Improving the Financing and Delivery of Long Term Care



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FROM: JACKLIN KASPER
SUBJECT: IMPROVING THE FINANCE AND DELIVERY OF LONG TERM CARE
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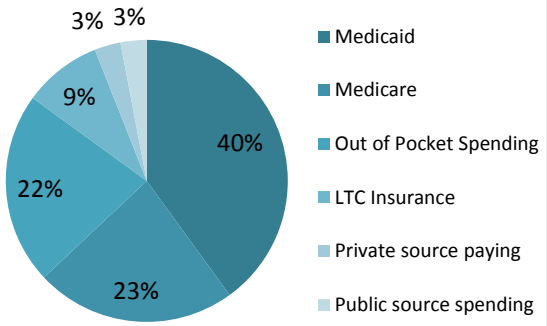
Executive Summary

Introduction

Health care has remained an important topic of debate with the inception of the Patient Protection and Affordable Care Act, which primarily focuses on coverage for physician and hospital services, however the growing costs of long-term care is rapidly becoming an issue that can no longer be ignored. Although many people will need some form of long-term care (LTC) assistance, most are not prepared for the financial burden it brings. We see that individuals' lack of knowledge and inadequate planning, coupled with the limited options for affordable private long-term care insurance (LTCI) has left many consumers without coverage causing substantial financial strain when LTC services or supports are needed.[1]

It has been shown that the cost for LTC is continuing to rise. Due to the fact that most Americans do not plan in advance for LTC, government programs currently account for 63 percent of the LTC funding, with Medicaid paying for 40 percent and Medicare paying for 23 percent.[2] The remaining 37 percent comes from out-of-pocket spending paying for 22 percent, LTC insurance paying for 9 percent, other private sources paying for 3 percent and other public sources paying for 3 percent.[3] This cost breakdown, seen in figure 1, does not include the unpaid care provided by family members and friends.

Figure 1: Long Term Care Funding



To date, there has been a lack of viable policy options to address the challenges related to the delivery and financing of LTC. The objective of this report is to:

1. Understand the issues facing the delivery and financing of LTC in this country

2. Identify policy and other options to expand LTC coverage and provide support for family caregivers that are left to fill the gaps, with a focus on policy options that will drive increased participation in the private LTC market

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[1] Brown, J. R., & Finkelstein, A. (2009). *"The Private Market for Long-Term Care Insurance in the U.S.: A Review of the Evidence."* The Journal of Risk and Insurance, 76(1), 5–29. Retrieved from: http://doi.org/10.1111/j.1539-6975.2009.01286

[2] Henry J. Kaiser Family Foundation. (2011, March). *"Medicaid and Long-Term Care Services and Support"*, Retrieved from http://www.kff.org/medicaid/upload/2186-08.pdf

[3] Ibid.

Recommendation and Conclusions

The recommendations below are a first step to reforming the financing and delivery of long-term care.

Marketplace Reform

- **Tax Incentives**. Provide an income tax deduction and/or tax credit to incentivize the purchase of LTCI. Permit the use of pre-tax dollars under cafeteria plans and flexible spending accounts and exercise funds from retirement accounts (without penalty) to purchase LTCI.

- **Revise Medicaid Eligibility Requirements**. Combined with other reforms, revised Medicaid eligibility requirements could re-focus the program on the neediest beneficiaries while still assuring affordable coverage options for middle income Americans.

- **Education Campaign**. Provide for a jointly funded, public-private outreach campaign targeted at misperceptions and identification of financial risk for not purchasing LTCI.

- **Link LTCI to the Purchase of Health Insurance**. Mandate the offering of LTCI by employer in connection with health insurance.

- **Standardized LTCI options**. Establish a simple, core set of LTCI options that all organizations must offer (similar to Medigap but with flexibility to offer non-standardized products). This will facilitate a market where insurance companies compete on price, not design, and consumers understand their options.

Caregiver Support

- **Respite Benefit Requirement.** Require LTCI providers to offer a policy that covers respite care services. Respite care is temporary care relief for families who help with the caregiving of a loved one giving them a break from their duties.

- **Expand and Provide Additional Funding to the National Family Caregiver Support Program.** This program currently provides grants to states based on their share of the population aged 70+.

- **Enact the Caregiver Advise, Record, Enable (CARE) Act.** If enacted in the state of Michigan, this legislation would support family caregivers as they safely help their loved ones live at home.

Although it has not received as much attention, future long-term care costs are likely to place enormous pressures on government and family budgets. The current system of financing care, with its reliance on Medicaid and Medicare, is not efficient and simply not working effectively for the majority of consumers, insurance carriers, and the government. New regulations, modifications to existing regulations, mandated product designs, tax incentives, and public education campaigns will all need to be part of the solution.

