

The CLASS Act: This is confidence-inspiring?

By [Michael F. Cannon](#) 5:47 PM 10/21/2011

The Obama administration has officially scrapped one of the two [entitlement programs](#) Congress created under Obamacare. The failure of the “CLASS Act” shows how the rest of that law threatens every American’s private health insurance.

The idea behind CLASS was that the government would run a voluntary and self-sustaining insurance plan to help the disabled pay for long-term care, including nursing home care. It was doomed to fail, thanks to a special kind of government price control Congress imposed on the premiums.

Congress required CLASS to set each applicant’s premiums according to the *average* applicant’s risk of needing such long-term care, rather than her individual risk. But averaged premiums are only attractive to people with above-average risks. Since few people with below-average risks would enroll, the average premium would rise. That would encourage more people with below-average risks not to enroll, and the vicious cycle would continue until the program collapsed.

As it turns out, CLASS collapsed even before its 2012 start date. The same thing happened when Obamacare imposed the same sort of price controls on health [insurance](#) for children in September 2010: the markets for child-only coverage collapsed in a total of 17 states, and are slowly collapsing in even more.

Everyone with a rudimentary understanding of insurance saw this coming. The government’s non-partisan actuaries [warned](#) of “a very serious risk” that CLASS would be “unsustainable.” One [wrote](#), “Thirty-six years of actuarial experience lead me to believe that this program would collapse in short order and require significant federal subsidies to continue.”

The Democratic chairman of the Senate [Budget Committee](#) [called](#) CLASS “a Ponzi scheme of the first order, the kind of thing that Bernie Madoff would have been proud of.” An Obama administration official wrote, “Seems like a disaster to me.” One of President Obama’s own cabinet secretaries called the program “totally unsustainable” and echoed a presidential [commission](#) on fiscal responsibility by recommending it be “[reformed or repealed](#).”

In the face of this setback, Obamacare supporters are naturally declaring victory. Jonathan Cohn of The New Republic [sees](#) “vindication.” Kevin Drum of Mother Jones proudly [announces](#), “What happened here is that government worked exactly the way it ought to.” The Washington Post’s Ezra Klein [instructs](#), “The CLASS experience should, if anything, make us more confident in the underlying law.” It’s hard to argue with such logic, but let’s try.

Cohn agrees with government [actuaries](#) that voluntary, self-sustaining [insurance plans](#) “face a significant risk of failure” when government imposes these price controls. Yet he [claims](#) the CLASS Act’s failure “strengthens the case” for the rest of the law because when Obamacare imposes those price controls on everyone’s health insurance in 2014, it will also force low-risk people to buy that overpriced health insurance. It is a *virtue*, he argues, that Obamacare forces people to take what they consider a bad deal.

The law also tries to prevent the market from unraveling by using roughly half a trillion dollars of new tax revenue to subsidize people’s premiums. It is a *virtue*, say supporters, that Obamacare raises taxes (amid high unemployment, no less) to encourage people to buy something they would not voluntarily purchase with their own money.

Obamacare inspires confidence in its supporters, then, because one part of the law throws a Hail Mary pass to prevent another part of the law from stripping Americans of the insurance that currently protects them from illness and impoverishment. Feel safer?

One of the law’s biggest supporters offers reason to think the Hail Mary strategy won’t work. MIT economist Jonathan Gruber [projects](#) the law will increase net premiums for six out of 10 people in Wisconsin’s individual market by an average of 31 percent. (A study of Obamacare’s impact on Ohio [projected](#) much larger premium increases for many individuals and businesses.) That is, low-risk people will still have plenty of reason to walk away. And insofar as the Hail Mary succeeds in delaying collapse, the growth in health [insurance premiums](#) will accelerate.

Klein [writes](#), “One way of looking at the administration’s [CLASS] decision is that it shows a commitment to fiscal responsibility.” If so, then let’s handle the rest of Obamacare exactly the same way. Congress should require Obamacare’s health insurance provisions to be voluntary and self-sustaining, just like CLASS: no individual mandate, no taxpayer subsidies.

Or is fiscal irresponsibility part of the plan?