

Current Issues and Potential Solutions for Addressing America's Long-Term Care Financing Crisis

By Gretchen E. Alkema

This paper serves as an overview of the series entitled, Shaping Affordable Pathways for Aging with Dignity. The series summarizes current issues in financing long-term care and outlines policy options for increasing affordable access to services.

It starts with a late night phone call reporting that a loved one is in the hospital after being in a serious car accident. It is the slow progression of rheumatoid arthritis that grinds one's mobility to a screeching halt. Or sometimes it comes from the cumulative impact connected with having multiple chronic health conditions that greatly minimize daily functioning. These and other similar markers of change are part of the human experience that American families—regardless of age, gender, race, ethnicity, current functional status, or other characteristics—encounter. Each of these life-changing events presents individuals and their families with a new set of needs and challenges that require a variety of human capital and financial resources to help affected persons redefine and maintain daily living on their terms. The resources necessary to help individuals with ongoing support needs, often called long-term care (LTC) or long-term services and supports (LTSS), range from moderate to substantial. Yet today, Americans have few affordable options to either pay for this kind of support or mitigate the future financial risk associated with this very real and likely circumstance in their lives.

The SCAN Foundation's policy brief series entitled, *Shaping Affordable Pathways for Aging with Dignity*, provides an updated body of intellectual capital on LTC financing options and approaches to facilitate a much needed national policy dialogue. These papers build on various policy concepts developed over the last two decades, and account for recent health policy changes that are reshaping the current LTC financing discussion. Authored by an independent set of well-known experts, the papers accomplish four critical tasks:

- outline the state of LTC financing choices Americans have available today;
- define opportunities to improve uptake of LTC financing mechanisms;
- clarify the role of Medicaid spend-down and its effect on Medicaid financing; and
- propose a range of policy pathways that could increase the availability and uptake of LTC financing risk protection for middle-income Americans.

This overview brief highlights the current state of LTC, describes the need for a set of affordable and accessible LTC financing solutions, links LTC financing to the ensuing entitlement reform debate, and provides a summary of each paper in the series.

What is Long-Term Care/Long-Term Services and Supports?*

LTC, also known as LTSS, is defined as assistance with 1) activities of daily living (ADLs), including bathing, dressing, eating, transferring, walking; and 2) instrumental activities of daily living (IADLs), including meal preparation, money management, house cleaning, medication management, transportation. This type of assistance is provided to older people and adults with disabilities who cannot perform these activities on their own due to a physical, cognitive, or chronic health condition that is expected to continue for an extended period of time, typically 90 days or more. LTC services include human assistance, supervision, assistive technologies, and care coordination for people who live in their own home, a residential setting, or an institutional setting such as a nursing facility. LTC also includes supports provided by family members and other unpaid caregivers.¹

Seventy percent of Americans who reach the age of 65 will need some form of LTC in their lives for an average of three years.² The population of “oldest old,” or those age 85 and above, is expected to increase over 25 percent by 2030, and LTC needs are highest among this age group.³ This issue, however, is not limited to older adults, as nearly 40 percent of individuals who need this type of support are under age 65.⁴ Regardless of age and the type of functional limitation a person has, the majority of individuals desire to receive LTC services in their homes and communities rather than in an institution.⁵⁻⁷

In addition, most Americans are not prepared, financially or emotionally, for the high likelihood of needing LTC at some point in their lives. The cost of LTC is substantial,

draining both individual and family financial resources as well as family members’ potential to engage fully in the labor market. Private market costs of LTC will far exceed most families’ resources, particularly for families of older and disabled Americans.^{8,9} In 2011, personal care at home averaged \$20 an hour, or about \$21,000 annually for part-time help. For example, adult day care services cost an average of \$70 per day, or about \$19,000 on an annual basis for five days of services per week. For people who do need extensive assistance through nursing home care, the average annual cost is \$81,000 for a semi-private room.¹⁰

This overview brief highlights the current state of LTC, describes the need for a set of affordable and accessible LTC financing solutions, links LTC financing to the ensuing entitlement reform debate, and provides a summary of each paper in the series.

