CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

July 6, 2009

Honorable Kay R. Hagan
United States Senate
Washington, DC 20510

Dear Senator:

This letter responds to your request for additional information regarding the Congressional Budget Office's (CBO's) analysis of section 191 of the Affordable Health Choices Act. That legislation is currently under consideration by the Senate Committee on Health, Education, Labor, and Pensions.

Section 191, which is also known as the Community Living Assistance Services and Supports Act (the CLASS Act), would establish a federal insurance program for long-term care. Under that program, eligible enrollees who need assistance performing common daily activities such as dressing, bathing, and eating would receive cash benefits to pay for support services in a community setting. Severely impaired enrollees could apply their benefit toward the cost of residential care in a nursing facility.

Enrollment in the program would be open to noninstitutionalized individuals who are either active workers or the nonworking spouse of an active worker. Premiums would vary according to the person's age at enrollment. The average premium would be limited to $65 per month in 2011 and indexed for inflation in subsequent years. The benefit would be at least $50 per day (indexed for inflation); the Secretary of Health and Human Services (HHS) would set actual benefit levels according to the extent of an enrollee's impairment. Benefits would be paid out of a trust fund consisting of enrollees' premiums and interest earned on its balances. To qualify for benefits, an enrollee would need to have paid premiums for at least five years and been actively working for at least three of those years; the enrollee also would have to be unable to perform at least two or three activities of daily living.

The legislation would provide considerable authority to the HHS Secretary to adjust premiums and benefits to maintain the solvency of the program. The Secretary would be allowed to reduce all benefits to the daily minimum of $50 and, if that action was inadequate to avoid insolvency, to increase enrollees' premiums.

CBO estimates that the proposal's net effect on the federal budget would be to reduce the budget deficit by about $58 billion during the 2010–2019 period (see Table 1). In CBO's analysis, the real (inflation-adjusted) average monthly premium was assumed to be $65, and the real daily benefit was assumed to average about $75 per day; beneficiaries whose impairments were relatively modest would receive less than that per day, and those whose impairments were more

Table 1.
Estimated Net Effect of Section 191 of the Affordable Choices Act on the Federal Deficit, 2010 to 2019

(Billions of dollars, by fiscal year)	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010-2014	Total, 2010-2019
Premiums	-3.5	-6.1	-8.3	-9.5	-10.7	-10.6	-10.8	-10.9	-11.0	-27.5	-81.5
Benefit Payments	0	0	0	0	0	2.7	4.8	6.9	8.2	0	22.6
Administrative Costs	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.8	2.4
Medicaid Savings	0	0	0	0	0	-0.3	-0.5	-0.8	-0.9	0	-2.5
Changes in Revenues	0	*	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	1.2
Net Effect on the Deficit	**-3.4**	**-6.0**	**-8.0**	**-9.1**	**-10.2**	**-7.7**	**-6.0**	**-4.3**	**-3.1**	**-26.4**	**-57.8**
Memorandum:											
Interest Credited to Trust Fund	0	0.2	0.5	1.0	1.6	2.2	2.6	3.0	3.3	1.8	14.4

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes: Data for 2010 are excluded because the program would not begin until 2011.

Except for interest credited to the trust fund, positive amounts indicate increases in the deficit and negative amounts represent decreases in the deficit.

* = between -$50 million and $50 million.

severe would receive more. The estimated reduction in the federal budget deficit over the next 10 years is chiefly the result of the five-year vesting requirement; the payout of benefits would not begin until 2016, five years after the initial enrollment in 2011. That total also incorporates an estimated $3 billion reduction in Medicaid spending over the 10-year period, because some individuals who would receive CLASS Act benefits would otherwise have had Medicaid pay for those long-term care services. It also includes a $1 billion loss in tax revenue because premiums paid under the program would be afforded the same favorable tax treatment as are premiums for qualified long-term care insurance policies. This revenue impact was estimated by the staff of the Joint Committee on Taxation.

Beyond the 10-year budget 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. Assuming that the premiums and daily benefit amounts were $65 and $75, respectively, CBO estimates that benefit payments would exceed premium income within the first decade after 2019, leading to depletion of previously accumulated premium reserves (and accumulated interest on those reserves). Although outcomes in the distant future are very uncertain, CBO expects that actions by the Secretary to reduce all benefits to the real daily minimum of $50 and raise the real average monthly premium for new enrollees to roughly $85 sometime during the first decade after 2019 would be adequate to ensure that the program could pay benefits through 2050.

Even if the program remained solvent throughout that period, it might nevertheless add to budget deficits at some point beyond 2019, for two reasons:

- By 2019, cumulative premium income would exceed outlays by $57 billion, CBO estimates. That sum, along with future premium income, would be available for spending in future years. If premiums and benefits were set in subsequent years so as to draw down some of that accumulated balance, the program's outlays after 2019 would exceed its premium income.

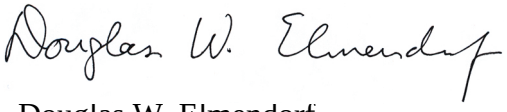
- In addition to premiums, the program's trust fund would be credited with interest on its balances. The crediting of such interest would have no net effect on the budget because it would simply be an intragovernmental transfer from the Treasury to the trust fund that, on net, would neither add to nor reduce the federal deficit. Those interest amounts could be spent, however, and such spending would also add to the federal deficit.

In addition to premium receipts and program spending for benefits and administration, analysis of the budgetary effects of the long-term care insurance program should also take into account resulting reductions in Medicaid spending for long-term care. In a steady state—that is, enrollment grows with population—a solvent trust fund would tend to pay more in benefits than it collects in premiums (because it would be spending some of the interest credited to it). Therefore, the transactions of the program's trust fund would tend to increase deficits. At least some of that increase, however, would be offset by savings in the Medicaid program.

Overall, CBO estimates, if the Secretary did not modify the program to ensure its actuarial soundness, the program would add to future federal budget deficits in a large and growing fashion beginning a few years beyond the 10-year budget window. If the Secretary did act to ensure the program's solvency, the program and its effects on Medicaid spending and revenues might—or might not—add to future budget deficits, depending on the specific actions that were taken.

I hope you find this information useful. If you have any further questions, please contact me or have your staff contact Stuart Hagen (202-226-2666).

Sincerely,



Douglas W. Elmendorf
Director

cc: Honorable Edward M. Kennedy
Chairman
Committee on Health, Education, Labor, and Pensions

Honorable Michael B. Enzi
Ranking Member