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# No CLASS in the Affordable Care Act

## Community Living Assistance Services and Supports Act Not a Part of National Insurance Program

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CLASS refers to the Community Living Assistance Services and Supports Act which was originally the long-term care benefit program included in the Affordable Care Act (aka Obamacare). It was part of health-care reform to insure workers in the event they became unable to care for themselves due to a disabling injury or illness, or due to normal aging and frailty.

This national voluntary long-term care program was designed for actively employed individuals (also active military), and coverage was to be issued on a guaranteed basis regardless of health status. Enrollees would pay premiums through a voluntary payroll deduction system. However, due to the higher cost of premiums and lesser benefits compared to the private long-term care insurance market and the potential for enrollees to be in poor health, the CLASS Act was deemed to be actuarially and financially unsound. The CLASS Act was repealed in January 2013.

Many mistakenly believe the Affordable Care Act covers custodial care services due to chronic physical or cognitive disability. Care provided at home or in an assisted living facility can cost more than $7,000 per month. While there may be talk of expanding Medicaid to pay for these services, there is no government insurance solution on the horizon.

The government can play a role in educating the public and continuing to create tax incentives to help consumers pay for care and/or acquire private insurance. For example, a provision in the Pension Protection Act (2006) makes it possible for those who have nonqualified annuities to take withdrawals free of income tax to pay for qualified long-term care services or to pay their long-term care insurance premiums. Legislation such as this has broadened the options available for consumers to privately pay for care and maintain choice and control.

Properly structuring an annuity to facilitate this is beyond the scope of this article, but allow me to share a story that illustrates how it worked in one scenario. Seven years ago, a couple in their late seventies was referred to me for a review of their life insurance policies. Of the three policies in force on the husband, two had a combined cash value of $115,000 that was decreasing rapidly; the policies would lapse in just a few years unless he paid more premiums into them. He did not want to pay the additional premium required to keep the policies in force, nor did he feel that he still needed those two policies. He could have surrendered the two policies for cash and paid income tax on the gain; however, the couple preferred the alternative of transferring the policy cash values (via 1035 tax-free exchange) into a fixed annuity with HIPAA standardized long-term care benefits for both of them (HIPAA stands for Health Insurance Portability and Accountability Act).

Since then, then the funds in this annuity have been safe, liquid, and growing tax deferred; the long-term care benefits have increased to $166,000. Now, with the two in their mid-eighties, the wife is receiving care at home and their Pension Protection Act–compliant annuity is reimbursing $4,600 of her care costs each month. This extra liquidity, free of income tax, makes a significant difference in the couple's ability to afford the professional help she requires to remain at home.

The issue of long-term care is not going away. Baby Boomers have hit senior status and will continue to age. As people live longer, many will need help due to frailty, chronic illness, or cognitive issues. Addressing extended health-care needs is an essential part of financial and estate planning. A plan for long-term care should include where care would be received, who would provide care, and who would coordinate the services needed. It should also identify which financial resources would be used to pay for care. Available resources break down into three categories: personal income and assets, government assistance such as Medicaid (Medi-Cal in California), or some form of long-term care insurance.

A variety of cost-effective insurance options are available that provide long-term care benefits to pay for care received in one's home or in a facility. Options include traditional long-term care insurance to individual or joint life insurance and annuity policies with long-term care benefits built in or added as a rider. When exploring your options, it is important to work with an agent who truly specializes in this coverage and can help you maximize value with a policy that fits your specific needs and financial situation.

An event that requires extended health care can happen to anyone at any age, and it affects the entire family. Having a plan in place for this eventuality does not reduce the risk of it happening, but it does mitigate the financial, physical, and emotional impact to family and loved ones. Even a small amount of coverage can make a huge difference in the lives of care recipients and their family members.

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