When the need for LTC arises, individuals and their families initially pay for this care by utilizing their own resources, even though the typical American does not have the financial wherewithal to cover these costs on an ongoing basis. Individuals pay for care by first drawing on personal income and assets, using monies likely set aside to maintain their basic standard of living in the event of a health or financial crisis, or for retirement. Most have not set aside the size and scope of savings necessary for ongoing support to meet functional needs. When such needs arise, they often must decrease their standard of living, leave LTC needs unmet, or both.

Family caregivers are also a major part of the care delivery equation, as they provide a substantial amount of unpaid care and direct financial support to individuals with daily

*The terms “long-term care (LTC)” and “long-term services and supports (LTSS)” are used interchangeably in this overview brief and throughout the series.

functional needs. In 2009, nearly 62 million family caregivers nationwide provided care to an adult with LTC needs at some time during the year, with women being the vast majority of unpaid caregivers. Approximately 87 percent of those who need LTC receive assistance from unpaid caregivers.¹¹ While families will likely continue to be the primary support for individuals with LTC needs, declining birth rates over the last 50 years means there will be fewer family members available in the near future to provide hands-on support compared to the number of baby boomers caring for loved ones today.

Private long-term care insurance, as it exists today, plays a minor role in financing LTC.¹² The current private long-term care insurance market is effectively broken, as it has never held more than 10 percent of the potential market and many insurers have stopped offering these policies altogether. Reasons for lack of uptake are many: lack of public understanding and interest, high monthly premiums, and underwriting standards that make it difficult for individuals to qualify for coverage.

When individuals and their families have exhausted personal resources and can no longer shoulder LTC costs on their own, they often have to depend upon Medicaid for help with such support, generally persisting for the rest of their lives. Of the nearly 70 million individuals enrolled in Medicaid in FY 2011, nearly six million were over the age of 65 and almost 11 million were people with disabilities.¹³ While individuals age 65 and older represented about eight percent of Medicaid enrollees, they account for 20 percent of all program expenditures.

Need for LTC Financing Solutions

Individuals, families, employers, health systems, and government programs currently spend a substantial amount of money on LTC. In 2011, direct spending on LTC was \$211 billion. Medicaid paid over 62 percent of total U.S. spending on LTC in 2011, representing almost one-third of all Medicaid spending.¹² Slightly more than half (53%) of this spending was for institutional care, a mandatory benefit in Medicaid.¹² Individuals and/or families spent \$46 billion out-of-pocket, or 22 percent.¹² This figure does not include several additional cost items related to LTC delivery, including:

- Medicare skilled nursing, home health, and hospice care spending totaled \$64 billion in 2011, which may sometimes substitute for LTC services;¹⁴
- Economic valuation of family caregiving, which disproportionately impacts women, was estimated at \$450 billion in 2009;¹¹ and
- Reduced worker productivity by family caregivers, which was estimated at \$34 billion dollars lost in U.S. businesses in 2004.¹⁵

Without any substantive policy change, Medicaid (and to some extent Medicare), will be called upon to finance more LTC needs due to the trifecta of increasing life expectancy, increasing prevalence of chronic illness with functional limitations, and low savings rates among baby boomers. Without an affordable, pre-funded mechanism for LTC financing that young and/or working individuals can contribute to, Medicaid has the potential to collapse. This scenario would leave

individuals, families, Medicare, and employers to fully shoulder the growing burden of LTC costs. Even developing innovative ways to deliver LTC in the community will not solve the LTC economics problem, which is why public policy is needed to support creative solutions for LTC financing.