Background

Introduction

Public health improvements and medical breakthroughs have enabled millions of seniors' to live longer and healthier lives. However this increased longevity of the senior population also means that millions of people are likely to need long-term services and supports (LTSS). A 2011 HHS report found that 7 out of 10 people turning 65 today will eventually need help (whether paid or unpaid) with LTSS.[4]

Many Americans and their families are confronted with long-term functional and cognitive limitations and face the challenge of arranging and financing or providing the necessary assistance with performing daily activities. While transforming the delivery of health care has been at the top of the policy agenda, the need for LTSS has not. An effective system of LTSS is essential to enable older adults and persons with disabilities to live independently in the community.

What are Long-Term Service and Supports?

LTSS are defined as assistance with activities of daily living (ADLs) including bathing, dressing, eating, transferring, and walking as well as instrumental activities of daily living (IADLs) including meal preparation, financial management, house cleaning, medication management, and transportation. Together, ADLs and IADLs represent the skills that people usually need to be able to manage in order to live as independent adults.

LTSS are a distinct set of services from health care services, although they may include health-related services. LTSS are a critical element of support and service for persons who are receiving health care services for severe chronic health conditions or disabilities that contribute to their functional limitations.[5] These services include both paid and unpaid that are provided either by a family member or friend.

Who is impacted by Long-Term Service and Supports?

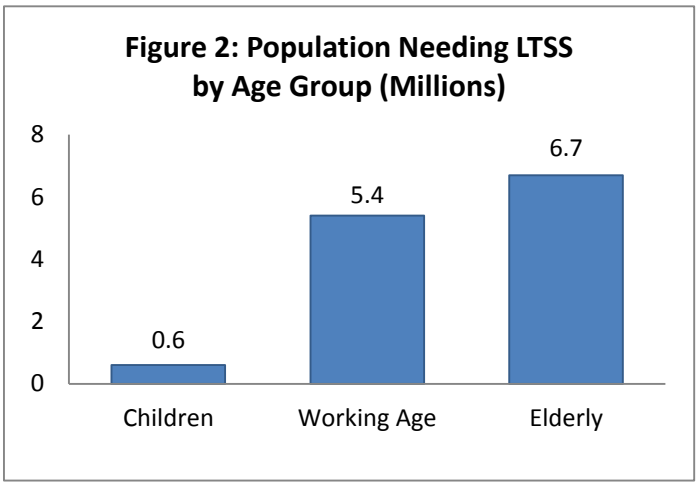
Responding to LTSS needs is often contingent on an individual's stage of life and circumstances. Children under the age of 18 are a small percentage of the total population requiring LTSS, but can have substantial needs that will last a life time. Their impairments are equally split between mental, physical and intellectual developmental disabilities. The top ranking conditions for working age adults with functional limitation between the ages of 18 and 44 who need LTSS include intellectual disabilities, paralysis and nervous system disorders and mental health disorders. Whereas, the majority of 45-64 age group have adult onset disabilities, primarily consisting of physical disability with a significant number of those also suffering from mental health disabilities. Nearly half of the physical functional impairments associated with LTSS needs of older adults have onset after age 56 and are caused primarily by arthritis, heart condition and diabetes. Dementia and stroke, however, are both major causes of impairment, especially for older adults needing LTSS who do not have physical impairments. Alzheimer's disease, the most common form of

[4] Spector William D. and Fleishman John A. (2001, January). *"The Characteristics of Long-Term Care Users,"* U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality Research Report. Retrieved from http://www.ahrq.gov/research/ltcusers/

[5] Bahr, Daniel, Spiro, Topher, and Calsyn Maur. (2014, October). "Reforms to Help Meet the Growing Demand for Long-term Care Services". Center for American Progress. Retrieved from: https://www.americanprogress.org/issues/healthcare/report/2014/10/31/100040/reforms-to-help-meet-the-growing-demand-for-long-term-care-services/

dementia, accounting for 60-80 percent of dementia cases, almost always results in the need for LTSS.[6] One in eight Americans over the age of 65 has Alzheimer's and the disease affects 42.5 percent of Americans over the age 85.[7]

Figure 2 shows the breakdown of the population needing LTSS by age group.[8] These different populations have different needs that can be met with similar services and supports, but are often provided in different settings or care systems. For the older population, ability to work is not a factor in eligibility for government assistance however for working-age persons with functional limitations; eligibility for income support and related health benefits is typically based on the inability to work.[9] The need for LTSS is related to functional impairment, which may exist in a context in which the individual is unable to work or in which assistance is needed to maintain employment. Many adults with functional limitations are able to work with personal assistance, workplace supports and other LTSS. LTSS needs will grow over time as the population continues to age.



