

# Financing Long-Term Services and Supports for the Elderly

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## LTSS Financing – A Narrative Introduction

The long-term services and supports we need during disability in old age cost an average of more than \$100,000 per person during the last part of life.<sup>1</sup> Around half of us have no savings in retirement.<sup>2</sup> Left to drift, within a decade most Americans who lived in the middle class while working will be unable to afford housing, food, and medical care.<sup>3</sup>

Yet few Americans are insured against these supportive-services costs in the familiar way that we insure against costs of a medical need, fire, or auto accident. Long-term care insurance is rarely even accessible, because the market for it has collapsed. Medicare does not cover long-term services and supports (LTSS) – although most Americans think it does.<sup>4</sup> Federal and state governments instead cover a limitless amount of personal care through Medicaid, but qualifying for Medicaid destitutes many of the disabled elder’s assets.

Large LTSS costs must come out-of-pocket until the elderly person qualifies for Medicaid, leaving American families with little protection from the loss of all assets and life savings built up during older generations’ career of work and savings. Better financing methods are available, but they must start very soon: accumulating savings takes years, and insurance typically must be purchased before old age.

## LTSS Financing – Key Facts

- More than half of Americans entering old age today will have a long-term need for constant attendance, averaging \$266,000 per person for about 2 years of serious self-care disability. More than half will be out-of-pocket.<sup>5</sup>
- The population age 85 or older is set to double between 2015 and 2032, and triple by 2050. This aging will outpace the number of working-age family members who can help seniors financially or with unpaid care.<sup>6</sup>
- **Millions of older Americans – 1 in 7 – will need LTSS for more than 5 years**, with a price tag that would impoverish most American households if they faced that need.

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<sup>1</sup> Melissa Favreault and Judith Dey, “Long-Term Services and Supports for Older Americans: Risks and Financing,” Research Brief, ASPE Issue Briefs (U.S. DHHS, February 2016), <https://aspe.hhs.gov/system/files/pdf/106211/ElderLTCrb-rev.pdf>, p. 5.

<sup>2</sup> “Most Households Approaching Retirement Have Low Savings,” Retirement Security (Washington, D.C.: Government Accountability Office, May 2015), <https://www.gao.gov/assets/680/670153.pdf>, Table 4, p. 14.

<sup>3</sup> Caroline F. Pearson et al., “The Forgotten Middle: Many Middle-Income Seniors Will Have Insufficient Resources For Housing And Health Care,” *Health Affairs* 38, no. 5 (April 24, 2019), <https://doi.org/10.1377/hlthaff.2018.05233>.

<sup>4</sup> Richard W Johnson, “Who Is Covered by Private Long-Term Care Insurance?” (Urban Institute Program on Retirement Policy, August 2, 2016), <https://www.urban.org/research/publication/who-covered-private-long-term-care-insurance>, p. 4.

<sup>5</sup> Favreault and Dey, “Long-Term Services and Supports for Older Americans: Risks and Financing,” pp. 5-6.

<sup>6</sup> Ari Houser, Wendy Fox-Grage, and Kathleen Ujvari, *Across the States 2018: Profiles of Long-Term Services and Supports* (AARP, 2018), <https://www.aarp.org/content/dam/aarp/ppi/2018/08/across-the-states-profiles-of-long-term-services-and-supports-full-report.pdf>, p. 3.

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- The typical senior could afford **only about 12 months of nursing home care, assisted living care, or extensive home care** using their financial wealth.<sup>7</sup> Some can get by using unpaid (family) care, but most rely on a combination of paid and unpaid care.<sup>8</sup>
- New generations of American seniors have fewer caregivers, more isolated living arrangements, and more complex illnesses, each causing more serious disability.<sup>9,10,11</sup>
- Seniors who live longer have longer spells of need and higher financial burden from disability, plus they have less family support.<sup>12</sup>
- An elder with high LTSS needs is about **50% more likely to enter Medicaid when comparing seniors with similar finances earlier in life.**<sup>13</sup>
- Long-term care insurance (LTCI) is rarely available, and spiking premiums have pushed plan-holders to drop out. Only 11% of seniors have any private coverage for LTSS expenses, leaving almost all middle-class American families to spend their nest-egg and impoverish their family until they qualify for Medicaid.<sup>14</sup>
- Indeed, more than 1 in 5 middle-income seniors will end up impoverished, Medicaid eligible, and using Medicaid to cover their LTSS costs.<sup>15</sup>

## LTSS Financing – Solutions

The nature of LTSS needs makes them ripe for insurance: needs are unpredictable, and expensive for those with sustained need (six-figure annual costs could rack up for anyone who survives with frailty long into old age). Current market failures could be overcome through a prudent, pragmatic combination of public insurance and market-based private initiatives. With new funding, infrastructure for community-based services can tamp down LTSS need and reduce the costs of medical care.

