Citizens League

Common ground. Common good.

Frequently Asked Questions About the Citizens League Long-Term Care Financing Report and Recommendations

Why is the issue of long-term care financing in Minnesota an urgent issue?

This issue has a deep impact on the state budget, Minnesotans' quality of life, and the vitality of communities. Long-term care—the assistance needed to manage one's daily life, whether at home, in assisted living housing or in a nursing home — 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. Those who need care they will incur costs of $48,000 on average; there is a 6% chance of costs exceeding $100,000. Few Minnesotans are prepared for the cost, leaving Government (via Medicaid) as the default funding source, which is unsustainable. Medicaid, which was created to provide publicly funded health care for those in poverty, now pays for 40% of elderly long-term care expenditures in Minnesota and could rise from $1.1 billion in 2010 to $5 billion in 2035.

The first baby-boomers began to retire this year (2010). In only a few generations, "old age" has gone from limited survival after retirement to "middle age" with almost 20 years of life ahead at retirement. 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**.

Why aren't most Minnesotans preparing for long-term care costs today?

Through a combination of circumstances we've created a culture of avoidance when it comes to long-term care financing. Many Minnesotans believe government will cover the costs of long-term care. In fact, research has shown 40% of the state's baby boomers believe Medicare will pay for long-term care; it won't. Medicaid has become a disincentive for saving. Many view qualifying for Medicaid as an "entitlement" or "beating the system." Others can't afford or are priced out of private options. Others hide assets to qualify for government aid. And others simply want to avoid planning for life in old age.

What does the future Medicaid picture look like in Minnesota?

Unless we all agree to massive tax increases to pay for one another's long-term care, Medicaid as the fallback is unsustainable. 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 by 2050, from $1.1 billion in 2010 to $5 billion in 2035. Medicaid also will continue to be a disincentive to personal savings.

Why is Medicaid a "disincentive" to personal responsibility?
Medicaid's role as a safety net must be rethought, because the current Medicaid structure runs counter to encouraging the personal responsibility that is fundamental to any well-functioning, safety-net type program.

Embedded in Medicaid are a number of disincentives that have been researched and quantified. Perhaps the most significant disincentive is the poverty-based means testing. Medicaid currently operates as an "on-off" switch. A person is "on" if destitute, "off" if not. Under such rules, Medicaid benefits create an "implicit tax" on LTC insurance. The tax is equal to the amount of private insurance benefits that Medicaid would have otherwise paid. The higher the amount; the higher the "tax." Why bother purchasing insurance if Medicaid will pay? This "tax" has been estimated to be so significant that (on average) people are unwilling to pay for long-term care insurance until they reach the top 30% of income levels for men, and the top 40% for women. (Brown and Finkelstein, 2008)

The Medicaid "spend down" (to poverty) provision also encourages people to use their savings in less than optimal ways. Faced with nursing facility costs as high as $80,000 a year, even someone with $60,000 in savings has little incentive to use the savings for nursing care because she can envision ending up destitute and turning to Medicaid anyway. Similarly, one's home can be exempted from Medicaid's asset limits under certain conditions, so there is limited incentive to use one's home to help pay for care.

Research also points to other provisions that depress the private insurance market, including using Medicaid as a secondary payor and the inability to buy supplemental insurance for Medicaid (similar to supplemental Medicare insurance). Medicaid has also been shown to depress savings among certain income groups. (Hubbard et al, 1995)

Research makes clear that unless Medicaid is redesigned to remove disincentives for personal responsibility, other incentives (such as tax benefits) will have only marginal success. Medicaid redesign **must** be a component of any long-term care financing system. The implications of the research findings suggest that a more efficient role for Medicaid is one of co-insurer. Furthermore, the co-insurance must be aimed at families of middle incomes, or savings will not result.

