LONG-TERM CARE

Issue

Millions of elderly and disabled Americans need long-term care services and supports. The aging of the population in the United States over the next several decades is expected to increase the demand for long-term care services. The number of elderly persons in the United States is projected to increase dramatically, both as a percentage of the population and in absolute numbers, due in part to the aging of the baby boom generation and to increased life expectancy. Further, long-term care services are vital to individuals with disabilities under the age of 65 that may require a lifetime of care. Thus, identifying ways to ensure adequate access and financing for long-term care needs is an important policy concern.

Background

What is "long-term care"?

"Long-term care" refers to a broad range of medical, social, personal care, and supportive services needed by people who have difficulty taking care of themselves due to chronic illness or disability, whether physical or mental. The need for long-term care is often measured in terms of the extent to which an individual needs help or supervision in performing basic "activities of daily living" (ADLs) such as bathing, dressing, using the toilet, eating, or performing household tasks such as preparing meals or managing money.

Who needs long-term care and where is it provided?

Although the need for long-term care is greatest among the very old (i.e., those over age 85), individuals of all ages may need long-term care services. In 2000, an estimated 9.5 million people in the U.S. needed long-term care services, including 6 million elderly and 3.5 million who were under age 65.[1] Most people who need long-term care services do not live in nursing homes. Instead, they are cared for in the community, living in their own homes, with relatives, or in non-institutionalized settings such as assisted living facilities. Four out of five adults who received long-term care services relied solely on unpaid help.[2] Only one out of five received paid in-home help or were cared for in nursing homes or other institutional settings.[3] However, the chance of eventually requiring long-term nursing home care is high. For people who turn 65 in the year 2010, it is estimated that 45 percent will require some nursing home care, one-third will spend at least three months in a nursing home, and nine percent will spend five years or more.[4]

How much does nursing home care cost and how is it paid for?

The average daily cost of a private room in a nursing home in the United States exceeds $70,000 per year, or $192 per day.[5] Rates vary across the country, with the highest rates in Alaska (more than $200,000 per year) and the lowest rates in Louisiana (about $36,000 per year). The average length of stay in a nursing home for current residents is 2.4 years. As described below, most long-term care services (including extended stays in nursing homes) are not covered by Medicare, and few people have private long-term care insurance to pay for nursing home stays. As a result, most people who require nursing home care eventually exhaust their savings and become eligible for Medicaid, the federal-state program that covers the costs of health and long-term care services for the poor.

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What is the role of Medicaid in financing long-term care?
Medicaid is a major payer of long-term care services in the United States, accounting for 43 percent of total spending on long-term care in 2002.[6] It is also the major source of payment for three out of five nursing home residents.[7] In addition to nursing home care, Medicaid also pays for home- and community-based long-term care services. In general, federal law requires Medicaid programs to cover elderly and disabled individuals who have very little income and assets (generally up to $564 in income per month in 2004 for an individual and no more than $2,000 in assets). Federal law allows states to cover individuals at higher income levels, however, and most states do so. For example, most states provide assistance to the "medically needy," defined as individuals whose spending for medical care is so great that it reduces their income to the level required to be eligible for Medicaid.

People in nursing homes who do not have sufficient financial resources or insurance to cover the costs of care usually "spend down" their assets until they become eligible for Medicaid. Once eligible, they are required to contribute all of their income toward the costs of their care, except for a small monthly personal allowance. The law also allows the spouse of an institutionalized person who remains in the community to keep specified amounts of income and assets to prevent the impoverishment of the spouse.

States are required by the federal government to pay for institutional care, but are not required to provide long-term care services in the community. However, all state Medicaid programs (except in the District of Columbia) have established programs under which some individuals who qualify for Medicaid financing of their nursing home care may instead receive assistance in home- and community-based long-term care settings. The number of individuals who can participate in these programs is limited, however, due to cost constraints. Some states have established lower income-eligibility requirements for their Medicaid home- and community-based care programs than for nursing home care.

What is the role of Medicare in financing long-term care?
Medicare, the federal health insurance program for the elderly and disabled, primarily covers physician and hospital-based acute care services and does not play a large role in financing long-term care. However, because it is difficult to draw a bright line between acute care and long-term care services, Medicare does cover some services that could be considered long-term care. For example, Medicare covers up to 100 days of nursing home care for patients needing skilled nursing or rehabilitation services following a hospital stay. Medicare also covers home health services, without limit, but only while patients require skilled nursing care.