In the months immediately following the Obama Administration's October 2011 decision to halt implementation of the Community Living Assistance Supports and Services (CLASS) program,¹⁶ two interrelated issues became abundantly clear. First, nearly all of the over 400 media stories about CLASS described the larger existing LTC financing context, positing the question of "what comes next?" for baby boomers and later generations who will experience the same inability to pay for care as today's seniors and persons with disabilities. Second, even within political parties, there is no consensus on what a viable LTC policy strategy or specific financing solutions should look like. In light of the repeal of CLASS and creation of the Commission on Long-Term Care earlier this year, political and policy salient options must be developed and considered in the pending entitlement reform debate.

Linking LTC Financing to Entitlement Reform

While some politicians want to separate the discussions of entitlement reform and LTC financing reform, the issues and their impact on government and personal spending are inextricably linked. Data from The SCAN Foundation's funded work as well as other research demonstrate that Medicare's highest expenditures exist among those with multiple chronic health conditions and functional impairment.^{17,18} If the premise of entitlement reform means restructuring Medicare dollars toward a more efficient use of resources,

then the medical care and supportive service needs of this highly vulnerable group must be comprehensively addressed.

Currently, people with LTC needs have three inter-dependent mechanisms to get their needs met. First is increased utilization of Medicare's acute and post-acute system to episodically manage chronic illness and LTC needs for those who have Medicare coverage. Second, and usually in concert with the first, is reliance on and potential exhaustion of one's own financial and available familial support resources to address total needs. Third is the tapping of Medicaid dollars upon depletion of one's personal resources, which reduces the government's ability to extract true savings in Medicaid and leads to nefarious provider cost-shifting between Medicare and Medicaid. Without widely available and affordable options to manage future LTC risk for individuals with functional limitations that can mitigate Medicaid's exposure, high Medicare and Medicaid expenditures will continue to increase. To ensure the most efficient use of health care resources for our population over time, policymakers must develop affordable and accessible pathways that enable working, middle-income Americans to pre-fund spending on LTC needs.

Thought leaders and a few policymakers have called for the creation of affordable and sustainable LTC financing options for some time. However, time is running out. New policy solutions, whether these are private and/or public, need to be fully operational within three to five years in order to meet the needs of both aging baby boomers and future cohorts with functional needs in a sustainable manner. This timeline accounts for the period to 1) implement a new policy, 2) initiate enrollment among working individuals, and 3) ensure sufficient pre-funding before the retirement of those born in the latter part of the boomer cohort (1956-1964), which is

approximately 2025. After that time frame, the opportunity to develop LTC financing options consistent with an American value of personal responsibility disappears rapidly. Without real policy solutions in place over the next three to five years, any future policy efforts to address LTC needs, particularly with our aging population, would be focused on triaging the large holes created in Medicaid, Medicare, and personal savings rather than on planning for the growing demand for LTC.

Summary of Briefs in this Series

Kicking off the *Shaping Affordable Pathways for Aging with Dignity* policy brief series is a paper by Eileen Tell from Univita Health, who defines the current landscape of LTC financing choices (e.g., Medicaid, individual/family savings, home equity, private LTC insurance) and the inadequacies of these choices for American families.¹⁹ Jeremy Pincus, Katherine Wallace-Hodel, and Katey Brown from Forbes Consulting Group define the size and characteristics of the current employer and self-employed marketplace for purchase or adoption of LTC coverage.²⁰ Next, Joshua Wiener and colleagues at RTI International, partnering with Anne Tumlinson and colleagues at Avalere Health, hone in on a key policy and political juncture point associated with any LTC financing debate – namely the role and scope of Medicaid spend-down patterns and the potential impact of various LTC coverage models on Medicaid spending that are either mandatory or voluntary.²¹⁻²³ Moving toward a set of policy solutions, Lee Goldberg and Lawrence Atkins from the National Academy of Social Insurance articulate the variety of mechanisms to create a sustainable LTC financing approach that builds on existing public social insurance

products (i.e., Medicare and/or Social Security).²⁴ Finally, Richard Frank and Neale Mahoney from Harvard Medical School with Marc Cohen from LifePlans lay out opportunities to expand LTC financing choices through private market mechanisms.²⁵

New policy solutions, whether these are private and/or public, need to be fully operational within three to five years in order to meet the needs of both aging baby boomers and future cohorts with functional needs in a sustainable manner.

