

Moving Beyond Medicaid:

A State Budget and Life Quality Imperative

Presentation Overview

1. Overview public policy problem
2. Outline major challenges
3. Share recommendations

Problem

Unprecedented set of enormous costs (LTC) that we have not prepared for, either individually or through social insurance systems

Medicaid as the fallback funding source is **unsustainable**

Overview of Our Work

Objective:

Identify and facilitate the implementation of policy changes that create incentives for **personal responsibility** for long-term care, thereby ensuring a safety net for those in need.

1. Steering team of diverse perspectives
2. Community workshops, summer 2009
3. Focus groups to test out recommendations, March 2010

Workgroup

- Coalition of more than twenty funders contributing \$75,000
- Steering Team comprised of:
 - Agencies serving senior citizens and disabled
 - LTC insurance and health plan reps
 - Business
 - Policy organizations
 - Government

Problem

Personal Costs

Do you know of anyone who has turned to public assistance (Medicaid) to pay for their LTC?

Problem

Public Costs

How much does Minnesota spend each year to help seniors with their long-term care?

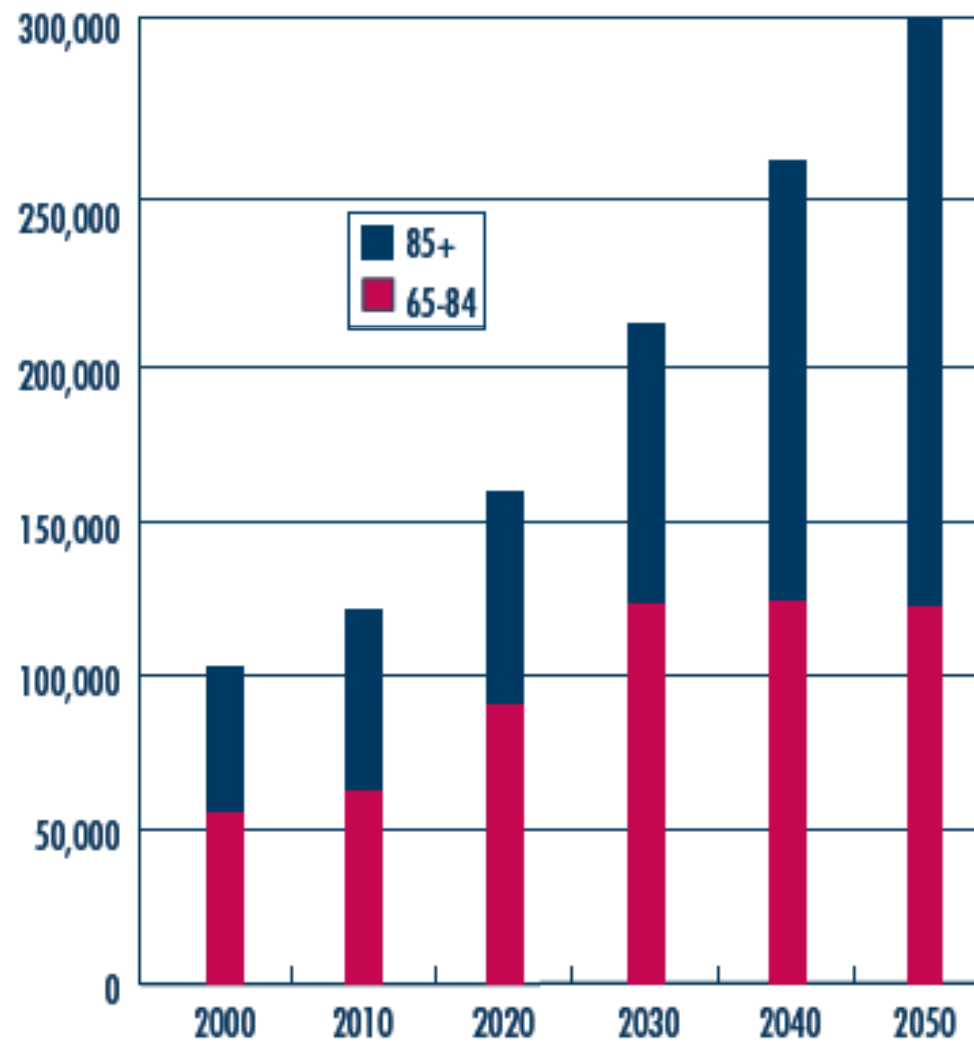
- \$1.1 billion in 2009
- Medicaid pays about 40% of LTC for seniors