Providers of Long-Term Services and Supports

The LTSS workforce includes, but is not limited to, nursing homes and assisted living administrators, physicians, nurses, social workers, physical and occupational therapists, aides, and ancillary staff who may be employees of home health agencies, nursing homes, or assisted living facilities.[10]

Family caregivers, who may be a relative, partner, friend or neighbor who provide assistance for a person who has functional limitation, play a crucial role in the delivery system, providing the majority of LTSS and often coordinating paid LTSS and health care on an unpaid basis. In 2009, about 66 million Americans provided unpaid care to family members and friends, which is equivalent to almost one-third of the U.S. adult population.[11]

Caregiving has been said to often cause financial, physical, and emotional hardship; caregivers have little to no training for the duties they are expected to carry out and have little access to information or support in navigating the LTSS system.[12] In addition, these caregivers are typically employed and cost their employers up to $34 billion annually in lost productivity from reduced hours, absenteeism, and workday distractions.[13] In 2009, informal caregiving was estimated to be valued upwards of $450 billion in unpaid services as compared to the $211 billion in spending on all paid caregiving. One survey found the average annual out-of-pocket expense for caregiving families is $5,541, more than 10 percent of the medical household income in 2007. Additionally, informal caregivers often forgo income-generating opportunities in order to care for a loved one, which can lead to insufficient planning and

[6] Alzheimer's Association (2013). 2013 Facts and Figures. Alzheimer's Association. Retrieved from http://www.alz.org/downloads/facts_figures_2013.pdf.
[7] Alzheimer's Study Group (2009). A National Alzheimer's Strategic Plan.
[8] Kaye, S. (2012). 2010 Census, Nursing Home Data Compendium 2010.
[9] Ibid.
[10] Bipartisan Policy Center. (April 2014). *America's Long-Term Care Crisis: Challenges in Financing and Delivery* Retrieved from http://bipartisanpolicy.org/wp-content/uploads/2014/03/BPC-Long-Term-Care-Initiative.pdf
[11] Ibid.
[12] Ibid.
[13] Ibid.

saving for their own retirement and future LTSS needs. The challenges family caregivers face threaten to increase the use of paid care placing a burden on the private financial resources and stress on the publicly finance programs.[14]

This type of care should not be underestimated as families typically expect and prefer to care for a loved one with a chronic illness or disability. In surveys, most Americans say they would feel obligated to care for a parent who needed assistance.[15] However, many family caregivers have no alternative to providing care themselves due to the expense of paid care.

Long-Term Service and Supports Financing

Complexities seen in the delivery of LTSS is mirrored by the complexities in the financing system. A number of financing options have been available to help pay the costs associated with LTC services, including personal savings and assets, private LTCI, and the public Medicaid program.

It was thought by many that private LTCI would play a main role in financing LTC for the growing number of baby boomers as they aged. That role would supplement financing by personal savings and retirement accounts, which for many middle-income families would not be adequate to pay for LTSS. It was also hoped that LTCI could mitigate the use of Medicaid as an LTSS financing vehicle, as it was already under financial pressure at state and federal levels. Many insurance companies entered the market to meet this need and pursue this business opportunity. Unfortunately, over time, it became apparent that the traditional model of LTCI products was more expensive for consumers and more risky for carriers than many originally anticipated. Market penetration lagged behind expectations. This, along with the extended low interest rate environment and the difficulty of predicting "long-tail" potential future claims, raised concerns for a number of carriers.[16] For years, carriers underestimated how many consumers would let their insurance drop before they went to claims. It was a common assumption of LCTI companies that as premiums increased and as buyer's disposable income shrank; a certain percentage would drop coverage. The phenomenon known as the lapse rate, increased returns to insurers and allowed them to keep premiums under control.[17] However, the lapse rates have consistently been much lower than the companies planned. These conditions prompted carriers to discontinue selling the traditional LTCI product and a market consolidation began. Many existing policy holders were impacted by premium increases and in general, consumers now face higher premiums, more restrictive underwriting practices, and less robust product benefits than had been offered in the past.[18] Less than 10 percent of the elderly have private LTC insurance.[19] Without a strong reliance on private LTCI coverage, the public sector will see its expenditures grow rapidly.

Due to the fact that most Americans do not plan in advance for LTC, government programs currently account for 63 percent of the LTC funding, with Medicaid paying for 40 percent and Medicare paying for 23 percent.[20] Many people think that Medicare will pay for their LTC needs but Medicare only covers short-term post-acute care after discharge

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[14] L. Feinberg, S. Reinhard, A. Houser, R. Choula. Valuing the Invaluable: 2011 Update: The Growing Contributions and Costs of Family Caregiving. 2011; http://assets.aarp.org/rgcenter/ppi/ltc/ i51-caregiving.pdf.
[15] Ibid.
[16] Ibid.
[17] The Federal Long Term Care Insurance Program. *What is a Lapse and Why are Lapse Rates Important?* Retrieved from https://www.ltcfeds.com/start/aboutltci_lapse.html.
[18] Bipartisan Policy Center. (April 2014). *America's Long-Term Care Crisis: Challenges in Financing and Delivery* Retrieved from http://bipartisanpolicy.org/wp-content/uploads/2014/03/BPC-Long-Term-Care-Initiative.pdf
[19] Burke, S.P., et al. (2005). "Developing a Better Long-Term Care Policy: A Vision and Strategy for America's Future." Washington, DC: National Academy of Social Insurance.
[20] Henry J. Kaiser Family Foundation. (2011, March). *"Medicaid and Long-Term Care Services and Support",* Retrieved from http://www.kff.org/medicaid/upload/2186-08.pdf

from a hospital.[21] Whereas Medicaid is the nation's major publicly-financed health insurance program, covering the acute and LTSS needs of millions of low-income Americans of all ages. Medicaid is the country's safety net health care program for people with low incomes as well as people who spend down their assets due to high health and long-term care expenses. Furthermore, people with disabilities that are willing and able to work, may not work or not work up to their potential in order to remain eligible for financial assistance with the cost of LTSS.[22]

