Executive Summary

Most of us do not like to think about our future selves as elderly and frail, relying on others for help in managing our daily lives. In years past, such a future was far less likely, because the average life expectancy was shorter. Unlike today, medical advances were far less able to ensure survival from acute as well as chronic health conditions. In only a few generations, "old age" has gone from limited survival after retirement to "middle age" with almost twenty years of life ahead at retirement.

As welcome as this is, living longer has brought about a perplexing set of social and financial problems. Long-term care—the assistance needed to manage one's daily life, whether at home or in a care facility—is both expensive and likely. At age 65, a person has about a 70% chance of needing some type of long-term care in their future years. Sixty percent will incur costs, spending an average of $48,000; there is a 6% chance of costs exceeding $100,000.

Traditionally, most long-term care has been "informal" (unpaid) care provided by family and friends. Informal care remains the mainstay of caregiving, providing about two-thirds of the dollar value and 90% of the time value of long-term care in Minnesota. Yet its share as a percentage of total care has been declining in recent years. There is no question that the informal sector needs reinforcement and support. The question, however, for this report is: *who and how will we pay for long-term care when needed?*

Despite the likelihood of needing long-term care, many people are financially unprepared for this potential cost. While *total* retirement assets have increased significantly over the past few decades, many people have failed to save adequately for their retirement needs, and more specifically, they have not saved for long-term care.

Because so few are prepared to finance long-term care, the default financing source has become Medicaid. Medicaid was originally created to provide publicly funded health care for those in poverty. In order to qualify for long-term care under Medicaid, a person must relinquish virtually all assets and nearly all income. Despite this, 40% of the long-term care expenditures for the elderly in Minnesota in 2004 were financed by Medicaid.

How much money are we willing to personally set aside to ensure we have the care we want in our later years?

Medicaid is not sustainable as a default source of financing. If other forms of financing are not put in place, Medicaid funding for long-term care for the elderly could grow nearly fivefold in Minnesota, from $1.1 billion in 2010 to $5 billion in 2035. Unless we all agree to massive tax increases to pay for one another's long-term care, Medicaid as the fallback is unsustainable.

In 2009, a group of representatives agreed to fund and others agreed to participate in a Citizens League project aimed at developing a long-term care financing system for Minnesota. The participant group, composed of representatives from diverse backgrounds and perspectives is referred to as the Long-Term Care Collaborative in this report. After intensive study and review of the numerous challenges in addressing long-term care, and after convening a series of community workshops and focus groups, the Long-Term Care (LTC) Collaborative has agreed on a framework for financing long-term care in Minnesota, based on encouraging and supporting personal responsibility. In doing so, we also safeguard public support for those who are truly needy.

Goals

- By 2015, 50% of Minnesotans aged 45-65 will have some financial planning in place for their long-term care.
- By 2020, 85% of Minnesotans aged 45-65 will have some financial planning in place for their long-term care.

Recommendations

There are three essentials to creating an environment of personal responsibility: 1) strong **reasons** (i.e., Medicaid reform); 2) **opportunities** appropriate for varying family situations and financial capacities; and 3) the **knowledge** and information to make sound choices. Each is essential. Our recommendations follow accordingly.

1. Redesign Medicaid to provide a co-insurance option.
2. Make available and promote financial products, especially those aimed at middle income households: prize-rewarded savings; a new hybrid home equity/reverse mortgage product; and a broader mix of affordable insurance products.
3. Make unbiased information about long-term care planning and financial options readily available to the general public, so long-term care planning becomes an essential and ubiquitous part of retirement planning.

Will Minnesotans respond? Two-thirds of Minnesotans aged 42-60 are concerned about their ability to pay for long-term care. Eighty-six percent of Minnesotans surveyed said that developing new ways for helping people meet their long-term costs should be a top priority or a very important priority for government. The Long-Term Care Collaborative believes that given good information, appropriate financial products, and support through a Medicaid waiver, Minnesotans will respond positively to this call for action, and we will indeed meet our goals.

The situation is urgent. The first baby-boomers begin to retire this year, in 2010. Financial preparations for long-term care cannot be accomplished overnight, on either an individual or societal basis. Long-term care is everybody's business. Everyone carries some responsibility: the Governor and State Legislature; employers and businesses; social service and civic institutions; philanthropic organizations; and individuals and families. If we are to meaningfully address this enormous challenge, we must start **today**.