Financing Long-Term Services and Supports: What Should States Do?

Joshua M. Wiener, PhD
Distinguished Fellow
RTI International
Washington, DC

Problems of Long-Term Care Financing

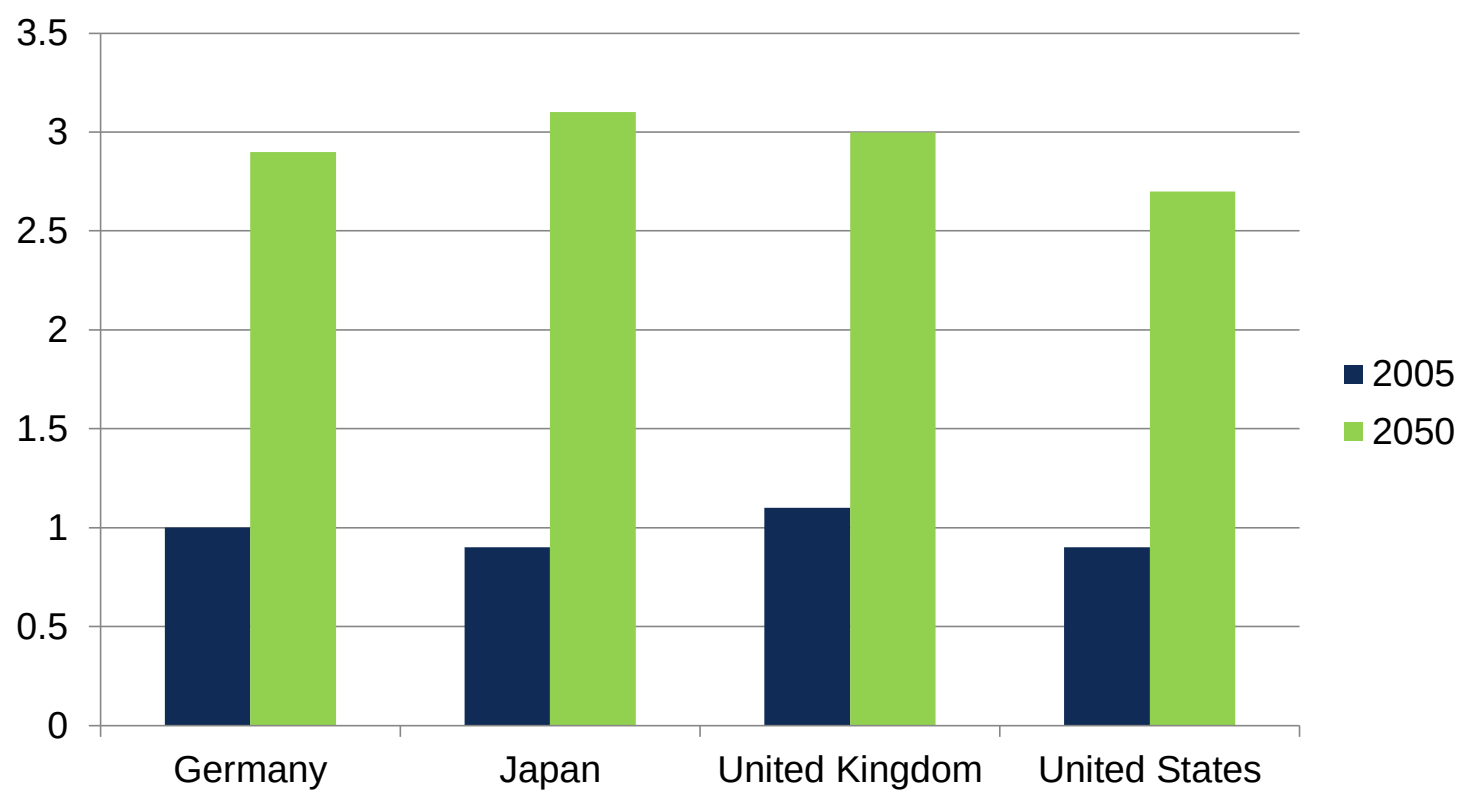
- Services are expensive
- Medicare does not cover and few people have private insurance coverage
- Routine catastrophic costs that impoverish people who have been independent all their lives
- Primary source of financing is Medicaid, a means-tested welfare program
- Bias towards nursing homes, rather than home care
- With aging population, public and private spending sure to grow