Challenges

Financial pressures on Medicaid are largely demographically driven--by a group that has little time to save (baby boomers)

**Projected expenses:
\$1.1 billion in 2010 to
\$5 billion in 2035**

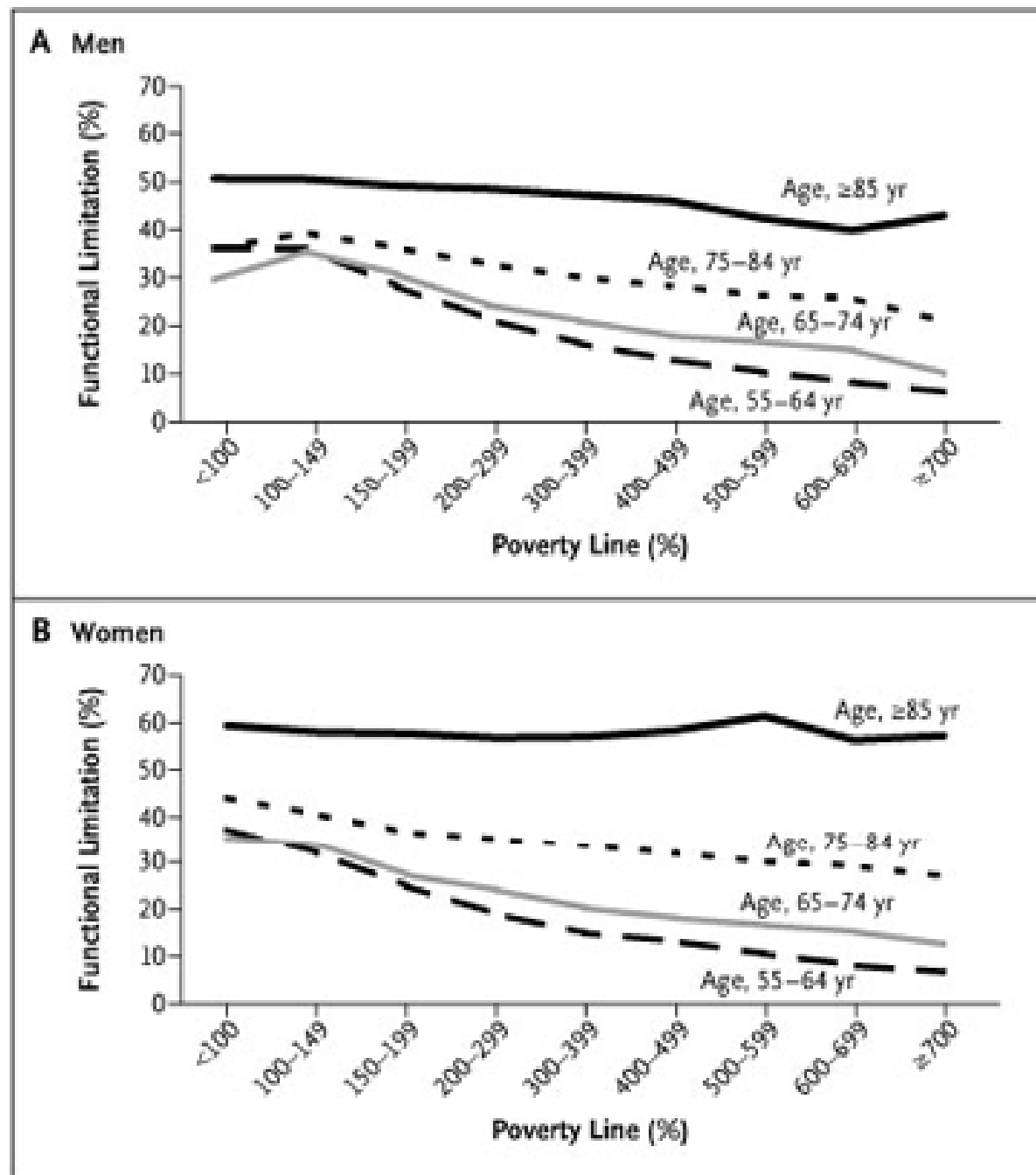
Figure 3. Minnesota's population 65-84 and 85+ in need of long-term care 2000-2050
(CBO, April 2004)