Conclusion

American families deserve affordable, accessible, and comprehensive solutions in order to plan for their future LTC needs without having to spend down their assets to Medicaid eligibility. Policy options in the public and private realms should be thoroughly explored to meet these aims so that Americans can receive high-quality services provided with dignity, respect, choice, and transparency. Formulating these options will require bold, creative thinking. The costs of inaction will only increase over time, greatly narrowing the range of possible options to solve the impending LTC financing crisis. The time for action is now.

Author

Gretchen E. Alkema, Ph.D., is Vice President of Policy and Communications at The SCAN Foundation.

References

1. Reinhard S, Kassner E, Houser A, Mollica R. Raising Expectations: A State Scorecard on Long-Term Services and Supports for Older Adults, People with Physical Disabilities, and Family Caregivers. 2011; <http://www.longtermscorecard.org>. Accessed July 16, 2012.
2. U.S. Department of Health & Human Services. National Clearinghouse for Long-Term Care Information. http://www.longtermcare.gov/LTC/Main_Site/index.aspx. Accessed April 10, 2012.
3. Feder J, Komisar H. The Importance of Federal Financing to the Nation's Long-Term Care Safety Net. 2012; http://www.thescanfoundation.org/sites/scan.lmp03.lucidus.net/files/Georgetown_Importance_Federal_Financing_LTC.pdf. Accessed April 6, 2012.
4. The SCAN Foundation. Who Needs and Who Uses Long-Term Care? 2012; <http://www.thescanfoundation.org/who-needs-and-who-uses-long-term-care>. Accessed March 6, 2013.
5. Lake Research Partners, American Viewpoint. New Poll Shows California Voters 40 and Older Largely Unprepared for Costs of Long-Term Care Services. 2010; http://www.thescanfoundation.org/sites/default/files/TSF-UCLA%20Poll%20Results_1.pdf. Accessed April 10, 2012.
6. Barrett L. Perceptions of Long-Term Care and the Economic Recession: AARP Bulletin Poll. 2009; http://assets.aarp.org/rgcenter/il/bulletin_ltc_09.pdf. Accessed April 10, 2012.
7. Lake Research Partners, American Viewpoint. California Voters 40 and Older Are Struggling to Make Ends Meet and Financially Unprepared for Growing Older. 2011; http://www.thescanfoundation.org/sites/thescanfoundation.org/files/final_poll_report.pdf. Accessed October 8, 2012.
8. Kaiser Family Foundation. Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries? 2011; <http://www.kff.org/medicare/upload/8172.pdf>. Accessed April 6, 2012.
9. Parish S, Grinstein-Weiss M, Yeo Y, Rose R, Rimmerman A, Crossman R. Assets and Income: Disability-based Disparities in the United States. *Social Work Research*. 2010;31(2):71-82.
10. MetLife Mature Market Institute. The 2012 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs. November 2012. <https://www.metlife.com/assets/cao/mmi/publications/studies/2012/studies/mmi-2012-market-survey-long-term-care-costs.pdf>. Accessed March 6, 2013.