According to the report *Medicaid and Long-Term Services and Supports*, out of the Kaiser Family Foundation, in the U.S., the majority of LTC is provided by unpaid caregivers – relatives and friends.[23] This care takes place in home and community based settings, allowing those who need long term service and supports to age in place. This unpaid care ranges from help with getting to doctor appointments or paying bills to more intensive care such as assisting with bathing. As one's daily care needs become more extensive, paid LTC delivered by medical professionals or para-professionals may be required in addition to or in place of family caregivers.

With limited coverage under Medicare and few affordable options in the private insurance market, Medicaid will continue to be the primary payer for a range of institutional and community-based LTSS.

Efforts of Reform

Policymakers, advocates, and researchers have tried unsuccessfully for decades to create alternative LTSS financing mechanisms. For example, in 1990, the US Bipartisan Commission on Comprehensive Health Care – also known as the Pepper Commission after its first chairman, Rep Claude Pepper (D-FL) – proposed social insurance for home and community based care, as well as for the first three months of nursing home care for all Americans, regardless of income.[24] Following the Pepper plan was an unsuccessful 1993 proposal of a the health reform plan from the Clinton administration that included a state-run home care program for people with severe disabilities with no restrictions on eligibility based on age or financial resources.[25]

The Patient Protection and Affordable Care Act signed into law on March 23rd, 2010 aims to increase access to home and community-based services through the Medicaid waiver programs. The law also established a national, voluntary insurance program for purchasing community living services and supports known as the Community Living Assistance Services and Supports program (CLASS Act). The CLASS program was designed to expand options for people who become functionally disabled and require long-term service and supports.[26] However, the CLASS Act was repealed after actuaries concluded that viable financing would require such high premiums that only high-cost enrollees would participate therefore making the program financially unsustainable.[27]

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[21] Singh, Douglas A. "Long-Term Care Policy: Past, Present, and Future." Effective Management of Long-term Care Facilities. Third ed. Vol. `. N.p.: Jones and Bartlett, LLC, n.d. 25-42. Retrieved from: http://samples.jbpub.com/9780763774035/74035_ch02_5368.pdf

[22] Long Term Care Commission. (September, 2013). *A Comprehensive Approach to Long-Term Services and Supports.*

[23] Reaves, Erica and Musumeci, MaryBeth. (May, 2015). *Medicaid and Long-Term Service and Supports: A Primer.* Kaiser Family Foundation. Retrieved from: http://files.kff.org/attachment/report-medicaid-and-long-term-services-and-supports-a-primer

[24] Favreault, Melissa and Johnson, Richard. (November, 2015). *Microsimulation Analysis of Financing Options for Long-Term Service and Supports.* Ubran Institute. Retrieved from http://www.thescanfoundation.org/sites/default/files/urban_institute_microsimulation_analysis_of_ltss_nov._2015.pdf

[25] Ibid.

[26] Foster Richard S. (2010, April). "Estimated Financial Effects of the "Patient Protection and Affordable Care Act," Department of Health and Human Services, Centers for Medicaid and Medicare Services. Retrieved from http://www.cms.gov/research/actuarial studies/PPACA2010-04-22.pdf

[27] Ibid.

In 2013, Congress established The Commission on Long-Term Care under the American Taxpayer Relief Act of 2012. The Commission was established with 15 members who sought to articulate a framework for considering future financing proposals. However, this 100 day process was challenged by many factors, including the lack of available statistical modeling to evaluate various policy proposals. The Commission completed its work and submitted its Final Report to Congress on September 30, 2013. The Commission provided 28 specific public policy recommendations in service delivery, workforce, and financing that would set a strong path forward for transforming systems of care to best meet people's needs while acknowledging today's fiscal realities.[28] They recognized that developing a full recommendation with board Commission agreement was not possible given the time and analytic resources available. However, they recommended a creation of a national advisory committee and convening of a 2015 White House Conference on Aging in coordination with the National Disability Council to focus on LTSS to further pursue national dialogue in order to move forward with development and implementation of a better and more comprehensive LTSS system.[29] The Commission is no longer active and is not receiving public comment.

Barriers to Long Term Care Insurance in Today's Marketplace

Despite the advantages of private long-term care insurance, widespread insurance coverage faces a number of challenges. First many older adults are simply unable to afford long-term care insurance as the cost rises with age, and affordable coverage may have benefits that provide insufficient protection. Affordability is an even more serious problem for those who delay purchasing coverage until older ages, when annual premiums are much higher.