What is the role of private long-term care insurance?
Unlike insurance for health care services, relatively few people have private insurance for long-term care. Long-term care insurance is similar to life insurance in that premiums are largely determined by age. People will pay lower monthly premiums for policies purchased when they are younger than when they are older. For example, in 2002, a 50-year old who purchased a long-term care policy providing three to six years of benefits and protected against inflation paid an average premium of $925 a year; that same policy purchased by an 80-year old cost an average $6,791 a year.[8] Because the market for long-term care insurance is relatively small, and few policyholders have qualified for benefits, only 11 percent of the nation's long-term care spending in 2002 was covered by private long-term care insurance.[9] However, as a result of changes in tax policy, discussed below, more people are buying private long-term care insurance policies. From 1988 to 2001, the number of long-term care insurance policies issued each year more than doubled, from about 300,000 to more than 700,000.[10]

Options for Addressing Long-Term Care Needs

Although proposals to address the nation's growing long-term care needs are not foremost among current national policy concerns, many policymakers have supported various private and public sector strategies which, the sooner implemented, could help avert some of the mounting pressures associated with a growing population requiring long-term care services. Among the proposals that have been discussed are the following:

Private-sector strategies

Many people view long-term care as an individual and family responsibility that should be part of general financial planning for future health and retirement needs. According to this view, the government should provide incentives for personal savings and for the purchase of private long-term care insurance, and public financing of long-term care services should be targeted only to the most needy individuals.

In 1996, Congress enacted several provisions intended to encourage the purchase of long-term care insurance. Congress clarified that long-term care insurance would be treated like health insurance for tax purposes, which means that benefits received are not taxable and premiums may be counted as tax deductible medical expenses. In order to be qualified, a long-term care policy must provide coverage for minimum benefit levels and meet certain consumer protection standards.

Some policymakers have proposed additional changes in the tax laws to encourage people to buy long-term care policies, and to encourage employers to provide long-term care insurance as an employee benefit. Other proposals would amend the tax code to encourage individuals to set aside money through tax-sheltered savings accounts, such as individual retirement accounts (IRAs) and health savings accounts (HSAs), to pay for long-term care expenses. Still other proposals would provide tax deductions or credits directly to families to help offset the costs of caring for a dependent relative at home.

Other policymakers note that private options tend to be less viable for those with modest means and they focus more on options that would expand Medicaid or Medicare to help meet the long-term care needs of an aging populations. They believe that tax incentives for private long-term care insurance primarily benefit those who are better off, providing less help to lower and middle income persons. They are also concerned about the potential that two systems of care could emerge – one for those with personal wealth or long-term care insurance and another for those without financial means who are being supported by public funds.

Public-sector strategies

Supporters of public-sector approaches view long-term care as a collective responsibility since all persons are at risk for needing long-term care. According to this view, the risk can best be shared through a social insurance system, like Medicare, which is supported by taxes and benefits are available to all when needed. A social insurance approach could be established by adding coverage for long-term care services to the existing set of Medicare benefits, or by including long-term care coverage in a comprehensive, universal health insurance program. Alternatively, a more incremental approach would expand some of the long-term care services available under the Medicare program.

Another strategy would be to build on the current Medicaid program to provide coverage for long-term care services to those with modest incomes. This could be done by either allowing or requiring that states extend coverage to those with incomes greater than allowed under current law. More incremental public-sector approaches are generally aimed at removing the "institutional bias" of state Medicaid programs and encouraging more home- and community-based alternatives to nursing home care. The impact on government spending would depend on how many more people seek community-based care and what it would have cost to provide their care in more traditional ways.

Those who oppose expansions of either Medicare or Medicaid generally argue that such approaches would be too costly to the government, given the increasing demands on public programs that will already occur with the retirement of the baby-boom generation.

Assessing Candidate Positions

On long-term care issues, most candidates do not advocate solely for private- or public-sector solutions, but instead support a combination approach. President Bush advocates changes in tax policy which would provide incentives for families to purchase long-term care insurance and encourage savings through HSAs. He also would provide some financial assistance to family caregivers by allowing them an additional tax deduction, and supports allowing those requiring long-term care, especially younger, disabled individuals, to have more flexibility in how they use government assistance to obtain care. Senator Kerry proposes to invest new federal funds to help states improve nursing home quality, provide more home- and community-based care through state Medicaid programs, and provide financial support for caregivers.

Included below are a series of questions to help evaluate candidate positions on long-term care issues.

- What can be done to help families that are struggling with the cost of long-term care?
- Should Medicaid or Medicare be built upon to help meet the long-term care needs of Americans? If so, what specifically could be done to accomplish this and how this be financed?
- Should the government encourage people to buy long-term care insurance? If so, what kind of incentives should the government provide?
- Should employers be encouraged or required to offer long-term care insurance as a benefit to their employees, like health insurance?
- Should the government encourage people to save more to help meet potential long-term care needs? If so, what specifically could be done to accomplish this?

Prepared by Health Policy Alternatives, Inc.

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[1] O'Brien, Ellen and Risa Elias*, Medicaid and Long-Term Care, Kaiser Commission on Medicaid and the Uninsured*, May 2004, p.1.
[2] Ibid., p.2. (Georgetown University analysis of data from the 1994 and 1995 National Health Interview Surveys on Disability, Phase II)
[3] Ibid., p.2.
[4] Congressional Budget Office, *Financing Long-Term Care for the Elderly*, April 2004, p. 14.
[5] 2004 MetLife Market Survey of Nursing Home and Home Care Costs, September 27, 2004.
[6] O'Brien and Elias, p. 2
[7] Ibid., p. 4.
[8] Congressional Budget Office, p. 8.
[9] O'Brien and Elias, p. 3.
[10] Congressional Budget Office, p. 4.

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