

EXHIBIT R

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From: Migliaccio, Gene (PSC)
Sent: Monday, December 14, 2009 11:26 AM
To: Frank, Richard (HHS/ASPE); Squillace, Marie (HHS/ASPE); Berger, Dan P. (AoA/CM); Appold, Carey O. (CMS/CMSO); Kelley, Curtis (HHS/ASRT); Hassett, Suzanne (HHS/OS); Hulbert, Melissa S. (CMS/CMSO); Boughn, Julie C. (CMS/OIS); Katz, Ruth (HHS/ASPE); Marton, William (HHS/ASPE); Claypool, Henry (HHS/IOS); Tompkins, Heather (HHS/ASFR); Seshamani, Meena (HHS/ASPE); Taylor, Bridgett (HHS/ASL); Gotts, Jill M. (CMS/OL); Terrell, Shawn (HHS/IOS)
Subject: CLASS Act-Enrollment and Premium Payment Issue Paper
Attachments: CLASS Enrollment and Premium Payment (12-10-09).doc; CLASS Enrollment (12-10-09).ppt

CLASS Act Team,

Attached for your review is the Enrollment and Premium Payment Issue Paper along with the PowerPoint figures.

Regards,

Gene

CLASS Enrollment and Premium Payment: Models and Issues

As shown in the accompanying set of figures, CLASS enrollment and premium payment can be divided into two basic models: those that integrate the employer into the process (Figures 1a and 1b) and those that exclusively rely on the employee (or self-employed person) to be the conduit for enrollment and premium payment (Figure 2). The major distinction between Figure 1a and 1b is the degree to which the employer is integrated into the process. Figure 1a incorporates a new requirement that has been proposed in an amendment to the Senate legislation that requires employers with an average of fifteen or more employees to provide written notice to employees "of the existence of the CLASS Program, including a description of the benefits provided under the program; and other terms and conditions to maintain coverage..." In Figure 1a, the employer provides information about the CLASS program, but plays no role in enrollment and payment of premiums. Employees would enroll through the CLASS Program itself and pay the required premium to Treasury via automated debit or mailed check. The CLASS Program would exchange information with the Social Security Administration to verify program eligibility (employment and income information). The Treasury Department would maintain and exchange payment information to the CLASS Program.

Although not required to do so, employers have the option of playing a greater role in the enrollment/premium payment process. In this case, the employer not only provides information about the CLASS program to employees, but plays a direct role in enrollment and premium payment via payroll deduction (Figure 1b). The employer is responsible for providing CLASS program and enrollment information, enrolling employees, and coordinating with the CLASS Program and Treasury for the payment of the appropriate premium. Premiums would be paid to the CLASS Independence Fund managed by the Treasury Department on behalf of employees through payroll deduction. Although there are no tax advantages to employers, they would have the option of subsidizing the employee's premium—either partly or fully—if they wanted to provide CLASS insurance coverage as an employee benefit.

An alternative enrollment/premium payment process is required for persons who either are working in organizations with less than an average of fifteen employees or who are self-employed. This scenario is depicted in Figure 2. In this case, the CLASS Program is the only (required) conduit for program and enrollment information. Information would be provided directly to the public through electronic and other medium (e.g., website, telephone hotline, print, etc.). Eligible persons would enroll through the CLASS Program and pay premiums directly to the Treasury via automated debit or mailed check. The CLASS Program would exchange information with the Social Security Administration and the Treasury to verify eligibility, premium accounting, and other requirements of the program.

Major Issues

Further Integrating Employers into the Enrollment Process: The greatest threat to the long-run solvency of the CLASS program is adverse selection, i.e., the likelihood that

less healthy persons disproportionately enroll and use benefits at a higher rate than expected. The best way to minimize adverse selection is to increase participation in CLASS and spread risk across a larger pool of enrollees. Requiring large employers to provide CLASS program information to employees should help to increase participation. However, participation would likely be even higher if employers were required to play a more active role in the enrollment process. Suppose, for example, that large employers were mandated to provide information to employees about CLASS *and* an enrollment form that had to be submitted to the CLASS Program. Employees would return the form to their employer indicating whether or not they wished to participate in CLASS (or were already offered enrollment through another employer). The employer would then forward the information to the agency administering CLASS. At that point, the employer would be out of the equation; the employee would interact with the CLASS program directly to receive enrollment confirmation, additional information, pay premiums, apply for benefits, etc. Although there are major benefits to be achieved by mandating that employers play a role in enrollment, it would be more burdensome than currently envisioned, and either require a change in the legislation or implementation through the rule making process.