In addition, those with health problems have difficulty purchasing LTCI. Private insurers generally decline to write policies for those in poor health, and as many as 15 percent of applicants are denied coverage because of health problems.[30] When those with health problems are offered insurance, medical underwriting raises their premiums, making their coverage less affordable. A related problem is adverse selection, which can undermine the private insurance market. At a given premium level, those who expect to use many services are more likely to purchase coverage than those who anticipate lower usage. While fewer younger individuals would be subject to medical underwriting exclusions, younger individuals typically have other spending and savings priorities.

The difficulty in understanding the complex array of options for long-term care insurance may inhibit some individuals from purchasing it, since knowing whether the decision is the "right" one may not be obvious for twenty years after the purchase is made. The long-term care shopper's guide distributed by the National Association of Insurance Commissioners suggests that buyers' should have an in depth level of knowledge before purchasing a policy. For example, it mentions the importance of knowing whether your policy will cover new kinds of facilities that may be developed in the future and suggests one be aware of how many facilities and home health agencies will charge.[31] This complexity is a large deterrent to the purchase of LTCI.

The presence of Medicaid coverage for long-term care needs is also a barrier. Some people become eligible for Medicaid due to their spending on paid LTSS, they "spend down" to Medicaid eligibility by spending nearly all their income and assets on services. However, it has also been suggested that individuals with high incomes are transferring assets to become Medicaid-eligible instead of planning for LTSS risk. With more people turning to

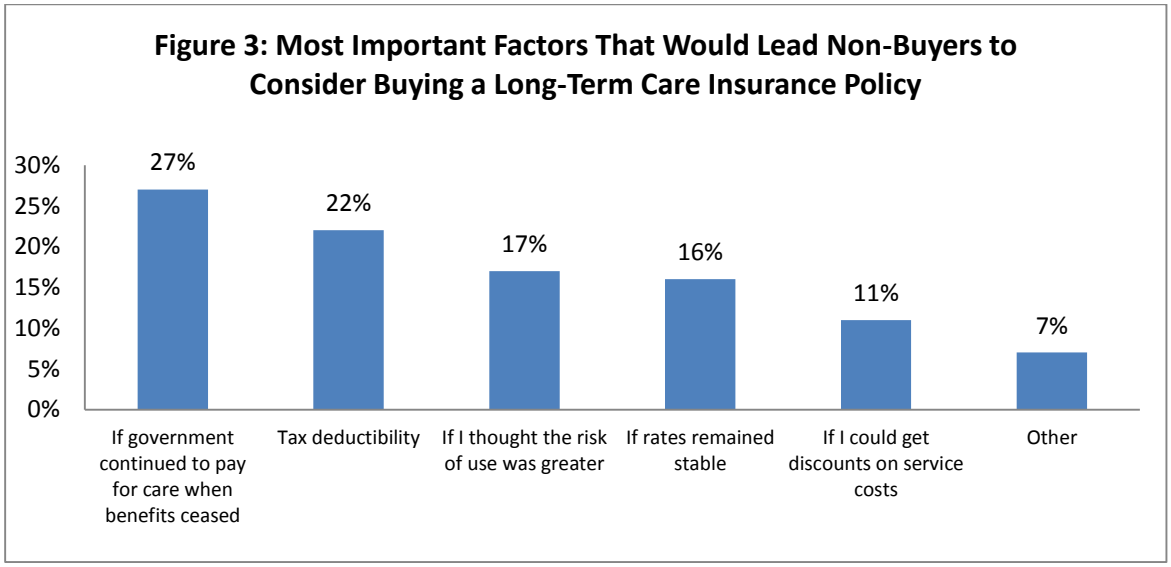
[28] Commission on Long-Term Care. (September, 2013). *Final Report: Commission on Long-Term Care.* Retrieved from http://ltccommission.lmp01.lucidus.net/wp-content/uploads/2013/12/Final-Report-Presentation-9-18-13.pdf
[29] Ibid.
[30] Johnson, Richard and Uccello, Cori. (March 2005). *Is Private Long-Term Care Insurance the Answer?* Center for Retirement Research at Boston College. Retrieve from: http://crr.bc.edu/wp-content/uploads/2005/03/ib_29.pdf.
[31] National Association of Insurance Commissioners, Shopper's Guide to Long-Term Care, http://www.naic.org/index_ltc_section.htm.

Medicaid coverage and not purchasing LTCI, premiums for private insurance continues to remain high discouraging potential buyers.

Another barrier to the uptake of LTCI is the fact that people do not think they will need it and are unwilling to invest in something they are not sure they are going to use. Agents often site studies that state 70 percent of people will need LTSS at some point in their lives but many people put themselves in the 30 percent category and choose not to purchase LTCI thinking that they can self-fund it or that their children will provide the help they need.[32]

A study recently found that many people regard LTCI as having no real value if ultimately the payouts are not needed. Instead of looking at LTCI primarily as financial protection, many people think of it as an investment and not a wise one. They see the premiums as money that would be wasted if the policy owner ultimately does not need LTSS. They don not think about the catastrophic losses a policy could help them avoid. There are large educational issues around the probability of needing LTSS, how high the costs are and how LTCI can help.