11. Feinberg L, Reinhard S, Houser A, Choula R. Valuing the Invaluable: 2011 Update: The Growing Contributions and Costs of Family Caregiving. 2011; <http://assets.aarp.org/rgcenter/ppi/ltc/i51-caregiving.pdf>. Accessed November 8, 2012.
12. O'Shaughnessy CV. The Basics: National Spending for Long-Term Services and Supports (LTSS), 2011. 2013; https://www.nhpf.org/uploads/announcements/Basics_LTSS_02-01-13.pdf. Accessed March 8, 2013.
13. Centers for Medicare and Medicaid Services. Data Compendium, 2011 Edition. http://www.cms.hhs.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/DataCompendium/2011_DataCompendium.html. Accessed April 11, 2012.
14. Medicare Payment Advisory Commission (MedPAC). A Data Book: Health Care Spending and the Medicare Program. 2012; <http://www.medpac.gov/documents/Jun12DataBookEntireReport.pdf>. Accessed March 6, 2013.
15. MetLife Mature Market Institute. The MetLife Caregiving Cost Study: Productivity Losses to U.S. Business. 2006; www.MatureMarketInstitute.com. Accessed March 6, 2013.
16. Assistant Secretary for Planning and Evaluation (ASPE). A Report on the Actuarial, Marketing, and Legal Analyses of the CLASS Program. 2011; <http://aspe.hhs.gov/daltcp/reports/2011/class/index.shtml>. Accessed March 6, 2013.
17. Feder J, Komisar H. Transforming Care for Medicare Beneficiaries with Chronic Conditions and Long-Term Care Needs: Coordinating Care Across All Services. 2011; http://www.thescanfoundation.org/sites/scan.lmp03.lucidus.net/files/Georgetown_Trnsfrming_Care.pdf. Accessed April 25, 2012.
18. The SCAN Foundation. DataBrief No. 22: Medicare Spending by Functional Impairment and Chronic Conditions. 2011; <http://www.thescanfoundation.org/publications/databriefs/medicare-spending-functional-impairment-and-chronic-conditions>. Accessed March 6, 2013.
19. Tell EJ. Overview of Current Long-Term Care Financing Options. 2013; <http://www.thescanfoundation.org/overview-current-long-term-care-financing-options>. Accessed March 20, 2013.
20. Pincus J, Wallace-Hodel K, Brown K. Size of the Employer and Self-Employed Markets without Access to Long-Term Care Coverage Options. 2013; <http://www.thescanfoundation.org/size-employer-and-self-employed-markets-without-access-long-term-care-coverage-options>. Accessed March 20, 2013.
21. Tumlinson A, Hammelman E, Stair E, Wiener JM. Avalere: Insuring Americans for Long-Term Services and Supports Challenges and Limitations of Voluntary Insurance 2013; <http://www.thescanfoundation.org/avalere-insuring-americans-long-term-services-and-supports-challenges-and-limitations-voluntary>. Accessed March 20, 2013.
22. Wiener JM, Anderson WL, Khatutsky G, et al. RTI: Medicaid Spend Down: Implications for Long-Term Services and Supports and Aging Policy 2013; <http://www.thescanfoundation.org/rti-international-medicare-spend-down-new-estimates-and-implications-long-term-services-and-supports>. Accessed March 20, 2013.

23. Wiener JM, Anderson WL, Khatutsky G, et al. Medicaid Spend Down: New Estimates and Implications for Long-Term Services and Supports Financing. 2013; <http://www.thescanfoundation.org/medicaid-spend-down-implications-long-term-services-and-supports-and-aging-policy#overlay-context=making-progress-expanding-risk-protection-long-term-services-and-supports-through-private-long-term>. Accessed March 20, 2013.
24. Goldberg L, Atkins GL. Social Insurance: A Critical Base for Financing Long-Term Services and Supports. 2013; <http://www.thescanfoundation.org/social-insurance-critical-base-financing-long-term-services-and-supports>. Accessed March 20, 2013.
25. Frank RG, Cohen M, Mahoney N. Making Progress: Expanding Risk Protection for Long-Term Services and Supports through Private Long-Term Care Insurance. 2013; <http://www.thescanfoundation.org/making-progress-expanding-risk-protection-long-term-services-and-supports-through-private-long-term>. Accessed March 20, 2013.

For more information contact:

The SCAN Foundation

3800 Kilroy Airport Way, Suite 400, Long Beach, CA 90806

www.TheSCANFoundation.org

(888) 569-7226 | info@TheSCANFoundation.org

 Follow us on Twitter  Find us on Facebook

