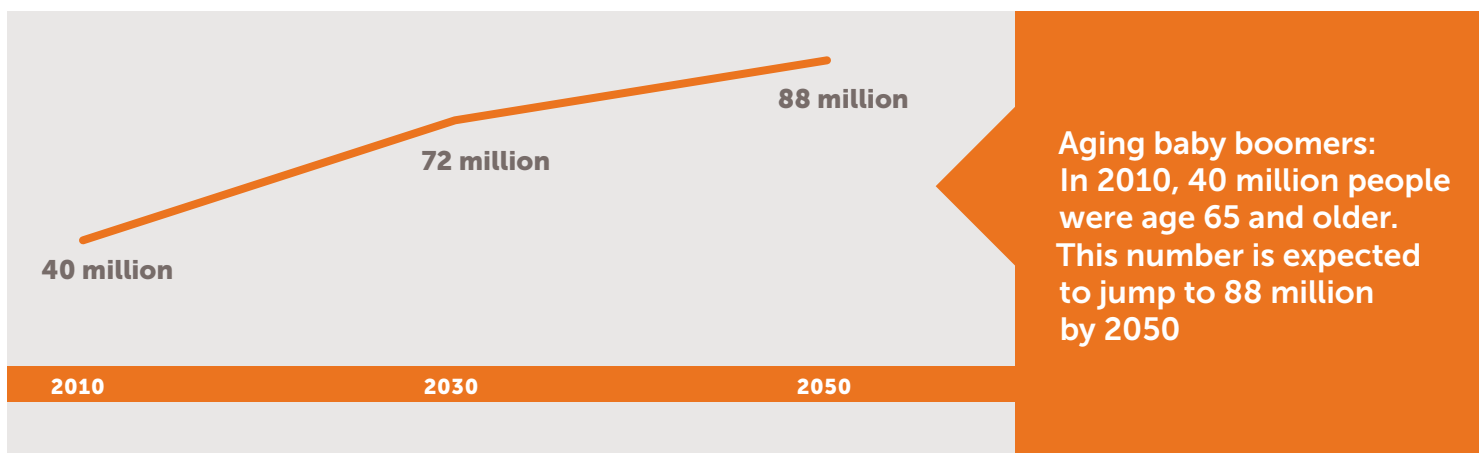
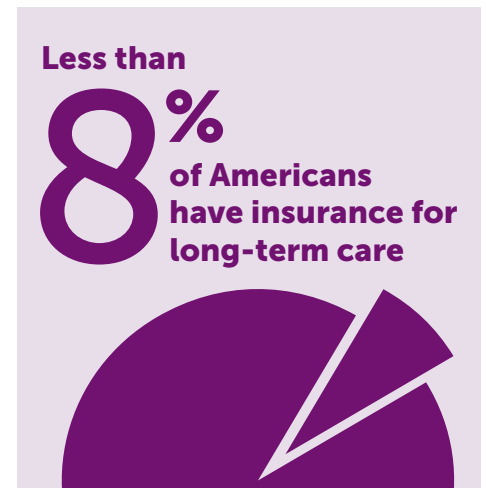
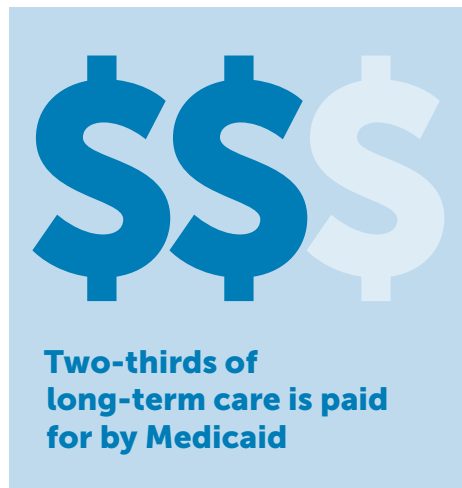
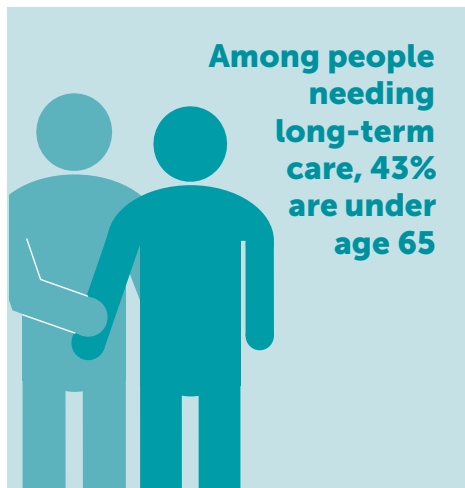


Long-Term Care: What Are the Issues?

The demand for long-term care services will explode as the population ages and more people live longer with chronic conditions. Who will pay for these services and how will they be delivered?



Overview

As the population ages and more people live longer with chronic conditions such as Alzheimer's disease, the demand for long-term care services will rise dramatically. Long-term care is the help people need when disabilities or illnesses restrict or prevent them from performing life's basic tasks such as bathing or cooking. Depending upon the person's condition, long-term care may be provided in the home by family or paid caregivers, in adult day-care programs, or in residential settings, such as assisted living facilities or nursing homes.