Non-buyers of LTCI were asked to identify the single most important factor that would make them more interested in buying a policy; their responses are in figure 3.[33]



[32] Senior Market Sales. *9 Reasons People Don't Buy LTCI – and Why They're Wrong.* Retrieved from https://www.seniormarketsales.com/go/sms/articles/long-term-care-articles/9-reasons-people-done28099t-buy-ltciand-why-theye28099re-wrong/.

[33] LifePlans, Inc. (September, 2013). *Long-Term Care Insurance: Barriers to Purchase and Opportunities for Growth.* Retrieved from file:///C:/Users/Kasper/Downloads/Brief2FinalDraft10.21.13%20(1).pdf.

Research and Recommendations

Principles for Long-Term Care Reform:

Before recommending potential policy ideas, we set forth the following principles to guide our policy development:

- **Consumers**– Recognize that consumers are the key stakeholders when making LTC policy decisions; including affordable options for consumers who wish to stay in the community must remain at the forefront.

- **Affordability** –Long-term care insurance (LTCI) products need to be more attainable for a broader population of consumers.

- **Awareness and Understanding** –Need to provide support for education campaigns and new marketing channels to address information gaps, misperceptions, product complexity, and the importance of planning.

- **Government Outlays** – Program design must have low budgetary impacts, and ideally result in corresponding Medicare or Medicaid cost savings.

- **Market-Based Solution** – Regulatory reforms are needed to improve market functioning and protect consumers.

- **Caregiver Support** – Any legislation should support the nation's family caregivers who currently account for the majority of all LTSS provided.

- **Existing Public Program and the Safety Net** – Attention should be given to the role Medicaid and Medicare can play in a reformed LTSS delivery system, while acknowledging the political reality of expanding or tightening entitlement programs.

Policy Ideas

Many reports were reviewed to collect different types of policy ideas. Most policy ideas fell into the following three categories: Public Sector, Private Sector and Caregiver Options. A full list of policy ideas is documented separately from this paper.

Recommendation

A reformed LTC system should be comprehensive and have a goal of maximizing the efficient use of available resources at the individual, family and public levels. It should provide incentives to plan for the future purchase of, or enrollment in, an affordable product. It also needs to encourage and support personal responsibility and family caregiving. Most importantly the economics should be sustainable over the long term. The recommendation below is a first step that can be attainable in the short term through the increased up-take of private LTCI.

Tax Incentives

Policymakers continue to pursue a number of initiatives to promote private LTCI, including the expansion of tax incentives. A tax policy that provides incentives for private LTCI is one way to ease the pressure and increase the availability of LTC coverage to those who need it. In 1996, through the passage of the Health Insurance Portability and Accountability Act (HIPAA), private insurance premium is an acceptable method of pre-funding LTC costs.

Under HIPPA, premiums for qualified LTCI policies were given favorable tax treatment similar to that of accident and health insurance premiums. HIPPA provided that:[34]

1. Employer premium contributions for qualified LTCI are excludable from employee income, except for contributions under a cafeteria plan or flexible spending account/arrangement. Employers may deduct their qualified premium contributions as trade or business expenses.

2. Self-employed individuals may deduct qualified LTCI premiums as health insurance expenses, under special rules with specified maximum caps.

3. Tax-free distributions from Medical Savings accounts may be used to pay qualified LTCI premiums up to specified maximum caps.

4. Qualified LTCI premiums not covered by provisions 1-3 are deductible from income, as itemized medical expenses to the extent that such expenses exceed 7.5 percent of adjusted gross income, with specified maximum caps.

Due to the restrictions in these four provisions, only a small percentage of taxpayers can utilize any of these tax incentives. While there are benefits to setting caps, the way the caps work is they increase with age, therefore, minimizing the incentives for younger workers. This should be reviewed so that the caps are restructured to maximize the number of LTCI purchases. Another way to expand eligibility is to:

1. Provide deductions through cafeteria plans and flexible spending accounts.

2. Allow withdrawals without penalty from retirement accounts to purchase LTCI, such as 401K, 402B, IRA and Roth IRA accounts.

3. Provide income tax deductions and/or tax credits.

Federal subsidies for LTCI should be expanded by allowing employees to exclude amounts paid for long-term care premiums from income and payroll taxes, which could lead to expanding employer offerings resulting in purchases at younger ages when insurance in more affordable. In addition, Michigan should look into offering a tax incentive for the purchase of long-term care insurance. Tax incentives provide two important motivations to encourage the purchase of LTCI. First, the tax savings make the insurance more affordable and second, the existence of a tax incentive leads to publicity and education, making the public more aware of the option to pre-fund the LTC risk. In order to increase the positive effects of tax incentives, items such as an education campaign and revising Medicaid eligibility should also be pursed.