Financing for Long-Term Care: 1988 and 2011, ($ billions)

Financing Source	1988	2011
Medicaid	24.4	136.2
Medicare	2.9	62.5
Other payers	5.0	9.7
Out-of-pocket	15.7	45.5
Private insurance and other private	4.0	24.4
Total	52.0	278.3

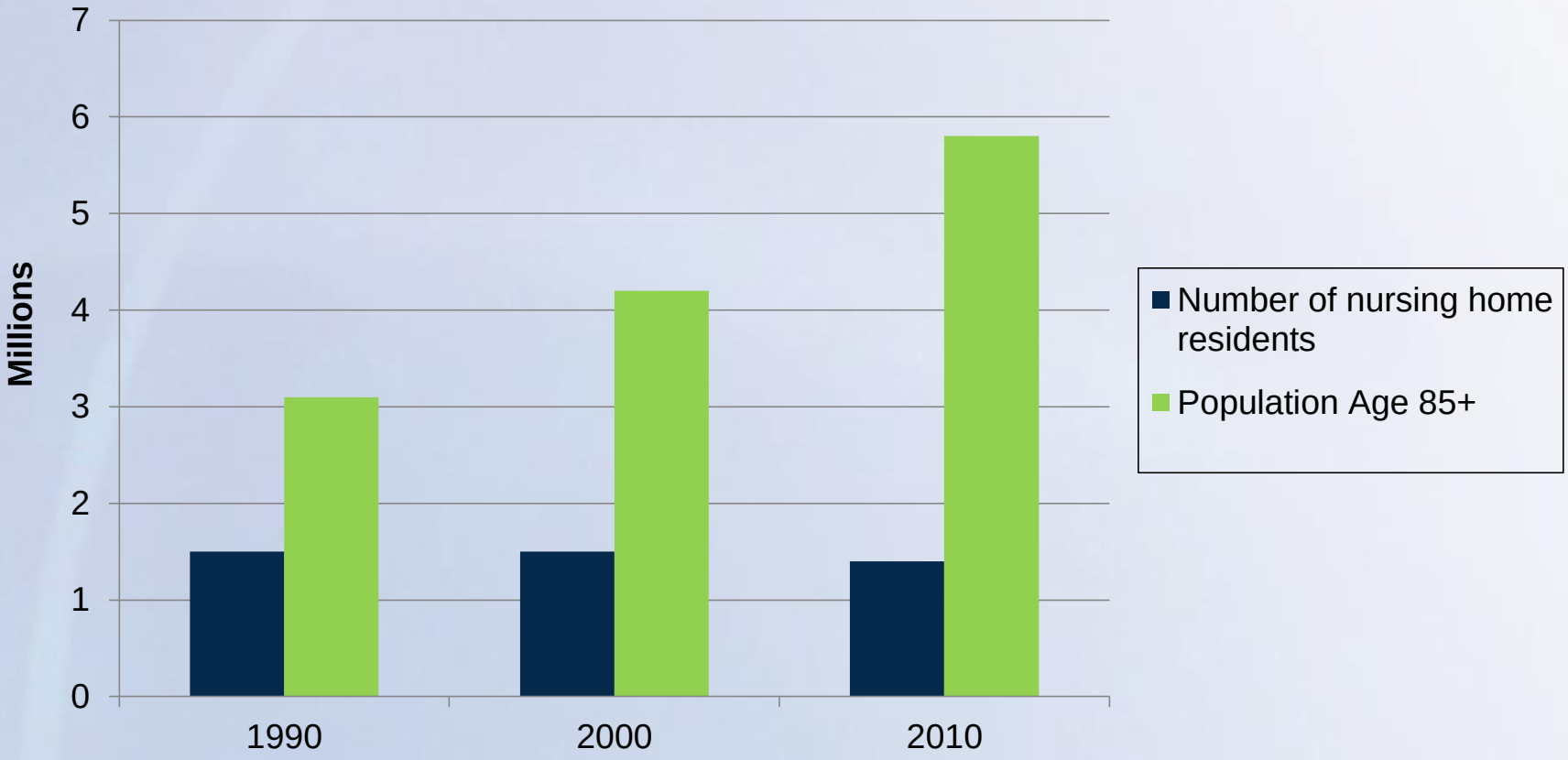
Source: Truven Health Analytics, various years; Centers for Medicare & Medicaid Services, various years; National Health Policy Forum.