Many people mistakenly believe that their general health insurance will pay for long-term care or that Medicare will cover it when they get older. In reality, neither health insurance nor Medicare covers traditional "custodial care." Medicare will cover care in a skilled nursing facility or pay for skilled home health care services only when medically necessary, such as following an inpatient hospital stay.

Long-term care is not just for older adults: Of the 11 million people needing paid long-term care services, about 43 percent are younger than age 65.¹ Meanwhile, an estimated 70 percent of Americans who reach age 65 will need some form of long-term service and support. But how much care an individual will need varies dramatically: Three in 10 people turning 65 will not need any long-term care services at all, while four in 10 will require care for two or more years, and the rest will need less than two years of care.²

In 2011, spending on long-term care totaled \$210.9 billion, about 9.3 percent of the nation's personal health care spending³ and 1.4 percent of the gross domestic product (GDP)⁴. Purchasing long-term care is expensive, and the vast majority of people who need such care rely on family caregivers. Having sufficient resources to pay for long-term care is challenging both for individuals and their families and for government agencies. Medicaid and out-of-pocket spending are the two primary sources of long-term care funding. In fact, nearly two-thirds of long-term care expenses are paid for by Medicaid, the joint federal and state program for low-income and disabled people. And, in contrast to health care, there is very little insurance coverage for long-term care. Private insurance accounts for less than 12 percent of Americans' long-term care costs.³

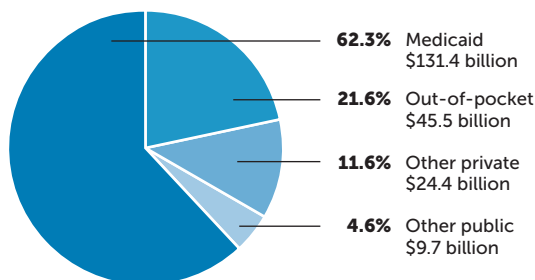
Among people turning 65,



four in 10 will need long-term care for two or more years

EXHIBIT 1

Long-Term Care Spending by Source, 2011



NOTES Totals do not add due to rounding. Medicaid includes nursing homes, continuing care retirement communities, home health care services, intermediate care services for people with intellectual disabilities, home- and community-based services waiver program, and Children's Health Insurance Program (CHIP) spending for nursing homes and home health services. "Out-of-pocket" includes deductibles, copayments, and amounts not covered by health insurance for nursing home and home health services. "Other private" includes private long-term care insurance, other health insurance, and other private spending. "Other public" includes Department of Veterans Affairs, state and local programs and general assistance for nursing homes and home health services, and federal spending for home health services. It does not include Medicare skilled nursing and home health care spending because Medicare pays for such services only when they are medically necessary and not as part of traditional long-term care.

SOURCE Carol V. O'Shaughnessy, National Spending for Long-Term Services and Supports (LTSS), National Health Policy Forum, George Washington University, February 1, 2013.

Total Spending: \$210.9 billion

Many people mistakenly believe that their general health insurance will pay for long-term care or that Medicare will cover it when they get older. In reality, neither health insurance nor Medicare covers traditional "custodial care." Medicare will cover care in a skilled nursing facility or pay for skilled home health care services only when medically necessary, such as following an inpatient hospital stay.

Private long-term care insurance plays a very limited role in financing care. Many middle-class Americans—especially the baby boomers who began turning 65 in 2011—lack the personal savings to pay for this care for any significant length of time and generally can't afford premiums for private long-term care insurance. Regardless of their finances, not everyone qualifies for long-term care insurance, and insurers might refuse to cover people with certain pre-existing conditions or a mental illness other than Alzheimer's disease or dementia. And, when people do have insurance coverage, they might discover that it fails to cover all their expenses. It's not surprising then that only 7–8 percent of Americans have insurance for long-term care. The rest usually rely on their own resources first, and when those are exhausted, they seek coverage under Medicaid.⁵ (Medicaid requires that people be poor or "spend down" most of their resources before paying for long-term care coverage.)

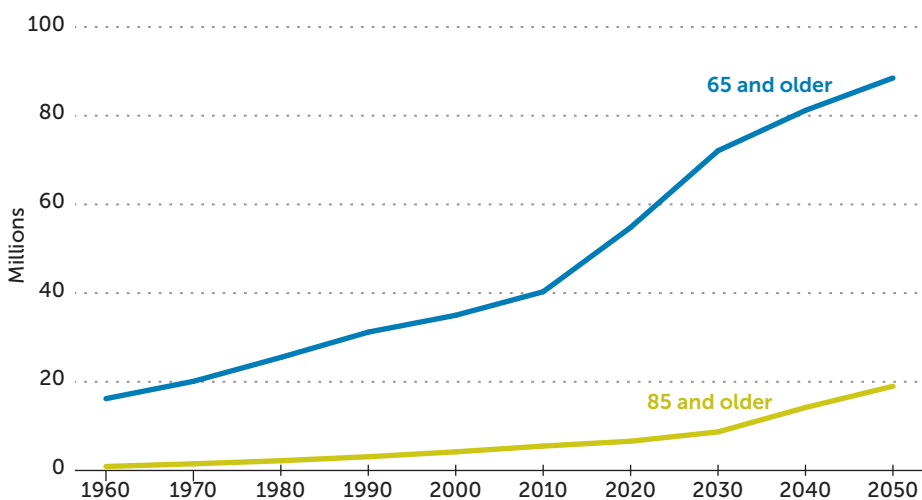
In an attempt to address the problems associated with long-term care, the Affordable Care Act of 2010 created the Community Living Assistance Services and Supports (CLASS) Act, a voluntary public long-term care insurance program. But the Obama administration decided not to implement CLASS in November 2011 after actuaries concluded the program would not be financially self-sustaining.⁶ Congress formally repealed CLASS in January 2013.

