but the responsibility for information, education, and customer service rests with the insurer and not the employer. Is this the model that employers expect when engaging with CLASS?

Getting Creative

What can CLASS do to foster employer interest in participation? First and foremost is education with a focused campaign on raising employer awareness of the value of LTCI generally and CLASS specifically. The CLASS program needs to focus time and attention on building a strong employer-focused campaign and offer support to employers to either “carry the message” and/or to offer CLASS. Also needed is research to determine the “best” employer prospects as well as what their needs and wants are to enable the offer of CLASS. Such a campaign needs to address in a meaningful way employer concerns that drive them to offer voluntary benefits — worker recruitment and retention, employee productivity, and the emotional and financial impact on working caregivers.

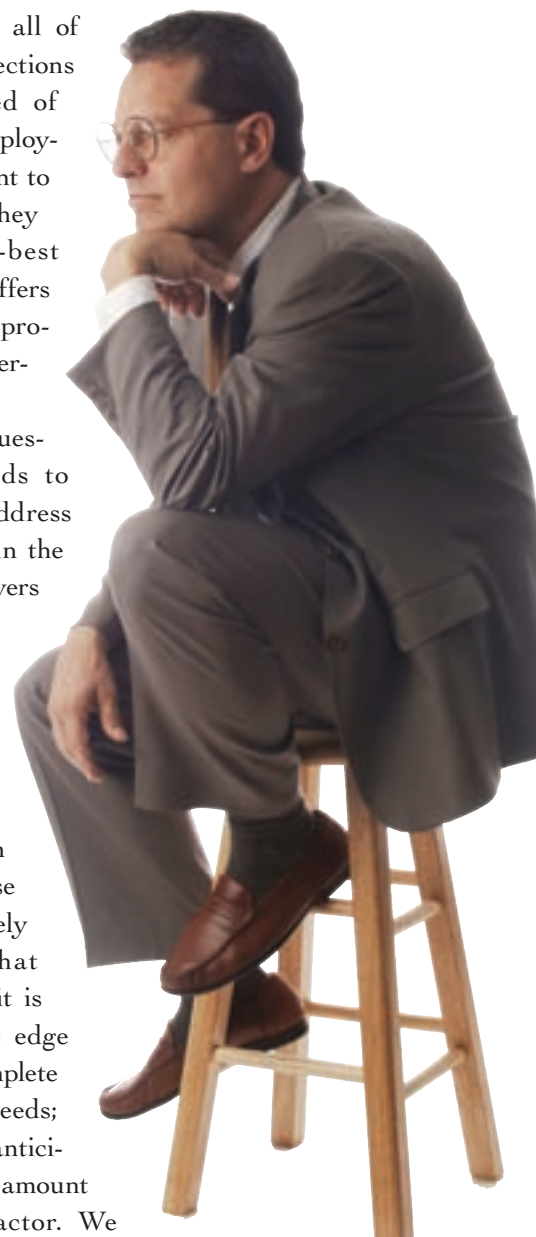
CLASS can and should also offer employers a variety of roles that they can play in CLASS — those who do not want to offer it as a voluntary benefit can still be encouraged and supported to play an educational role. The CLASS program needs to make implementation as simple as possible for the employer — under either scenario. It needs to establish basically a turnkey approach to the offer, providing an “implementation kit” that includes everything the employer would need to communicate, install, and maintain the benefit. This kit should include detailed educational documents, motivational pieces for consumers, a how-to guide for getting the most participation out of the offer, and all the forms and materials the employer needs to implement and maintain CLASS. The program should have a dedicated toll-free line specifically for employer support. Again, a recent employer survey found that 57 percent of employers said that “ease of implementation” is one of the most important issues they would have if they were to add LTCI to their existing benefits.

Another possible strategy, if feasible, might be for the CLASS program to offer a small sponsored-program

discount when coverage is offered through a participating employer, much the way LTCI multi-life or affinity business currently offers a discount. The opportunity to purchase CLASS at a slightly reduced premium cost through one’s employer might be just the incentive that employers and employees need to generate interest in the program.

Most important, CLASS needs to assure employers (and their employees) that it has all the “best practices” of private LTCI with respect to consumer protection, program viability, customer service, and rate stability. If CLASS can’t promise to fulfill most if not all of the consumer protections currently required of private LTCI, employers will be reluctant to champion what they see as a second-best option even if it offers the advantage of a program without underwriting.

Another key question CLASS needs to be prepared to address if it wants a foot in the door among employers is how it can or will coordinate with existing or future private LTCI offerings that the employer may already have in place or may choose to add. It is widely acknowledged that the CLASS benefit is meant to take the edge off and is not a complete solution for LTC needs; the relatively low anticipated daily benefit amount is the primary factor. We don’t know yet if this amount



will be \$50/day, \$75/day or more. But with average costs of facility care at close to \$200/day, CLASS will not be the complete solution for many who desire protection. Similarly, CLASS needs to fit in where employers have in some cases decades of experience and satisfaction with an LTCI plan. So an important part of the CLASS marketing and education to employers will be to help them understand how CLASS can complement their existing LTCI benefit and how employees with coverage should maximize the best of both options.

Engaging opinion leaders will be important for CLASS. Employers watch trends in benefit offerings and if leading-edge employers embrace CLASS and are successful with its offering, other employers may follow. CLASS needs, therefore, a strategy for engaging these leading employers and may well begin with the federal and state governments. That approach, however, underscores the importance of integrating CLASS with an existing LTCI program, since both the federal

government and over 25 states already offer private LTCI to their eligible populations. An “integrated coverage model” will be an important design challenge for CLASS — on top of the already daunting challenges it faces in determining all the critical elements of its own coverage.

Conclusion

Stating the obvious, it is difficult to predict the effect of a program that, at this point in time, has many more questions than answers. The rules are yet to be written, the implementation strategy is just beginning to be considered, and the interest in CLASS, while likely a given for the disability community, needs to reach a significantly broader employee audience in order to succeed. That said, one significant benefit that will likely come out of CLASS, regardless of the success of the program, and regardless of the adoption by employers, is the visibility that will be created by the federal government, a

visibility that is sorely needed to shine a bright light on the LTCI dilemma. The feds are reportedly gearing up to invest heavily in promoting this program and making people aware that they need to plan for the risk and exposure associated with LTCI; that they need to take personal responsibility. The private LTCI industry has been trying to figure out how to get this message out to the masses for years with no credible strategy, no consensus, and no meaningful success. So with CLASS, we can welcome the help, and even more important, the money that the government can bring to bear on this critical task of educating and motivating consumers and employers to embrace long-term care. 🌐





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on long-term care needs and preferences in the senior market. She has played a key role in the design and implementation of "Own Your Future," a U.S. DHHS's LTC Consumer Awareness Campaign, has also been instrumental in the development of the National Clearinghouse for Long Term Care Information's new Web site (www.longtermcare.gov), and is currently assisting states in implementation of the new Partnership initiative under the DRA. In addition, Tell is LTCG's representative on America's Health Insurance Plans (AHIP) Long Term Care Task Force and has contributed as both a writer and editor to AHIP's Long Term Care Professional Designation book series. She is a graduate of Tufts University and holds a Master's of Public Health from the University of Michigan. Tell can be reached at 508-651-8800 (email, etell@univitahealth.com).

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