



SOCIETY OF ACTUARIES

Article from:

Long-Term Care News

May 2010 – Issue 25

No Class

by Ronald R. Hagelman, Jr.

[Editor's Note: The following is reprinted with permission of the author, Ronald R. Hagelman, Jr. and Broker World magazine. The article first appeared in the February 2010 issue of Broker World. While we try to present a balanced set of opinions along with the facts on issues important to LTC, we have this additional opinion which continues the discussion started in our December 2009 newsletter. Of course, all of these opinions appearing are the authors' own opinions and should not be considered the opinion of the Society of Actuaries.]

The Community Living Assistance Services and Supports (CLASS) Act floating around Washington since 2005 has been cut and pasted into both the House and Senate versions of pending health care reform legislation. Although it is still unknown what, if anything, will be forced upon us, it is safe to suggest something will change.

A generation of legislation has attempted to provide incentives to American consumers to buy (HIPAA, DRA 2005 and the PPA). However, ownership of long-term care insurance remains somewhere south of 10 percent. We have not succeeded, and it appears that impatience, partisan politics and bad math are conspiring to create yet another social entitlement program to overburden future generations.

Why is this happening? There is a long list of false assumptions. It begins with a belief that the insurance option has not worked. Even if true, the critical concern must be to ascertain the cause. Begin with the notion that an insufficient number of agents sell or have sold the product. Those who do sell it recognize that it remains a difficult sale, and they understand that LTC insurance must be sold each and every time. In addition, a philosophical prejudice is embedded in the legislation that paying claims at home is inherently cheaper than in an institutional setting. With current home care costs running as high as \$25 per hour, I am at a loss to understand this line of reasoning.

Yes, something must be done. However, this new entitlement monstrosity is not the answer. There



are affiliated health care industries that are probably almost giddy at the prospect of open, easy cash flow such as home care or assisted living corporations. There are also voices within our own ranks that suggest that increased awareness of long-term care needs caused by this bill is a good thing. This is not about good or bad anything. This is wrong. *Wrong will always be wrong until it becomes law, then we will adapt and continue to do everything possible to protect our clients.*

There are several structural issues and concerns that require careful consideration. The new trust fund created will book premiums for years before substantial benefits are paid. This creates an artificial credit against the cost of the health reform legislation and reduces the perceived cost of the legislation, creating a direct catalyst for its inclusion. The Society of Actuaries has concluded that the programs would be insolvent in 11 years. In addition, a nonbinding Senate vote mandates that the new trust funds can be used for this program only. No matter how you look at what some have called a "Ponzi scheme," we are all being asked to simply have faith in yet another social welfare program.

The voluntary "opt out" enrollment provisions, making this a guarantee issue opportunity with a



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liberal definition of actively at work, will contaminate rather than encourage sales at the worksite. If you completely ignore adverse selection, you are no longer marketing insurance—you are simply prefunding a known risk. More confusion will be brought to the worksite in terms of what is being accomplished, what is actually covered and how much is enough. There is virtually no commission available from this program, which dooms any real enrollment success. Premium for long-term care insurance will not sell itself. The size of the benefit of \$50-\$75 per day is insufficient on any level, unless perhaps it is being added to a Social Security check, to provide universal assisted-living admissions.

The proposed cash advance will coordinate with all reimbursement policies creating more confusion. Do you keep current coverage? Do you reduce coverage or only buy alternative supplemental insurance? The answer is leave realistically priced benefits in place and frankly, don't change anything. We have always sold "supplemental" coverage. The numbers and thresholds may move, but the nature of the sale itself will not change.

The CLASS Act panders to the lies that have plagued us for too long: *Insurance underwriting practices based on avoiding adverse selection are somehow undemocratic.* Conversely, egalitarian offerings of

universal coverage must therefore be inherently good. Besides, everyone knows Americans will always eagerly line up to protect themselves and their families.

The CLASS Act has no class. It is built from a solid foundation of hollow misrepresentations. It represents a wind tunnel of philosophical fantasies, false assumptions, monumental adverse selection, faulty pricing assumptions and a complete disregard for human nature. Other than that I have no opinion on the subject. ■

More About the Author

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