Education Campaign

Lack of knowledge around LTC, leads too many misperceptions. Therefore, advocacy for a jointly funded, public-private education campaign targeted at increasing awareness of both the problem and its solution would be very beneficial. Much of the hesitation about buying LTCI is wrapped up in a lack of knowledge about who covers such services. In a Prudential survey, more than half of Americans thought that Medicare or their private health insurance plan would cover long-term care benefits.[35] In addition to who covers this care there is also strong reluctance to purchase for several reasons, including the perception that costs are too high in relation to value and the overall lack of willingness to plan for LTC needs that may occur in the future. While an education campaign alone will likely not

[34] Joint Committee on Taxation. (March 2001). *Decription of Federal Tax Rules and Legislative Background Relating to Long-Term Care.* Retrieved from http://www.house.gov/jct/x-18-01.pdf.
[35] Prudential Research Report. (2010). *Long-Term Care Cost Study: Including consumer perceptions and cost trends by state and key metropolitan areas.* Retrieved from http://www.prudential.com/media/managed/LTCCostStudy.pdf.

increase the LTCI purchases, it is essential to increase public awareness and help to identify steps that can be taken by individuals to pre-fund their future LTC costs.

Medicaid Reform

Medicaid is the single largest payer for paid LTSS. Today, Medicaid pays for 42 percent of LTSS. One of the largest expenditures is the cost of nursing facilities. Due to this, there has been a lot of pressure to minimize Medicaid's per-diem reimbursements to nursing facilities.[36] Currently, Medicaid's per-diem rates average 20-30 percent below the rates paid by private-pay residents, with substantial variation within and between states.[37] These reimbursement levels are so low it has been argued that residents who pay with their own funds or private insurance are substantially subsidizing the costs of care for Medicaid residents.[38] This situation is likely only going to get worse as baby boomers age. However, a parallel growth of LTCI coverage could mitigate this effect. LTCI provides benefits at private pay levels, allowing more nursing facility beds to be filled at profitable rather than subsidized levels.

State Medicaid spending overall is putting pressure on state budgets and is likely to overwhelm both state and federal budgets in coming decades. While only a small percentage of Medicaid enrollees (6.4 percent) use LTSS, it accounts for nearly half (45.4 percent) of total Medicaid spending.[39] Growing Medicaid spending competes with education and other state spending priorities. In trying to reduce Medicaid spending, this tends to lead to the government cutting Medicaid reimbursements thereby threating the quality of care.

Combined with other reforms, revised Medicaid eligibility requirements could re-focus the program on the neediest beneficiaries while still assuring affordable coverage options for middle income Americans. Thoughtful changes could allow Medicaid to be strengthened in order to remain the safety net focusing on providing care to the needy and poor, not the upper-middle-class.

Standardized LTCI Options

To support supplementation of gap-filling, new regulations are needed for private long-term care insurance. LTCI organizations should be required to sell a standardized basic set of LTCI offerings to reduce benefit complexity, much like the Medigap market, in order to facilitate comparison and competition. This standardized set of benefits could be comprised of the following elements:

- Incentivizing desired behavior in LTCI by incorporating wellness discounts, deductibles, co-pays and/or co-insurance into product design.
- Flexible LTCI benefit designs that allow catastrophic policy designs with 1 or 2 year deductible period, providing more affordable options that may be more desirable to the younger generation.
- A policy that covers respite care services. Respite care is temporary relief care for families of children or adults with special needs, designed to help families and give them a break.

[36] American Academy of Actuaries. (2001). *Federal Tax Incentives for Long-Term Care Insurance: Actuarial Issues and Public Policy Implications.* Retrieved from http://www.actuary.org/pdf/health/ltc_tax_080101.pdf
[37] Cadette, W. (2000). *Financing Long-Term Care, Replacing a Welfare Model with an Insurance Model.* Public Policy Brief No. 59. Retrieved from http://levy.org.
[38] American Academy of Actuaries. (2001). *Federal Tax Incentives for Long-Term Care Insurance: Actuarial Issues and Public Policy Implications.* Retrieved from http://www.actuary.org/pdf/health/ltc_tax_080101.pdf
[39] Commission on Long-Term Care. (September, 2013). *Final Report: Commission on Long-Term Care.* Retrieved from http://ltccommission.lmp01.lucidus.net/wp-content/uploads/2013/12/Final-Report-Presentation-9-18-13.pdf

These products could then be sold in an on-line market and provide information and direct assistance to consumers, similar to the ACA's exchanges, in order to facilitate comparison-shopping.

Link LTCI to the Purchase of Health Insurance

Another option would be to link LTCI to the purchase of health insurance where it would be mandatory for the employer to offer LTCI in connection with health insurance. This gives enrollees the option of voluntarily purchasing an LTCI policy with health insurance. This exposure could increase take up without having to mandate coverage.

Caregiver Support

The strategy around improving LTC financing and delivery must include recognizing and supporting families in their caregiving role. Families bear the primary responsibility for LTSS. Most people who need LTSS rely exclusively on their families to get them. The large majority of people, who receive any LTC services, receive it from family caregivers; with most receiving all of their care exclusively from caregivers. As mentioned before while many caregivers willingly choose their caregiver roles, they are also often emotionally, physically and financially burdened by their caregiving responsibilities. Caregivers provide assistance with the ordinary activities of life, but they are also care coordinators. Further, many family caregivers provide increasingly complex medical care, often with little or no training.