Projected Public Long-Term Care Expenditures (All Ages) in Selected Countries, as a Percentage of GDP, 2005 and 2050



Source: OECD, 2006.

Population Age 85 and Older and Number of Nursing Home Residents, 1990, 2000, and 2010



Source: U.S. Census Bureau, National Center for Health Statistics, and American Health Care Association

Medicare Post-Acute Care Expenditures (in $ billions)

Service	1988	2011
Skilled Nursing Facilities	1.0	30.3
Home Health	1.9	18.5
Hospice	0.0	13.7
TOTAL	2.9	62.5

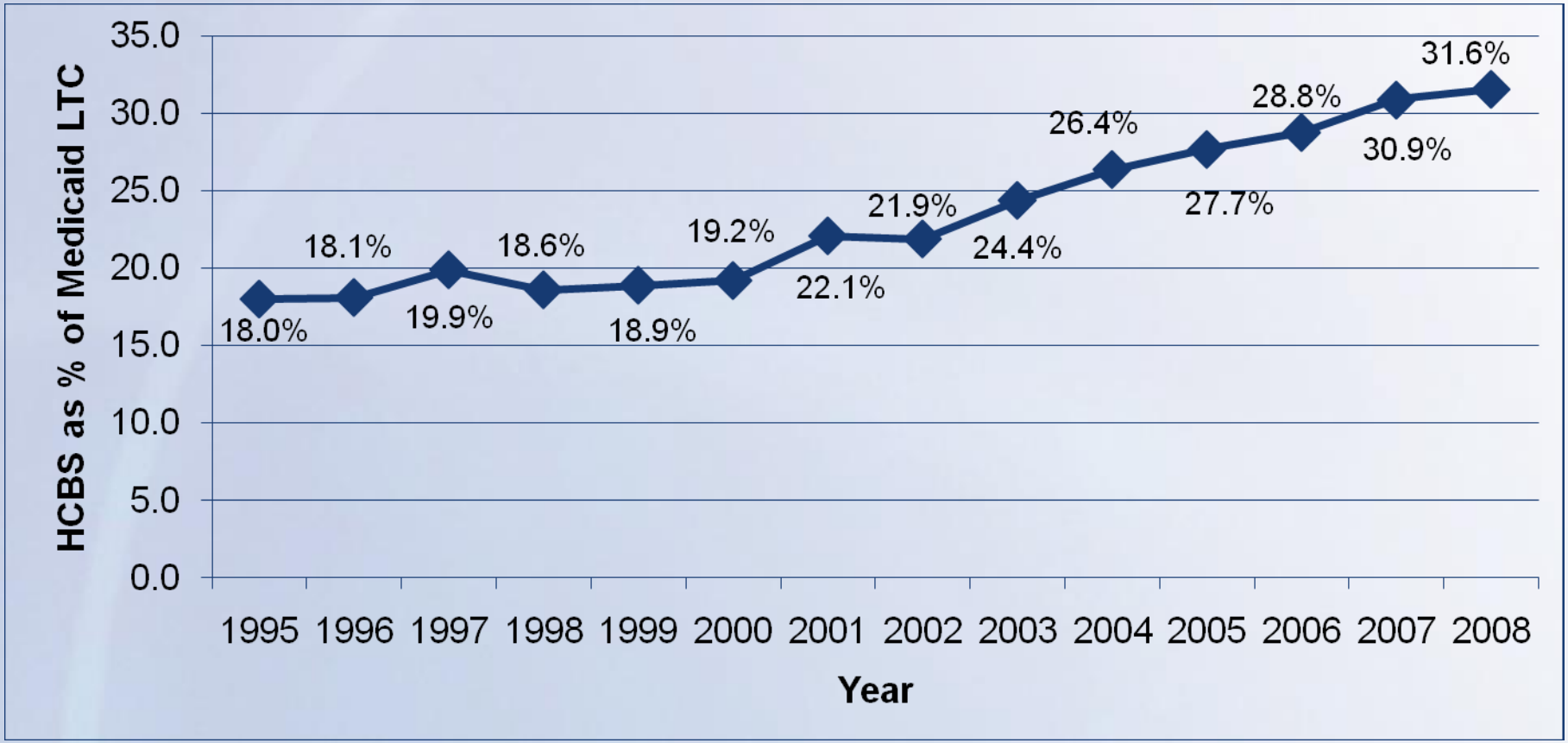
Source: Centers for Medicare & Medicaid Services, 2012