Challenges

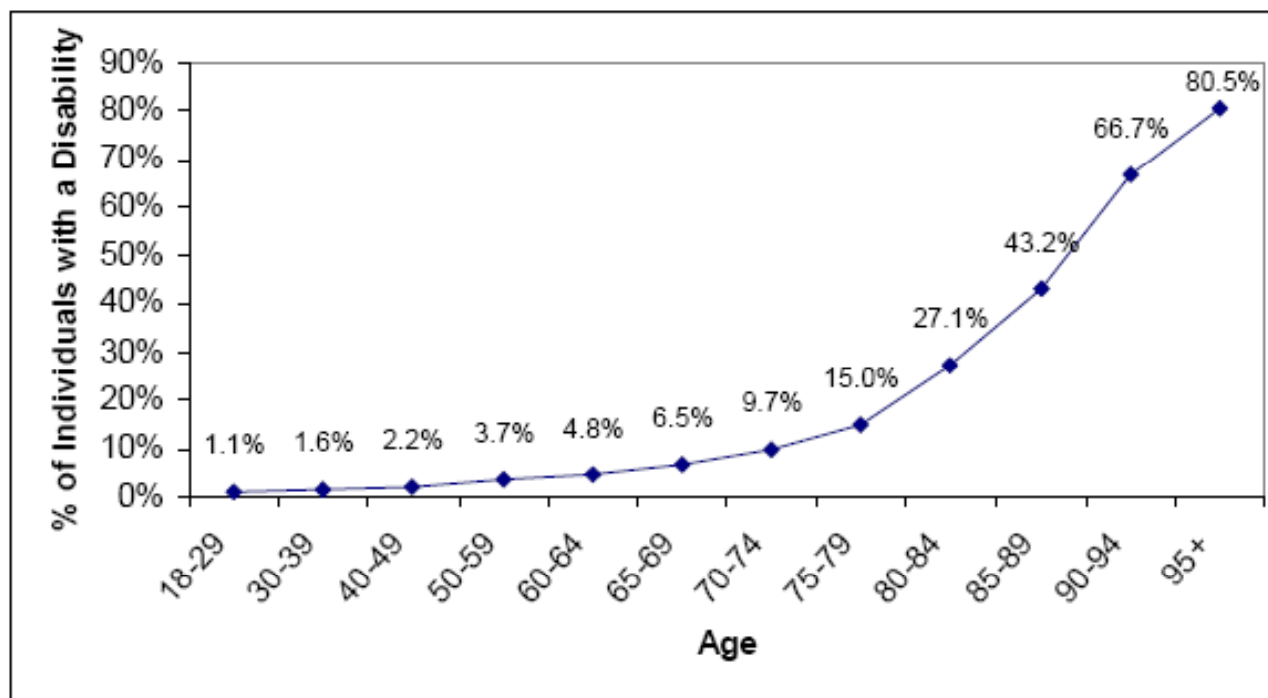
In younger years, those most likely to need LTC are least able to pay