### Insure most Americans against catastrophic LTSS needs.

- Very few Americans can independently save enough to privately cover even 75% of the risks of LTSS needs, and almost no one can have assets enough to pay for two decades of retirement including ten years of around-the-clock care – which are real risks. Truly catastrophic coverage requires pooling savings across large populations, which is a natural function of government.

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<sup>7</sup> Richard W. Johnson and Claire Xiaozhi Wang, “The Financial Burden Of Paid Home Care On Older Adults: Oldest And Sickest Are Least Likely To Have Enough Income,” *Health Affairs* 38, no. 6 (June 1, 2019): 994–1002, <https://doi.org/10.1377/hlthaff.2019.00025>, p. 998.

<sup>8</sup> Richard W. Johnson, “What Is the Lifetime Risk of Needing and Receiving Long-Term Services and Supports?,” Research Brief, ASPE Issue Briefs (U.S. DHHS, April 2019), <https://aspe.hhs.gov/system/files/pdf/261036/LifetimeRisk.pdf>.

<sup>9</sup> Houser, Fox-Grage, and Ujvari, *Across the States 2018*, p. 6.

<sup>10</sup> “America’s Long-Term Care Crisis: Challenges in Financing and Delivery” (Bipartisan Policy Center Long-Term Care Initiative, April 2014), pp. 15-16.

<sup>11</sup> Lindsay H. Ryan et al., “Cohort Differences in the Availability of Informal Caregivers: Are the Boomers at Risk?,” *The Gerontologist* 52, no. 2 (April 1, 2012): 177–88, <https://doi.org/10.1093/geront/gnr142>.

<sup>12</sup> Houser, Fox-Grage, and Ujvari, *Across the States 2018*, p. 6.

<sup>13</sup> Amber Willink et al., “Financial Stress and Risk for Entry into Medicaid Among Older Adults,” ed. Howard B Degenholtz, *Innovation in Aging* 3, no. 4 (August 1, 2019): igz040, <https://doi.org/10.1093/geroni/igz040>, p. 2.

<sup>14</sup> Johnson, “Who Is Covered by Private Long-Term Care Insurance?,” p. 2.

<sup>15</sup> Author’s calculations from Favreault and Dey, “Long-Term Services and Supports for Older Americans: Risks and Financing,” Table A8, p. 16. The three middle income quartiles would use Medicaid to finance their LTSS needs at a rate of 20.6%, the average of the three groups’ projected rates of 26.6%, 21.6%, 13.7%.

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- Without near-universal coverage of severe needs, insurance products will not be affordable enough to reduce care-related bankruptcy and reliance on Medicaid. Three consensus reports, each informed by Milliman Inc.’s actuaries, came to this conclusion as recently as 2016.<sup>16,17,18</sup>
- Catastrophic costs are different for persons with different assets and incomes, so a public program should recognize an array of thresholds at which governmental insurance kicks in. More than one year of around-the clock care is catastrophic for a low-wage and low-asset family, while a high-income family might be expected to absorb 4 years or more on their own before the public insurance starts picking up the costs. So, the federal government should initiate catastrophic coverage in a trust fund arrangement.<sup>19</sup>
- With universal catastrophic coverage, private savings and insurance products will have an important role in covering the first period of LTSS needs (front-end insurance).