Medicaid Expenditures for LTC, 1988 and 2011 (in $ billions)

Type of Service	1988	2011
Non-institutional LTC Services	2.4	64.3
Nursing home	14.6	52.4
ICF-IID	5.9	13.3
Mental health facilities and mental health DSH	1.5	6.2
Total LTC	24.4	136.2
Total Medicaid	58.6	410.9

Source: Truven Health Analytics, various years

Percentage of Medicaid LTSS for HCBS, for Aged and Disabled, 1995–2008



Source: Thomson Reuters, various years.

Medicaid Transitions by Age and Transition Status

Medicaid Transition Measure	<65 in 1996 (%)	65+ in 1996 (%)	Total (%)
Non-Medicaid at Baseline	6.9	12.9	9.6
Medicaid at Some Time During Study Period	68.0	61.9	64.2
Total Population at Baseline	6.6	11.8	9.0

Source: RTI International analysis of Health and Retirement Study merged with Medicare data.

Medicaid Transitions by Use of LTSS

Spend Down Measure	No LTSS Use (%)	Only Personal Care (%)	Only Nursing Home Care (%)	Nursing Home & Personal Care (%)	Total (%)
Non-Medicaid at Baseline	46.1	7.1	33.1	13.7	100.0
Medicaid During Study Period	48.0	7.0	31.1	13.2	100.0
Total Population	45.4	7.3	33.3	14.0	100.0

Source: RTI analysis of Health and Retirement Study merged with Medicare data.

Financial Status of Long-Term Care Medicaid Transition Population at Baseline, by Quartiles, 1996

	Total Assets Less IRAs (%)				
Income Quartiles	$0–38,899	$38,900–111,999	$112,000–251,999	$252,000+	Total
$0–15,939	39.0	17.9	4.8	0.7	62.4
$15,940–31,908	9.8	9.0	6.2	2.2	27.3
$31,909–60,999	2.5	2.6	1.5	1.6	8.1
$61,000+	0.4	0.5	0.3	1.0	2.2
Total	51.7	30.0	12.8	5.6	100.0

