The CLASS Act Is No Class Act

It will probably catch most businesses off guard, for it's a provision of ObamaCare unknown to most Americans — sadly including the Congressmen who voted for the gargantuan bill. When that happens, you know something is set for failure from the start.

CLASS (Community Living Assistance Services and Supports) is the government's first foray into supplemental care for the aged. It's similar to private long-term care insurance that helps to cover the costs of professional care when one becomes frail or disabled. It can be applied to home, respite, hospice, or nursing home functions.

Under CLASS, the workers in a participating company will be enrolled unless they opt out. According to the Congressional Budget Office, the enrollees will pay an average monthly premium of $123 for a period of only five years. When they become either ill or too old to be independent, the benefits will kick in at a rate of $50 to $75 per day.

Because of its remote similarity to private long-term care insurance, CLASS is identified as insurance by the federal government. It is, however, anything but.

True insurance requires the building of an investment portfolio that uses the premiums collected from insured parties. Those funds are put into the markets to ensure growth, which, when combined with incoming premiums, will easily allow the insurance company to meet its benefit outlays with plenty of financial wiggle-room and security for all future payments. True insurance also survives –— even flourishes — through underwriting, a method by which insurers analyze the risks associated with certain people and activities and adjust the premiums accordingly.

CLASS doesn't fit the bill with either of these criteria. For starters, there is no investment portfolio. Eerily similar to another federal takeover of a market function in which it doesn't belong (retirement), CLASS is a glorified Ponzi scheme just like Social Security — which itself was once wrongly identified as insurance. Under Social Security, current payees fully subsidize the benefits of current recipients. There is not a collective investment fund that has been watching its income grow since the program's inception in 1935. Instead, what was taken in was put into a trust fund, which in turn was emptied out by government expenditures. All that remains is government bonds — essentially IOUs issued to the government by the government (guess who gets taxed to pay those IOUs).

Structured in the same way, CLASS will posses its own trust fund. And it won't take long for revenues to be far outstripped by expenses. One could assume that it will be bankrupt in its first decade of life, especially if the aging Baby Boomer population (all 78 million of them) jumps on board. If the Budget Office's estimates are correct, the average user will put only $7,380 into the trust fund. Consider what that user will take out of it: At $75 of benefits per day, that's $27,375 in expenses per year, nearly four times what the user put into it. That's only for one year of use. Now, imagine if the user lingers in long-term care for 10 years ($273,750) or 20 years ($547,500). It doesn't take a professional accountant to see that it's a financially dangerous endeavor.

Private insurance has a few hedges against such a scenario. Beyond investing, there's the aforementioned underwriting. Those who are high risk (having a pre-existing condition or enrolling late in life) pay a higher premium. In the private sector ,the annual premiums vary greatly, from just under $900 for those under 40 years of age to more than $3,000 for those over 70. Further adjustments are made for risky lifestyles and ailments. That's not so with CLASS, where everyone is treated equally while paying equally.

Private insurers also protect themselves (and their customers) by limiting the years of benefits. Depending on the amount and duration of premium payments, benefits are typically available for five or 10 years, with caps set on lifetime benefits.

Without such protections, the federal government will be forced to do one of three things in order to keep CLASS afloat: raise tax revenues elsewhere, borrow money, or work in conjunction with the Federal Reserve to increase the money supply to the tune of tens, if not hundreds, of billions of dollars per year.

For a nation that is already taxed too much as it is — to support unconstitutional healthcare programs such as Medicaid (which costs $333.2 billion/year) and Medicare (with unfunded obligations of $37.8 trillion) — another disastrous bureaucracy is not the remedy for what ails us. As with general healthcare, the federal government should stay out of the long-term care business, primarily because it is not authorized by the Constitution to provide any kind of healthcare, but also because it is totally incapable of doing what plenty of private-sector companies can and are doing to handle such business — meeting the needs of the people in a prudent and affordable fashion.