### Foster insurance coverage for other LTSS needs through private market reforms or public options.

- Restructure the private market for broader participation in varied, high-value LTCI plans. Consumer advocates and industry have jointly suggested a suite of federal policies that either hinder affordability or could do more to assure consumer confidence in LTCI.<sup>20</sup>
- Employers could auto-enroll employees in viable LTCI plans, encouraged to do so through tax-reductions for LTCI purchases. Penalty-free use of tax-free savings to pay for LTCI premiums would double LTCI coverage and increase tax revenues on net. LTSS benefits could be sold alongside other government-facilitated insurance products like Medicare Advantage (MA), or Medigap plans.<sup>21</sup>

### Invest in infrastructure improvements for home- and community-based LTSS (called HCBS).

- The federal Medicaid program could incentivize states to cover HCBS and continue simplifying requisite waivers.<sup>22</sup> The federal and state governments should also promote HCBS capacity by funding state investments in housing, caregiving, and transportation supports.<sup>23</sup> The HCBS Infrastructure Improvement bill before the 116<sup>th</sup> Congress would fund all three supports, to increase the cost-effectiveness of Medicaid HCBS and better coordinate other programs.

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<sup>16</sup> “A Consensus Framework for Long-Term Care Financing Reform” (Convergence Center for Policy Resolution, February 2016), <https://www.convergencepolicy.org/wp-content/uploads/2016/02/LTCFC-FINAL-REPORT-Feb-2016.pdf>, p. 3.

<sup>17</sup> Marc Cohen, Judith Feder, and Melissa Favreault, “A New Public-Private Partnership: Catastrophic Public and Front-End Private LTC Insurance” (LeadingAge LTSS Center at UMass Boston; Urban Institute, January 2018), <https://bipartisanpolicy.org/wp-content/uploads/2018/01/Public-Catastrophic-Insurance-Paper-for-Bipartisan-Policy-Center-1-25-2018.pdf>, p. 10.

<sup>18</sup> Katherine Hayes et al., “Financing Long-Term Services and Supports: Seeking Bipartisan Solutions in Politically Challenging Times” (Bipartisan Policy Center, July 2017), pp. 25-26.

<sup>19</sup> Cohen, Feder, and Favreault, “A New Public-Private Partnership.”

<sup>20</sup> “Federal Policy Options to Present to Congress” (NAIC Long-Term Care Innovation (B) Subgroup, 2017),

[https://content.naic.org/sites/default/files/inline-files/cmte\\_e\\_res\\_mech\\_wg\\_related\\_federal\\_policy\\_issues.pdf](https://content.naic.org/sites/default/files/inline-files/cmte_e_res_mech_wg_related_federal_policy_issues.pdf).

<sup>21</sup> Katherine Hayes et al., “Financing Long-Term Services and Supports,” pp. 12 (employer auto-enrollment), 13-14 (use of tax-privileged savings and presenting LTCI alongside MA/Medigap plans).

<sup>22</sup> Katherine Hayes et al., “Initial Recommendations to Improve the Financing of Long-Term Care” (BPC, February 2016), <https://bipartisanpolicy.org/wp-content/uploads/2019/03/BPC-Health-Long-Term-Care-Financing-Recommendations.pdf>.

<sup>23</sup> Anne Montgomery et al., “Improving HCBS Infrastructure” (Brandeis Community Living Policy Center, 2019), <https://clpc.ucsf.edu/publications/improving-home-and-community-based-services-infrastructure-policy-proposal>.

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- Public health offices could enable communities to guide improvement activities by generating useful data and convening stakeholders across their communities to manage their local eldercare arrangements, as exemplified by the MediCaring Communities model.<sup>24</sup>
- Federal appropriations for the Older Americans Act should match population needs as they grow.
- Finally, non-medical benefits should extend to all Medicare beneficiaries. Under the CHRONIC Care Act of 2018, MA plans can cover non-medical benefits (for example, meals on wheels or rides to medical appointments). Most Medicare beneficiaries lack access, though: only private MA coverage can reimburse for these cost-saving services – and only a few MA plans have done so. Expanding these benefits could enhance the sustainability of Medicare and Medicaid programs by reducing total costs and could enhance population health by avoiding worsened disease and disability.<sup>25</sup>

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<sup>24</sup> Joanne Lynn, *MediCaring Communities: Getting What We Want and Need in Frail Old Age at an Affordable Price* (2016).

<sup>25</sup> “Next Steps in Chronic Care: Expanding Innovative Medicare Benefits.” Bipartisan Policy Center, July 2019.

<https://bipartisanpolicy.org/wp-content/uploads/2019/07/Next-Steps-in-Chronic-Care.pdf>.