PARAGON HEALTH INSTITUTE

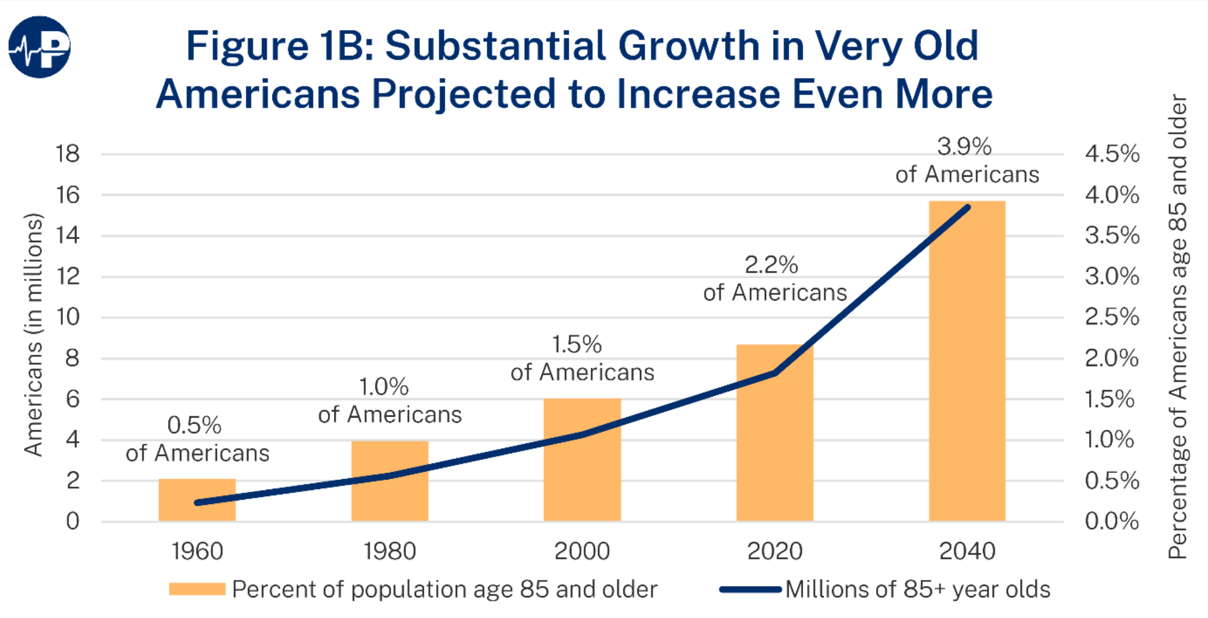
# EXECUTIVE SUMMARY
## Long-Term Care: The Problem

Most people prefer not to end up in a nursing home. As Stephen Moses explains in a new paper on long-term care (LTC), Medicaid is the primary reason aging Americans have had few other choices for decades. Medicaid, a welfare program, has exploded in costs over the past few decades. The federal government reimburses about two-thirds of state Medicaid spending and so incentivizes states to maximize federal Medicaid dollars without ensuring cost efficiency, value, or quality. Having become the dominant LTC funding source for the poor and middle class, Medicaid serves neither population well.

As the baby boomers age and increasingly need LTC services, costs have exploded yet many seniors with LTC needs receive poor quality care. Before policymakers consider reforms, they must understand the problems caused by well-intentioned, but ultimately damaging, government LTC policies. In "Long-Term Care: The Problem," Stephen Moses — the President of the Center for Long-Term Care Reform who has studied long-term care policies for more than four decades — diagnoses these problems and highlights key realities for policymakers. The next paper in the series, "Long-Term Care: The Solution" will provide a set of reforms to address the problems caused by misguided government policies.

**America's Aging Population will drive LTC Needs**

Providing and funding LTC for the elderly is a growing challenge as our population ages. LTC consists of a wide range of medical and social services that people require when they are unable to take care of themselves. People are likely to need such services as they get older. The probability of requiring LTC is high. Seventy percent of people who reach age 65 will eventually develop severe need, and 48 percent will receive paid care. The need for paid care spikes at age 85. America's 85 years and older population is growing and will increase rapidly over the next few decades.




Source: U.S Census Bureau

**Most People Can Get Medicaid to Pay for Their LTC Expenses**

The biggest public misperception, held by average citizens as well as many experts, is that Medicaid LTC eligibility requires impoverishment. The reality is that most elderly Americans qualify for Medicaid even if they have significant wealth because of income deductions and large asset exemptions, which include cars, homes, individual retirement accounts (if in payout status), and even businesses.

Plus, there are many ways for people to impoverish themselves or their older parents artificially to qualify for Medicaid while preserving all or most of their wealth. For example, any assets transferred to children five years before applying for Medicaid are not considered in determining eligibility. Thousands of elder law attorneys who specialize in Medicaid planning know how to navigate and circumvent Medicaid's income and asset limits.

**Government Finances the Majority of Long-Term Care Spending**

As a result of easy access to Medicaid LTC and Medicare's funding for short-term nursing home care, the government finances almost three-fourths of the nation's growing LTC expenses.

**Easy Access to Medicaid Discourages Personal Planning for Long-Term Care**

Easy access to publicly financed LTC once care is needed late in life creates a moral hazard that discourages responsible LTC planning when people are still young, healthy, and affluent enough to save, invest, or insure for the risk.

For example, the market for private LTC insurance has failed to prosper as people lack a strong enough incentive to insure against the risk because of the ease with which they can qualify for Medicaid when they have LTC needs.

**Low-Value Spending & Low-Quality Care due to Medicaid's Structure**

Starting in 1965, Medicaid became the primary payor for LTC services, principally covering nursing home care. This caused a bias toward nursing home services and crowded out other private financing sources.

Furthermore, Medicaid LTC reimbursement is notoriously meager, often less than the cost of providing the care. Low reimbursement rates lead to low payment rates for workers, damaging care quality and causing worker shortages. Further contributing to caregiver shortages is the fact that long-term caregiving — which involves monitoring, turning, lifting, transferring, and bathing often helpless patients — is challenging and frequently dangerous work.

**Private Sector Alternatives Crowded Out by Medicaid**

Entrepreneurs have developed more attractive, private alternatives such as assisted living and private-pay home care. But these alternatives have struggled due to the bias in government policy toward Medicaid-financed nursing homes. Many wealthier consumers have abandoned nursing homes for alternative care settings even though they had to pay out of pocket. But most consumers have remained in the dominant Medicaid-financed system when they need catastrophically expensive extended care.

**Bottom Line**

The lessons of LTC history are clear. Government programs have largely paid our nation's LTC expenses since 1965. The dominance of Medicaid and Medicare financing for nursing homes prevented alternative modes of LTC service delivery and financing from fully developing based on consumer preferences. The availability of Medicaid long after the insurable event, i.e. needing LTC, has occurred discourages responsible early planning for LTC risk — leaving most Americans dependent on Medicaid if they need expensive extended care.

The next paper, "Long-Term Care: The Solution" will propose how to reform government programs and create a more sustainable and high quality LTC sector.