

New entitlement program not a replacement for long-term care insurance

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An obscure provision in the health care reform bill has the potential to seriously alter the long-term care landscape for older Americans, but it may not be as beneficial to retirees as it will be for near-retirees and successive generations of workers, new research by a University of Illinois elder law expert warns.

Richard L. Kaplan, an expert on federal taxes and [retirement](#) issues, says the new federal entitlement program, known as Community Living Assistance Services and Supports, or CLASS, shouldn't be viewed as a replacement for long-term care insurance, since it's unlikely to make much of a dent in the cost of paying for institutional settings, such as assisted living facilities or nursing homes.

"CLASS is a major addition to the array of options that clients may want to consider in financing their long-term care, but it's not for everyone," Kaplan said.

Kaplan says the CLASS program, which goes into effect Jan. 1, 2011, has many advantages: There's no lifetime cap on benefits; it's implicitly backed by the government, so it's an excellent bet to stay in business; and it's open to everyone, regardless of pre-existing conditions. But its active employment requirement means that current retirees will need to look elsewhere to fund their long-term care needs.

"Near-retirees and those currently working will have the most interest in CLASS, and will want to take a close look at this program," Kaplan said.

"But if you're already retired, you can't participate because the statute requires new enrollees to be currently employed."

Although the program is supposed to start next January, with payments beginning as early as 2016, Kaplan says there's no plan in place yet.

"People might think, 'Now I've got coverage,' " he said. "But we really don't know the program's full contours. The Department of Health and Human Services has a statutory deadline of October 2012 to devise a plan, including specific premium costs and benefit amounts."

The only parameter set forth in the legislation is that benefits must be no less than an average of \$50 per day, which won't be nearly enough to replace long-term care insurance.

"CLASS benefits do not pretend to cover the full cost of institutional long-term care settings, which can be as much as \$200 per day," Kaplan said.

CLASS benefits can be used for just about anything related to long-term care, including home modifications, assistive technology and home care aides, and even paying an adult child for care given to an older parent.

"What CLASS covers well are those in-between stages before a nursing home, which a lot of older adults go through," Kaplan said. "People want assistance with the kinds of long-term care that are not as expensive as nursing homes, and that is what CLASS is meant to pay for."

One of the major benefits of CLASS is that, unlike long-term care insurance, once you start to claim benefits, there's no limit on the benefits received. CLASS also likely will be attractive because no one can be rejected on the basis of pre-existing medical conditions.

"That's huge," Kaplan said. "Some critics say this feature is a detriment, because a lot of high-risk candidates may enroll in the program, while healthier people may say, 'I can get better insurance for less,' thereby setting up a classic adverse selection situation. After all, insurance works only if you can spread the risk across a fairly diverse pool that includes low-risk persons as well as higher-risk participants."

Kaplan says that the current long-term care insurance model has been around for more than three decades, and the verdict is in: It's not very popular.

"Only about 10 percent of older adults have long-term care insurance," he said. "Early LTC policies covered [nursing homes](#) exclusively on the premise that they are the most expensive option for long-term care and that people should be able to pay for the less-expensive care options themselves. That product was not terribly attractive – nobody wants to go to a nursing home, and nobody wants to think about going to a nursing home."

With CLASS, if employers sign up, all employees are automatically enrolled unless they opt out. For workers, if your employer signs up and you're automatically enrolled, "you may need to think seriously about whether you want this insurance," Kaplan said.

But if your biggest financial concern is the cost of an extended stay in a nursing home, you might want to look beyond the CLASS program.

"From a financial exposure standpoint, an extended stay in a nursing home is the worst-case scenario because it's such a big-ticket item," Kaplan said. "If you're already retired, CLASS is not for you. For everyone else, when your employer sends you a notice saying that they are participating in CLASS, don't toss it aside. Talk to your family and really think about what you want to do about this critical but often-

ignored subject."

More information: The study, "Financing Long-Term Care After Health Care Reform," appears in the current issue of *The Journal of Retirement Planning* and is available online.

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