Don't long-term care expenditures simply "go away" as Minnesotans die?
The lack of adequate personal funding and appropriate care does not result in expenditures that "go away" but *creates future liabilities* due to too little prevention and disease management, as well as financial and medical liabilities for family caregivers as they sacrifice their own earnings and health to care for others. For example, in 1999 the average loss of wealth for caregivers was estimated at $659,000 over their lifetimes (1999 dollars) including lost Social Security benefits of $25,000 and pension wealth of $67,000. The remainder accrued from lost wages. In addition, caregivers spent an average of $19,500 for out-of-pocket expenses to help the care recipient. (National
Alliance for Caregiving, 1999) Caregivers are also at higher risk of hypertension, pulmonary disease, diabetes and depression. (Johnson and Weiner, 2006)

Isn't the prize savings account recommended a form of gambling?
Prize-rewarded savings, which other states have successfully used, is not gambling—the depositor loses no money, and in fact earns interest (slightly below the going rate). Nevertheless, legislation would be needed to enable prize-rewarded savings in Minnesota. Banking laws also govern programs such as this. For a variety of legal and mission-related reasons, it is most efficient to launch prize-rewarded savings through credit unions rather than banks.

You recommend that a new reverse mortgage product be developed in Minnesota. Don't reverse mortgages already exist?
They do. But from a public policy perspective they have two major limitations. 1) It is better for seniors to hold on to large sums lost through transaction fees; and 2) the guaranteed nature and high fees encourage the selling of such loans no matter how the funds will be used. We're advocating a highly cost-effective "hybrid" product that allows seniors to tap their home equity for limited purposes (e.g., health and long-term care costs, and costs that allow them to remain in their homes) under terms far more favorable than existing reverse mortgage terms. A simple way to reduce the risk and have administrative costs would be to reduce the amount of equity that can be withdrawn, so that the ultimate home value (due to market forces or a lack of home maintenance) is of less risk.

Will Minnesotans respond to a new paradigm of personal responsibility for long-term care financing?
Two-thirds of Minnesotans aged 42-60 are concerned about their ability to pay for long-term care according to a statewide survey of baby boomers in 2007 by Ecumen. 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. Understanding this issues' impact on business, the Minnesota Chamber of Commerce has this year adopted a policy position on long-term care financing. The LTC Collaborative believes that given good information, appropriate financial products, and support through a Medicaid waiver, Minnesotans will respond positively to this call for action.

If we simply kept people healthier, wouldn't we solve the long-term care financing problem?
The LTC Collaborative agrees with the importance of efforts to reduce demand for long-term care; in fact, two Citizens League community workshops dealt explicitly with these topics (see Appendix C). However, it would be foolhardy to rely on reduced demand as the primary strategy. It simply is not possible to avoid long-term care costs. The same medical advances that keep people alive longer are those that contribute to the need for long-term care, because people are living more years with chronic conditions and disabilities.

Medical advances may increase rather than decrease health care costs for the elderly.
(Friedman, 2006; Fogel, 2008; Rand, 2008) A new study found that staying healthy actually increases the likelihood of higher lifetime medical costs due to more years of health expenses and the higher probability of nursing home care that comes with advanced age. (Wei San, Webb, Zhivan, 2010) One big exception, however, is addressing obesity. It has been estimated that nursing home costs could grow 10-25% above trend lines as a result of obesity (Reynolds, 2005).

Doesn't your focus on "personal responsibility" penalize Minnesotans who are impoverished?
The emphasis on personal responsibility is not an effort to remove financial support from those who are truly needy. In fact, quite the opposite is true: The LTC Collaborative believes that unless those with greater means contribute to the extent of their ability, support for the impoverished will be jeopardized.

Does the report pertain to young Minnesotans who need long-term care?
The report focuses only on long-term care for the elderly. While the struggles and needs of the non-elderly in long-term care are equally acute, their life and financial situations are rather different.

Who participated in and funded the Citizens League's LTC Collaborative?
Minnesota citizens with an interest in the issue were invited by the Citizens League to participate. Funding came from a variety of sectors, including: senior services, health care, non-profit, business, government, social services and philanthropy. A full sponsor list can be found on pg. 24 of the report.

What's next?
Long-term care is everybody's business. All Minnesotans have key responsibility areas and actions to achieve our goals in Minnesota. Page 17 of the report outlines these next steps. The LTC Collaborative will begin pursuing legislation in 2011.