Source:
New England Journal of Medicine, 2006



Challenges

Disabilities start to spike around age 85, regardless of income

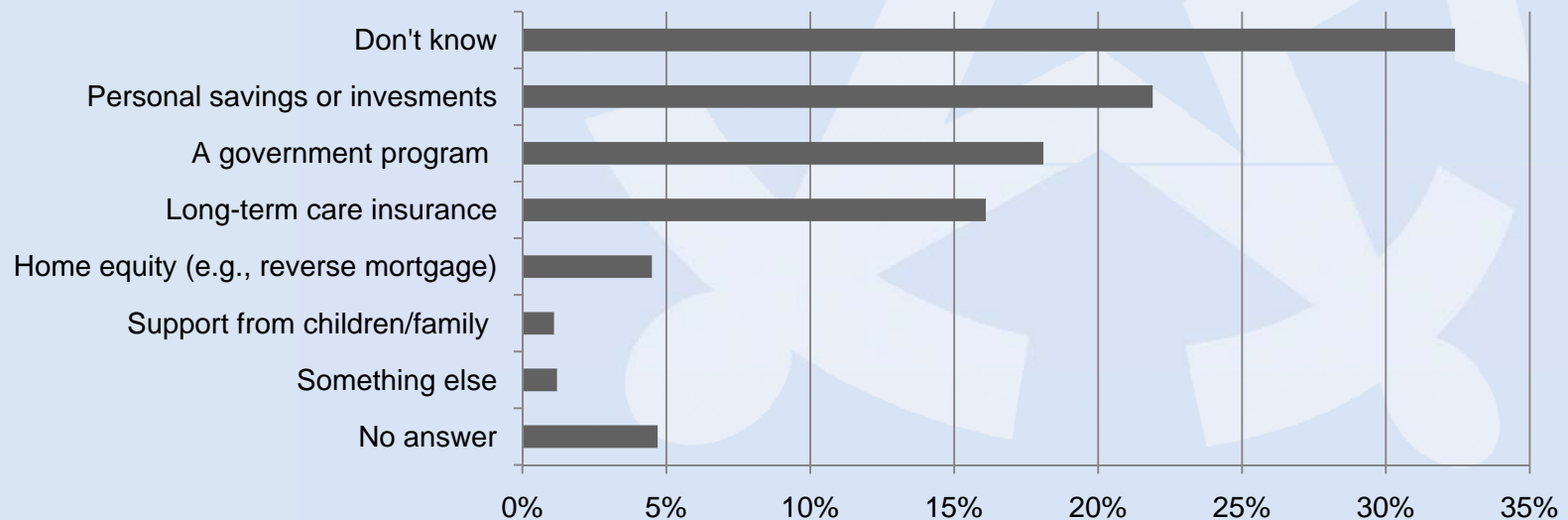


Source: 1999 National Long Term Care Survey and the 1994 National Health Interview Survey Disability Supplement.

Challenges

Socially, there is limited awareness, planning and cultural acceptance of financial responsibility for LTC: 60-70% of people over 65 will need LTC at some point, only 35% believe they'll need LTC

Plans to Cover the Cost of Long Term Care



Source: MN DHS, Transform 2010 Data Report: Baby Boomer Survey

Three options

Option 1: Find a public source for the gap

Option 2: Reduce demand

Option 3: Increase availability of personal financial resources

Conventional policies based on tax credits and deductions unlikely to be effective beyond top earners

- In 2010, MN foregone taxes will total \$1.6 billion for retirement-related investments
- Estimated 2/3 of the tax benefits for IRAs and pensions accrue to the top 20% income earners in the US
- MN House Research suggests that LTC care insurance tax credit costs the state more than it saves

Personal Responsibility is the Primary Source of Long-Term Care

Figure 6. \$2.26 billion without informal care

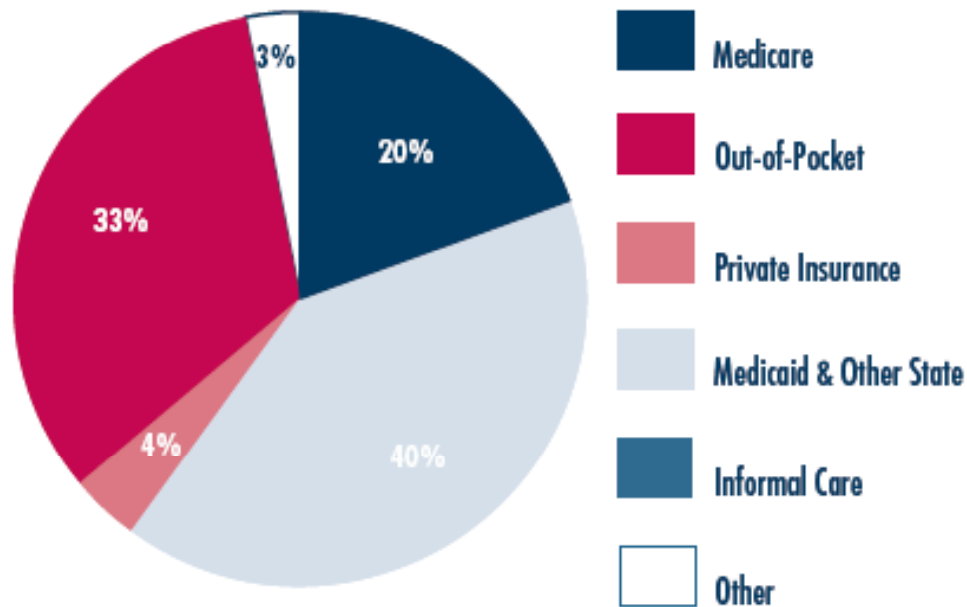
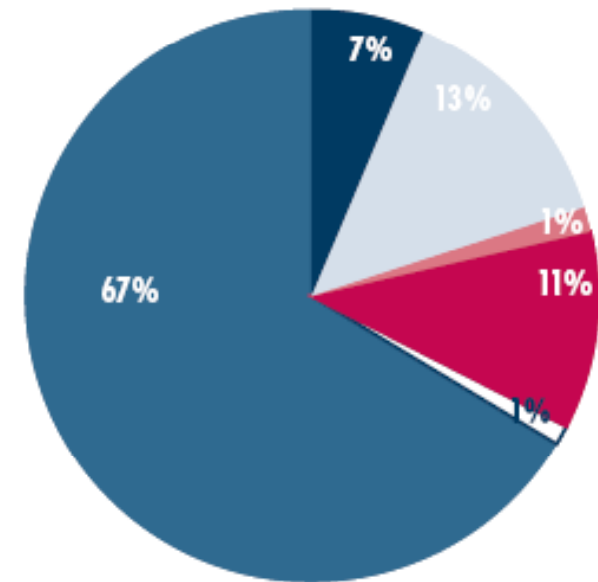