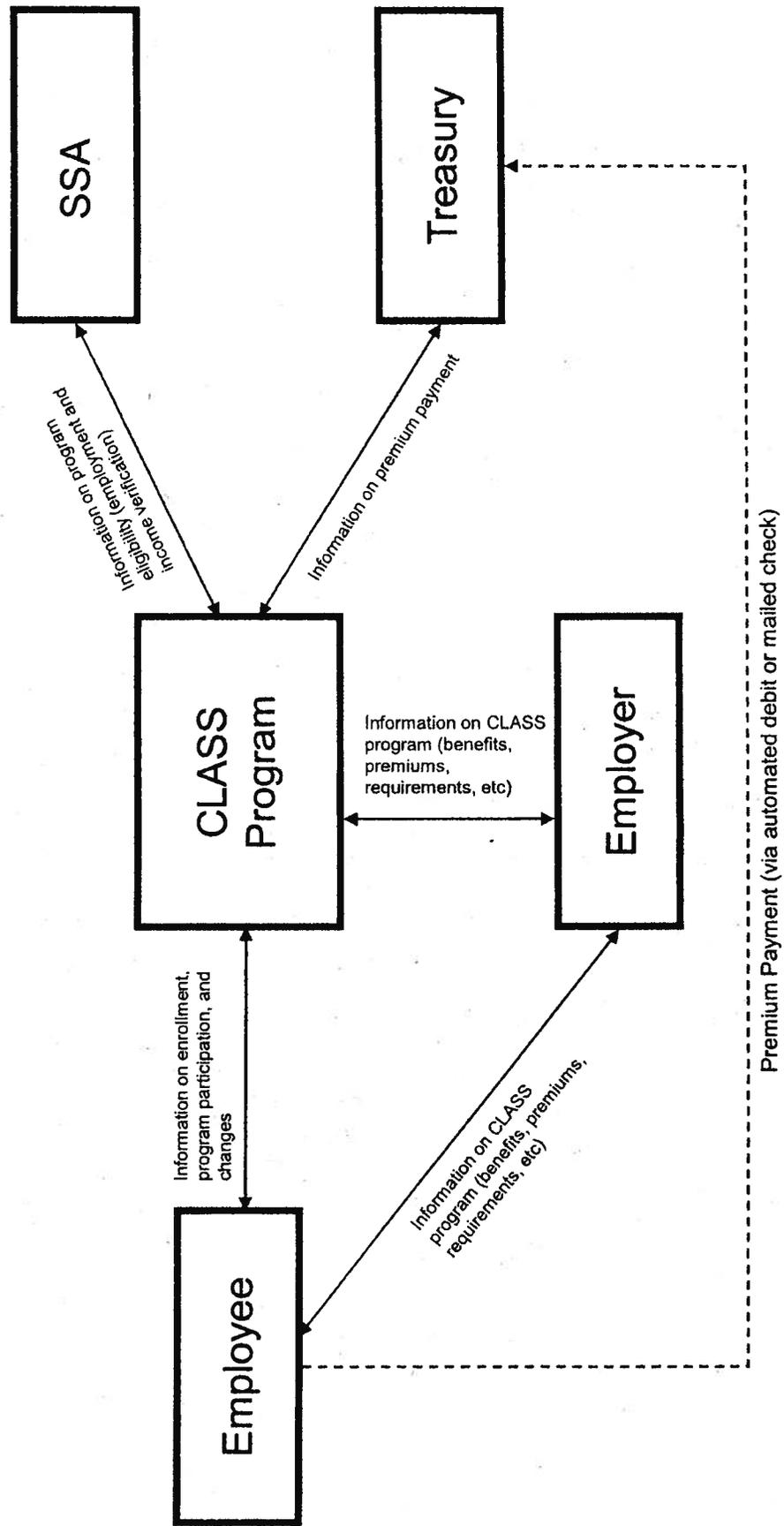
Employer/Employee Outreach, Education and Marketing: Successful implementation will require outreach to employers and potential enrollees, education of both groups, and marketing. Although these activities are not limited to enrollment/premium payment issues, information describing the program will have to be quickly developed and disseminated to employers/employees to ensure that the program begins on time. Major decisions to be made include: who will be responsible for developing program information; how will information be vetted and disseminated; how extensive should the education and marketing campaign be; and how will activities be funded. Many of these issues will be discussed in separate papers, but a major enrollment issue that needs to be addressed is how to identify the relevant employers/employees (i.e., the self-employed, small employers, and large employers), and determine if statutory requirements are being met. The Department of Labor may be of some assistance and the CLASS Program should coordinate with the relevant agencies as soon as possible.

Information Exchange: As noted in the Figures, enrollment and premium payment will require the dissemination and management of an enormous amount of information. Written and electronic information will need to be developed and management information systems (MIS) implemented to process initial CLASS enrollment, verify eligibility, collect premiums, determine lapses, monitor vesting, process changes in employment/address, etc. Important questions to be answered include: who will be responsible for developing the MIS and coordinating activities, to what extent can we build off of existing systems, how much of the MIS work should be contracted out, etc. These questions and other MIS issues will be discussed in a separate paper.