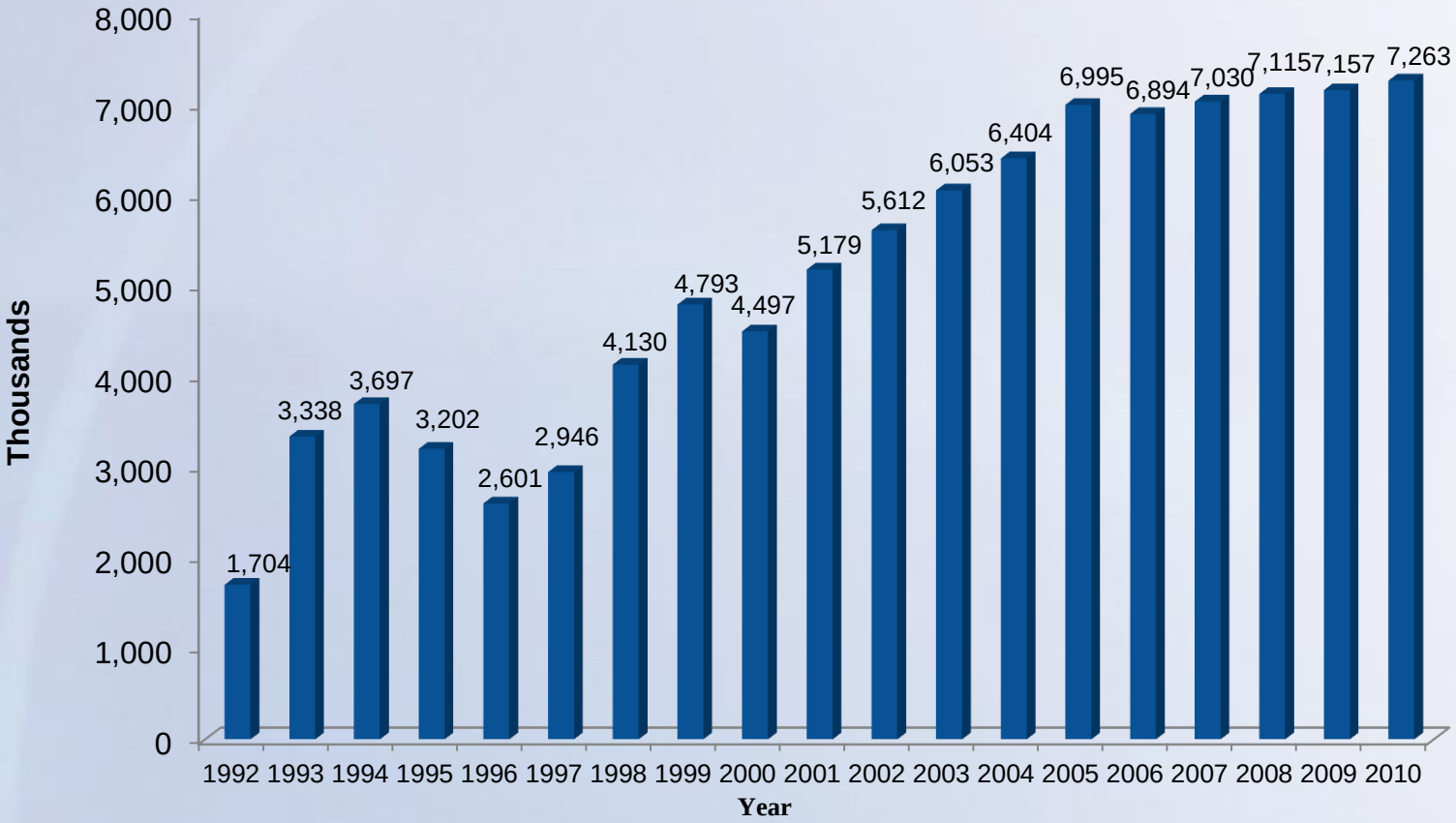
Source: RTI International analysis of Health and Retirement Study merged with Medicare data.

Quartile classes are determined by the income and assets of the total population at baseline.

Transfer of Assets a Small Problem

- Claim by some that large number of people transfer assets to appear artificially poor to qualify for Medicaid
- Transfer of assets is relatively infrequent and usually involves quite small amounts of funds (Bassett, 2004; Lee, Kim and Tannenbaum, 2006; O'Brien, 2005; Norton, 1995; Sloan and Shayne, 1993, Waidmann and Liu, 2006)
- Wiener et al. (2013) found that transfer of assets rate for people who spend down was half the rate of people who do not spend down
- Maximum estimate of asset transfer is about 1 percent of Medicaid nursing home expenditures (Bassett, 2004; Waidmann and Liu, 2006)

