EXHIBIT L

Brown, Nicole (HHS/ASL)

From: Marton, William (HHS/ASPE)
Sent: Friday, September 25, 2009 2:03 PM
To: Frank, Richard (HHS/ASPE)
Cc: Katz, Ruth (HHS/ASPE); McKay, Hunter (HHS/ASPE); Drabek, John (HHS/ASPE)
Subject: RE: Talking Points 1.0
Attachments: Notes on CLASS Simulations (3).doc

Attached is a quick edit of your talking points. I am still waiting on the results for a $75/day benefit. I talked with Mike Sandler at ARC around noon and reiterated the deadline; he is giving it his best shot, but I expect that we will get the information pretty close to 3:00 pm.

Bill

From: Frank, Richard (HHS/ASPE)
Sent: Friday, September 25, 2009 9:50 AM
To: Marton, William (HHS/ASPE)
Subject: Talking Points 1.0

Richard G. Frank
Deputy Assistant Secretary for Planning and Evaluation
Disability, Aging and Long-Term Care
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[redacted]

Actuarial Estimates of the CLASS Act

Model Parameters

1. The proposed CLASS program differs greatly from current long-term insurance policies issued by private insurers. For example, the CLASS Act precludes traditional underwriting; it contains a lifetime benefit, which is typically not offered in the private market; and the benefit is largely cash as opposed to service-based (i.e., it provides a daily cash benefit rather than reimbursement for covered long-term care services).

2. The CLASS program relies on employment and a vesting period of five years to mitigate adverse selection, i.e., the higher likelihood that enrollees would trigger benefits compared to similarly aged persons.

3. The relatively weak underwriting coupled with a lifetime, flexible benefit is still likely to create severe adverse selection problems. This was the central point in the American Academy of Actuaries' letter to the U.S. Senate Committee on Health, Education, Labor, and Pensions.

4. We developed estimates of level monthly premiums for the CLASS Act to explore selection issues. The key assumptions used in the baseline model are:

    a. 2+ ADLs are required to claim benefits;
    b. The benefit is assumed to be $50 per day;
    c. Benefits are increased at a fixed rate of 3% per annum;
    d. There is a five year vesting period before being eligible for benefits;
    e. Participants must be employed each year during the vesting period;
    f. In the event of a lapse in enrollment, the participant must be employed for twenty-four months before applying for benefits; and
    g. Spouses must meet eligibility requirements on their own.

5. "Anti-selection" measures were modeled focusing on three parameters: a) increasing the vesting period from five years to ten years in increments of one year; b) increasing the ADL benefit trigger from 2+ to 3+; and c) varying the participation rate from 6% (close to CBOs assumed rate of 5%) to as low as 1%, and to as high as 10%. Increasing the vesting period and ADL triggers could be easily accomplished by program design. Achieving higher CLASS participation is likely to be more difficult, but not impossible. The voluntary opt-out feature should help participation and the Secretary could invest resources to increase awareness of the program and benefits.

Results

1. Based on the assumptions above (2+ ADL trigger, $50/day benefit, five year vesting period, etc.) and a 6% participation rate, the level premium for CLASS

enrollees varies from $69 for a 35 year old to $211 for a 65 year old; ***the weighted average level monthly premium is $114***.

- Increasing the vesting period from five years to seven years decreases the weighted average level monthly premium by about 12% to $100; increasing the vesting period to ten years further reduces the premium to $83.

- At 6% participation, changing the ADL triggers from 2+ to 3+ has the same impact as increasing the vesting period from five years to seven years, i.e., the premium drops from $114 to $100.

- An increase in participation from 6% to 10% has a relatively small impact, reducing the weighted average level premium from $114 per month to $108 per month.

2. ***Increasing the vesting period and the ADL trigger has a substantial impact. For example, at 6% participation, increasing the vesting period to seven years and the ADL trigger to 3+ reduces the weighted average monthly premium from $114 to $88 (a 23% decrease in premium).***

3. Increasing the daily CLASS benefit from $50 to $75 substantially increases the weighted average premium.

Additional Bullets to be Added

Next Steps

We are currently pursuing additional model changes and will try to address two broader policy areas. With respect to the actuarial model, we will determine if imposing earnings requirements and introducing an inflation-indexed premium will dramatically reduce the monthly premium, especially at younger ages. For example, if workers could only enroll in the CLASS program if their annual earnings were above some percentage of the Social Security Administration's threshold for substantial gainful activity (currently $980/month), how much would the premium be reduced? Similarly, what would the weighted average monthly premium be if the initial level premium was allowed to increase by CPI (or some other fixed percentage)? To further understand the budget implications of the CLASS Act, we are exploring how the new program will interact with Medicaid and other programs like the Partnership for Long-Term Care. Finally, to put the CLASS program in a larger context, we are estimating the extent to which the CLASS benefit will reduce a person's exposure to the risk of long-term care. This will be accomplished be estimating the percentage of long-term care costs that the CLASS program will cover over an individual's lifetime.