

# Financing of Long-Term Services & Supports

## Background

Long-term services and supports (LTSS) consists of clinical health and social services that assist individuals in their activities of daily living (ADL). In 2015, national spending for LTSS was about \$331 billion, up from \$310 billion in 2013. Medicaid accounts for over half of national spending on LTSS and is the primary payer for long-term care (LTC) services. Demand for LTSS is expected to double in the next 30 years and is fiscally unsustainable. More effective methods of financing LTSS would help alleviate the financial strain on Medicaid and avert the need for individuals to deplete their retirement funds and savings to be eligible for Medicaid.

## Paying for LTSS

The responsibility of paying for LTSS is shared among the elderly, people with disabilities, family, friends, volunteer caregivers, communities, states, and the federal government.

Many people expect Medicare to be their primary source of health coverage in retirement, but LTC is only covered in limited circumstances and for a short period of time. Specifically, Medicare only pays for LTC for individuals requiring skilled services or rehabilitation care, generally following a hospitalization. Importantly, Medicare's expectation is that the beneficiary will recover. In a skilled nursing facility, Medicare pays for a maximum of 100 days. Notably, Medicare does not pay for ADL, which make up the majority of needed LTC services.

Already, about 40 percent of state Medicaid budgets go toward LTSS. Medicaid pays for most of LTSS while Medicare post-acute care pays for 23 percent of LTSS. Because many middle-class people fail to anticipate and plan for their LTC needs, Medicaid has effectively become the default payer in addition to a safety net for the poorest individuals, thereby creating an enormous strain in funding that threatens services for the poorest and vulnerable.

Exacerbating the lack of funding is the public's misunderstanding of how much such care costs and how it is currently financed. Others fail to understand the limits of Medicaid coverage and eligibility limits.

To qualify for Medicaid, individuals who are not disabled or low-income must have spent nearly all of their assets or given away or transferred them at least five years before the date that they are applying for benefits.

### Cost of LTSS

The average retirement savings for baby boomers is about \$75,000 while the cost of providing LTSS is significant. In 2017, the average annual cost of a community-based adult day-care center was \$16,900; a home health aide was \$49,000; and the cost to live in a nursing facility was \$97,455.

## Possible Financing Mechanisms

LTCI provides an opportunity to shift some of the cost of providing LTSS from Medicaid but has remained a relatively niche product. LTCI often cost-prohibitive, and potential purchasers often do not believe that they will need the benefit later in life, are in denial about the probability of future care needs, or believe that Medicare will pay for their LTSS needs. Moreover, many insurance carriers are reluctant to offer LTCI due to the difficulty of predicting costs far in the future and the risk that beneficiaries will live for a long time. This reluctance to participate in the LTCI market and inability to predict future costs drives up premiums.

Seventy percent of older Americans will need LTSS at some point in their lives. Fifteen percent of the population will have significant LTSS expenses representing costs of over \$250,000. For this high-cost population, personal assets and informal family caregiving likely will not meet their care needs.

In 2015, Milliman, Inc. and the Urban Institute conducted a microsimulation analysis of financing options for LTSS. The analysis found that a universal approach would save the Medicaid program and states significant funds and avert out-of-pocket spending. For example, they projected that a mandatory public catastrophic insurance plan would reduce Medicaid LTSS spending by 35 percent in 2070.

Additionally, the analysis found that public catastrophic plans providing back-end benefits would offset more Medicaid funds. Importantly, a

back-end catastrophic program would have the effect of stabilizing the private insurance market. The path to affordable private LTCI depends on a competitive and growing private insurance market, which relies on predictability. Offering public back-end insurance could encourage new private insurers to enter the market in the context of well-defined public and private responsibilities. A back-end catastrophic program with a five year waiting period and a \$100 per day lifetime benefit would cost a median-income worker about \$300 per year.

Most seniors are enrolled in either Medicare with a supplemental insurance policy (Medigap) or a Medicare Advantage (MA) plan, but they do not have LTCI. MA plans can provide either mandatory supplemental benefits that generally must be provided to all beneficiaries or optional supplemental benefits in which the MA plan provides the beneficiary with the option of enrolling in coverage of additional services not covered by Medicare in exchange for additional premiums that are paid by the beneficiary.

In February 2018 Congress voted to allow MA plans to pay for some LTSS. It allows MA plans to include in their benefit packages nonmedical services such as home-delivered meals or transportation to and from medical appointments.

A significant amount of LTSS is provided by unpaid caregivers who are typically family members or friends. It is estimated that, in 2013, 40 million caregivers provided 37 billion hours of care to adults with ADL limitations representing an economic value of unpaid caregiving of \$470 billion. Without this care support, the economic cost of providing LTSS would rise sharply and worsen the financing challenges.

Respite care helps individuals needing assistance to stay in their homes while giving their caregivers a reprieve. Currently, respite care benefits are available for Medicare beneficiaries who are enrolled in Medicare's hospice benefit, a benefit that is only available for beneficiaries expected to die within six months.

Historically, states and the federal government have limited the use of Medicaid LTSS by restricting eligibility for services and providing care in institutional settings such as nursing homes and residential facilities. However, not only are HCBS significantly cheaper than institutional care, but also, there has been a growth in beneficiary and societal preferences for them. States have used waivers and state plan options to enable Medicaid-funded LTSS

to be delivered in less expensive settings, and progress has been made at the community level in finding ways to keep seniors and people with disabilities in the community. HCBS keep people happier, less isolated, and can be provided more effectively and cheaper than nursing home facilities.

## Moving Forward

---

The AMA recognizes that there is no single solution to the growing demand for LTSS and that the challenges to affordable and politically viable LTSS financing are varied and complex. AMA policy represents a multi-pronged approach to provide feasible steps to alleviate the financial strain of LTSS on Medicaid and families through the following public and private reforms:

- Standardizing and simplifying private LTCI to achieve increased coverage and improved affordability.
- Adding transferable and portable LTCI coverage as part of workplace automatic enrollment.
- Allowing employer-based retirement savings to be used for LTCI premiums and LTSS expenses, including penalty-free withdrawals for the purchase of LTCI.
- Innovations in LTCI product design and the marketing of LTC products with health insurance, life insurance, and annuities.
- Permitting Medigap plans to offer a limited LTSS benefit as an optional supplemental benefit or as separate insurance policy.
- Supporting Medicare Advantage plans offering LTSS in their benefit packages.
- Permitting Medigap and Medicare Advantage plans to offer a respite care benefit as an optional benefit.
- Back-end public catastrophic long-term care insurance program.
- Incentivizing states to expand the availability of and access to home and community-based services.
- Better integration of health and social services and supports.

To learn more about this topic, view the AMA Council on Medical Service Report "[Financing of Long-Term Services and Supports.](#)"