Figure 7. \$6.84 billion **with** informal care



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.

Financing Framework

Provide Minnesotans the: 1) reason, 2) opportunities, and 3) information to take greater financial responsibility

1. Reason: Medicaid reform-- i.e., co-insurance alternative-- to remove disincentives for personal responsibility
2. Opportunities: New products for people to save and add coverage
3. Information:
 - Work with employers
 - Collaborative, objective website

Reason

Medicaid reform

Research is clear that Medicaid currently acts as disincentive

- Reduces savings
- Reduces take up of private insurance
- Encourages “hiding” or spending of assets

Perhaps Medicaid should act as a co-insurer on a sliding scale instead of forcing impoverishment

Opportunity

CLASS Act

Provision in health care reform bill

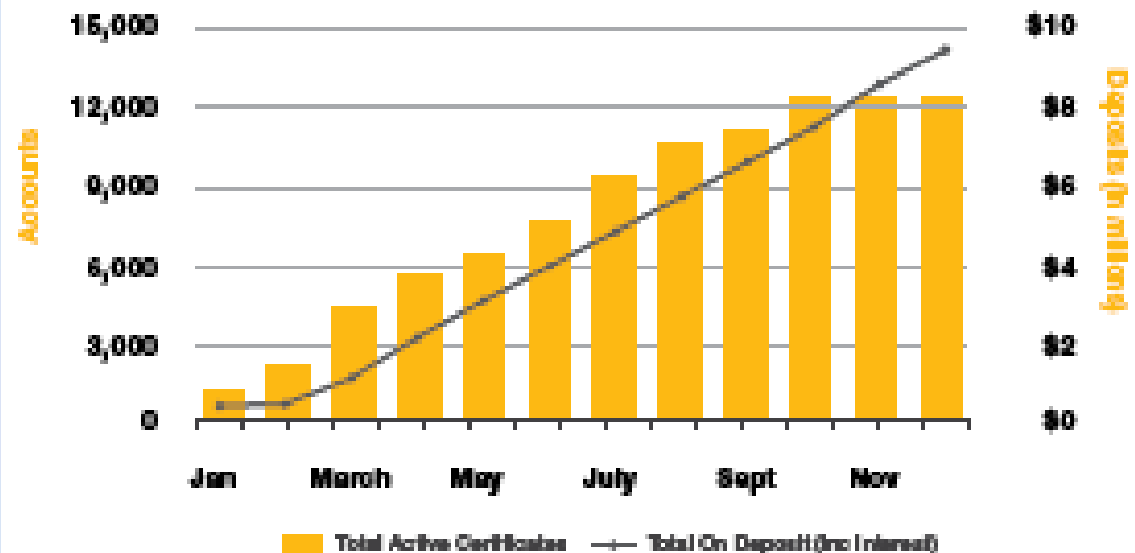
- Payroll deduction
- Vest for at least five years to receive benefits
- Cash benefit of \$50-\$75 day
- For participating employers, employees will be enrolled unless they opt out
- Uncertainty over participation rates