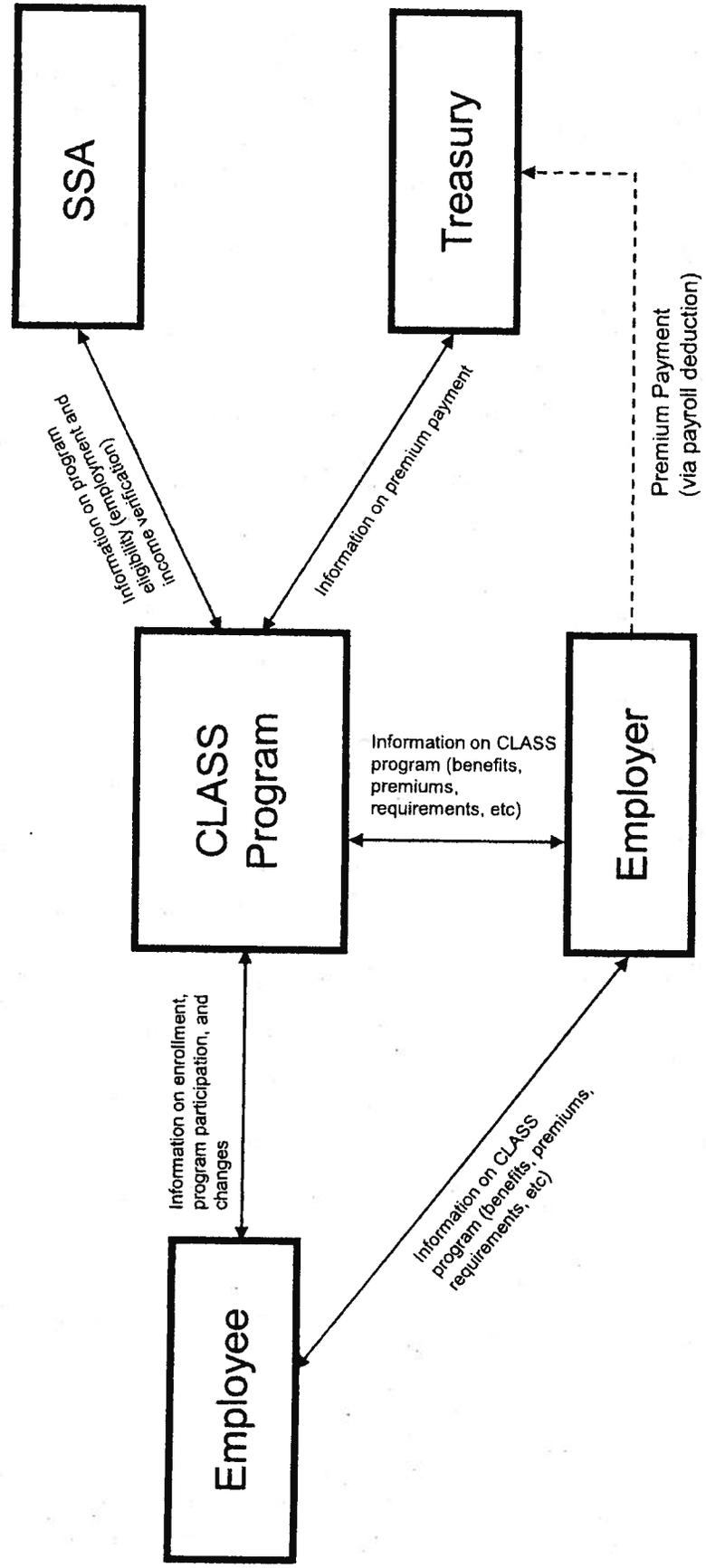
Coordination Across Multiple Agencies: The CLASS legislation explicitly mentions that the Secretaries of HHS and Treasury are responsible for enrollment and premium collection. However, other Departments and agencies will be required to interact with the CLASS Program and exchange information. Coordination with the Social Security

Administration and the Department of Labor was already mentioned, but CMS, other HHS agencies, and the states will also need to be informed of individuals' enrollment in CLASS. An early critical activity that needs to be undertaken is to review major CLASS Program functions, and determine which areas need to be coordinated and the types of information that needs to be exchanged.

**Figure 1a. CLASS Program Enrollment and Premium Payment:
Employer Provides Information Only**



**Figure 1b. CLASS Program Enrollment and Premium Payment:
Employer Provides Information and Transfers Premiums**



**Figure 2. CLASS Program Enrollment and Premium Payment:
Direct Employee Participation (Including Self-Employed)**