Attention should be given to expand the National Family Caregiver Support Program (NFCSP) which currently provides grants to states based on their share of the population aged 70 and over, to fund a range of supports that assist family caregivers.[40] This program should provide additional funding to states and expand grant assessment to include those who are 60+ in age. To assure that families are able to care for their loved ones today and in the future, family caregivers must be at the center of a comprehensive approach to LTSS reform.

Another Act introduced in Michigan that could help caregivers but currently has not passed is the Caregiver Advise, Record, and Enable (CARE) Act which requires:[41]

- Hospitals and rehabilitation facilities to record the name of the family caregiver when one is admitted for treatment.
- Family caregiver to be notified if loved one is going to be discharged to another facility or released to their home.
- Hospitals and rehabilitation facilities to provide explanations and in-person instruction about medical tasks that the family caregiver will need to provide at home, such as transferring a person out of a wheelchair, giving them medication or caring for wounds.

Integrating family caregivers into a comprehensive LTSS system must appropriately engage family caregivers and address their needs. Thus, public programs providing LTSS or health care services to people needing LTSS should include family caregivers in all needs assessment and care planning processes, consistent with person-centered care, the assessment and care plan should include the needs of the family as well as the individual receiving services which the CARE Act can help with. While alone, family care giving is not a solution to pay for LTSS, but when combined with other options such as tax credits, better integration of care, and standardized policy designs family care giving

[40] Paying for Senior Care. (March 2015). *Respite Care from National Family Caregiver Support Program (NFCSP).* Retrieved from https://www.payingforseniorcare.com/longtermcare/resources/nfcsp_respite_care.html.
[41] Ryan, Elaine. (June 2015). *CARE Act: Help for Family Caregivers is here.* AARP. Retrieved from http://blog.aarp.org/2015/06/15/care-act-help-for-family-caregivers-is-here/.

might make the difference that enables a senior to continue receiving care in the home instead of moving into a residential community.

Considerations for Stakeholders

Shortly after concluding my recommendations, a report was released by HealthAffairs, titled, *Financing Long-Term Services and Supports: Options Reflect Trade-Offs for Older Americans and Federal Spending.* In this report they model mandatory and voluntary options, and subsidized vs. unsubsidized for the voluntary option. The most significant difference they found was between the voluntary and mandatory insurance programs; noting that any successful voluntary program must overcome several challenges including price, perceived value, adverse selection, and moral hazard.[42] In general, people who are in fair or poor health, have functional limitations, or are experiencing cognitive decline are much more likely to purchase voluntary insurance than people who are healthier. Any voluntary program that fails to control adverse selection is at risk of not being financially sustainable in the long term.

Additional analysis should be completed around the tax Incentive proposals. Allowing cafeteria plans and flexible spending accounts to pay for LTCI premiums would likely be effective to encourage pre-funding LTC costs however it has been omitted in the past due to expectations of large anticipated tax loss. This loss should be analyzed in comparison to the savings that could be expected with a decrease in Medicaid spending. In addition, using retirement money to pay for LTCI may also have the same tax loss issue which would hopefully be offset by future Medicaid savings and should be analyzed.

Conclusion

Although it has not received as much attention, future long-term care costs are likely to place enormous pressures on government and family budgets. With nearly half of all long-term care financed by Medicaid and less than 10 percent paid by private insurance, the U.S. system for financing this care may be unsustainable in the future.[43] Financing will be especially challenging once 77 million baby boomers reach their 80's.[44] The current system of financing care, with its reliance on Medicaid, is not efficient. It forces older adults into poverty before paying for any of their care and consequently penalizes savings. 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, admiration, choice, and transparency. Formulating these options will require daring and creative thinking. Therefore, a significant overhaul of the LTC financing system is needed as the current system is simply not working effectively or efficiently for the majority of consumers, insurance carriers or the government. A sustainable solution is best achieved through a strong collaboration between the public and private sectors to build on their combined strengths and ensure the millions who depend on long-term care have access to the services they need. New regulations, modifications to existing regulations, new product designs, tax incentives, and public awareness campaigns will all need to be part of the solution.

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[42] Favreault, M., Gleckman, H., and Johnson, R. (November, 2015). *Financing Long-Term Services and Supports: Options Reflect Trade-Offs For Older Americans and Federal Spending.* HealthAffairs. Retrieved from http://content.healthaffairs.org/content/early/2015/11/13/hlthaff.2015.1226.full.pdf

[43] Henry J. Kaiser Family Foundation. (2011, March). *"Medicaid and Long-Term Care Services and Support",* Retrieved from http://www.kff.org/medicaid/upload/2186-08.pdf

[44] Howard Gleckman. (2010). *Long-Term Care Financing Reform: Lessons from the U.S. and Abroad.* The Urban Institute. Retrieved from www.commonwealthfund.org/1368_Gleckman_longter_care_financing_reform_lessons_US_abroad.pdf.