Opportunity

Prize-rewarded savings

- 56% had not saved money regularly before
- 44% have household income less than \$40k; 16% under \$20k
- 39% have financial assets (excluding home equity) of less than \$5,000
- 59% played the lottery in the prior 6 months

Total Active Certificates and Total Deposits Move Summary of accounts



Opportunity

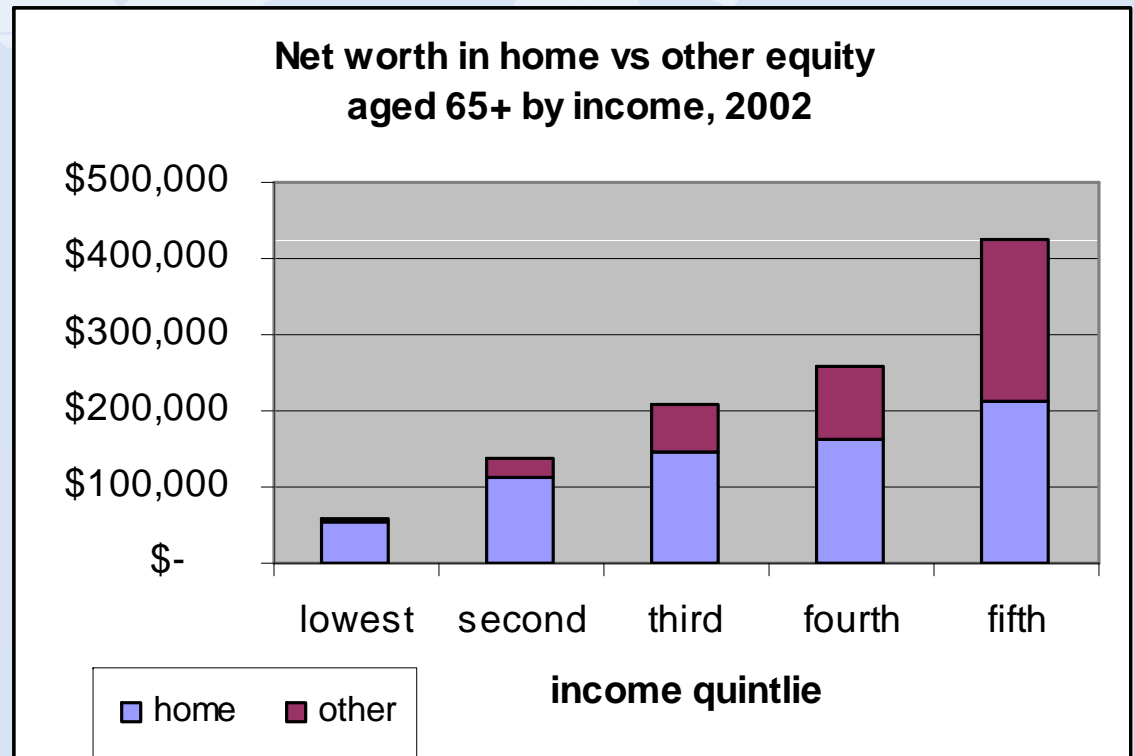
New “partial” LTC insurance

- A primary reason people don’t buy insurance is cost
- LTC insurance is expensive because both costs and probability are so high
- Probability of claim can be reduced by focusing on catastrophic care, or more limited terms
- Safeguards both the individual and Medicaid against worst case scenarios

Opportunity

New home equity/reverse mortgage product

- Home equity at all incomes
- Fees average \$10k on a \$50k reverse mortgage
- In 2008, seniors tapped more than \$17 billion in home equity; volume more than doubled between 2005 and 2008
- Replacing Medicaid's home exemption with reverse mortgages could save Medicaid \$20 billion year



Better Information

Work through employers

- U.S. businesses lose an estimated \$25 billion a year in productivity, averaging \$4,400 per employee
- Minnesota has 5th highest HSA enrollment at 388,000 in 2009; 80% belong to lower-middle and middle income families
- Annual benefits enrollment is a perfect opportunity

Better Information

Unbiased website

- 54% of Minnesotans find long-term care insurance hard to understand
- 95% of Minnesotans aged 42-60 said that an unbiased website should be developed to learn about and compare financial products for long-term care

How Will Minnesotans Respond?

- 86% of Minnesotans think that individuals bear some responsibility for their long-term care
- 92% are willing to put their retirement needs over leaving an inheritance