Number of People with Private Long-Term Care Insurance, 1992-2010



Source: National Association of Insurance Commissioners, 2011

Private Long-Term Care Insurance

- Dream not matched by reality: 12% of 65 and older; 5% of 45 and older
- Market collapse, especially since recession:
  - Most insurers exit market
  - Most insurers have substantially raised premiums (100% not unusual)
  - Tighten underwriting and reduce benefits
- What's going on? Accurately pricing premiums is impossible
  - Low to negative rate of return on reserves
  - Lower lapse rate than assumed

Options to Promote Private Long-Term Care Insurance: Tax Incentives

- Goal of tax incentives for private long-term care insurance is to make product more affordable
- Tax incentives ineffective in substantially increasing number of people with policies
  - Wiener, Illston and Hanley (1994) found that a 20% nonrefundable tax credit increases the number of people with insurance by a third
  - Nixon (2006) found that offering a state tax incentive did not increase market penetration
  - Kim (2008) found the price elasticity of private long-term care insurance to be -0.08

Tax Incentives for Private Long-Term Care Insurance

- Goda (2010) found that average tax subsidy increased private long-term care insurance coverage rates by only 2.7 percentage points

- Tax loss would not be offset by Medicaid savings
  - Wiener, Illston, and Hanley (1994) found that Medicaid savings would not offset the lost revenue
  - Goda (2010) found that a dollar of state tax expenditure produces approximately $0.84 in Medicaid savings, half of which would result in savings to federal government. State tax incentive would be 100% state funded
  - Wiener, Illston, and Hanley (1994) found that tax incentives are likely to be regressive, flowing mostly to well-to-do and upper middle income people

Partnership for Long-Term Care

- Allows people who purchase state-approved private long-term care insurance to become Medicaid eligible, while keeping more of their assets than usually allowed
- Life-time asset protection without buying a lifetime policy, which no longer exist
- Not succeed in increasing long-term care insurance penetration—about 3.2 percent of 65+ in 4 states with longest experience (California Partnership for LTC, 2010; Guttchen, 2011; Indiana Long-Term Care Insurance Program, 2010; New York Partnership for Long-Term Care, 2010, U.S. Census Bureau, 2011).

Partnership for LTC (cont.)

- Shorter periods of coverage still expensive; 2 year coverage at age 60 with compound inflation was $2,400 in 2010 (Federal Long-Term Care Insurance Program)
- Partnership purchasers have higher income and higher assets (General Accountability Office, 2005)
- Partnerships likely to increase Medicaid expenditures (Sun and Webb, 2013)

Public Long-Term Care Insurance

- Societal responsibility
- Failure of private sector and means-tested programs to solve problems
- Long-term services and supports should be treated same as medical care
- Mandatory public long-term care insurance, financed by combination of taxes and premiums
  - Netherlands, Germany, and Japan; starting in Taiwan and Korea, even movement in England
  - Non-means tested programs in Scandinavia
  - Hawaii Long-Term Care Commission propose bare bones program, which state is investigating

Which Way for Long-Term Services and Supports Financing?

- Increasing number of older people means higher spending, but it is a manageable problem
- Medicaid
  - Liberalize financial eligibility criteria
  - Raise personal needs allowance in nursing homes
  - Expand home and community-based services
- Private Long-Term Care Insurance
  - Current model is not viable for more than small percentage of population
  - Model based on predicting the future 30 years from now is doomed

Which Way for Long-Term Services and Supports Financing?

- Strengthen regulation, especially inflation protection
- Tax incentives and Partnership for LTC not work
- Perhaps try to integrate into acute care insurance
- Front-end private insurance coverage not workable without very substantial subsidies

Public Insurance

- Failure of private insurance and limits of Medicaid leads to public insurance
- Join Hawaii in considering mandatory public insurance program for the state
- State examples may be necessary for national action, like state experiments in health insurance

Contact Information

Joshua M. Wiener, PhD
Distinguished Fellow
Aging, Disability and Long-Term Care
RTI International
701 13th Street, NW
Washington, DC 20005
(202) 728-2094
jwiener@rti.org