Changing Demographics

In 2010, 40 million people age 65 and older accounted for 13 percent of the U.S. population. This number is expected to jump to 72 million people or 19 percent of the population by 2030. Even more significant, the number of people age 85 and older—who are most likely to need long-term care—is projected to grow from 5.5 million in 2010 to 8.7 million in 2030 and 19 million by 2050.⁷

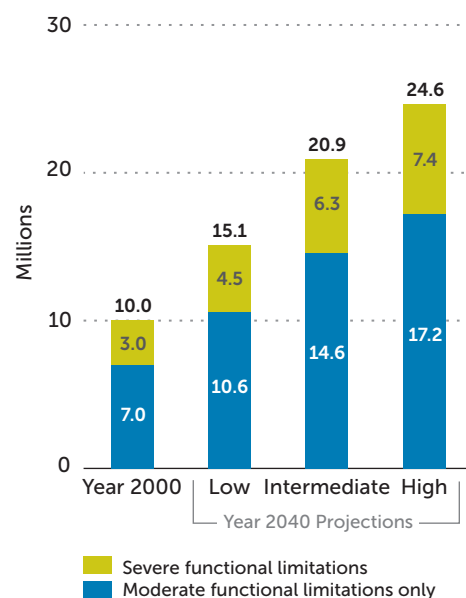
As the population ages, the number of people experiencing two or more functional limitations will increase from about 10 million in 2000 to about 21 million in 2040.⁸ Many of these people will require long-term care in their homes and communities or in institutions.

EXHIBIT 2
Older Adult Population, 1960–2050



NOTE Projections are based on Census 2000 data. SOURCE Federal Interagency Forum on Aging-Related Statistics, Older Americans 2012: Key Indicators of Well Being, Washington, DC, 2012.

EXHIBIT 3
Frail Older Adults, 2000 and 2040



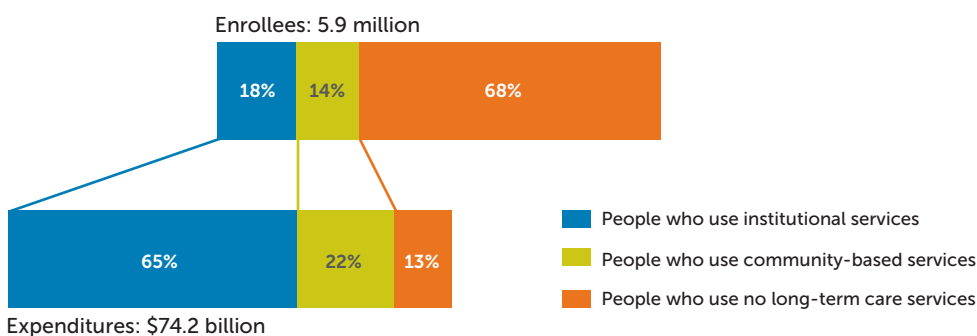
NOTES Estimates are for Americans age 65 and older. Functional limitations include any activity of daily living (ADL) or instrumental activity of daily living (IADL) limitations. "Moderate functional limitations" are up to two ADL limitations; "severe functional limitations" are three or more ADL limitations. SOURCE Richard W. Johnson, Desmond Toohey, and Joshua M. Wiener, Meeting the Long-Term Care Needs of the Baby Boomers: How Changing Families Will Affect Paid Helpers and Institutions, The Retirement Project, Discussion Paper 07-04, Urban Institute, May 2007.

Who Will Pay for Long-Term Care?

If twice as many people need long-term care services by 2040, spending might increase substantially. This is likely to put financial pressures on the federal and state governments: Although only one-third of elderly Medicaid beneficiaries use long-term care services and supports, they account for 87 percent of all Medicaid spending on the elderly.⁹ However, while long-term care spending will increase substantially, it is projected to remain between 2.5 and 3 percent of GDP in the United States and most other developed countries, including the United Kingdom, Germany, and Japan.¹⁰

EXHIBIT 4

Use of Long-Term Care Services, 2007



NOTE People who used both institutional and community-based services in the same year are classified as using institutional services. SOURCE Medicaid's Long-Term Care Users: Spending Patterns across Institutional and Community-based Settings, Kaiser Family Foundation, October 2011.

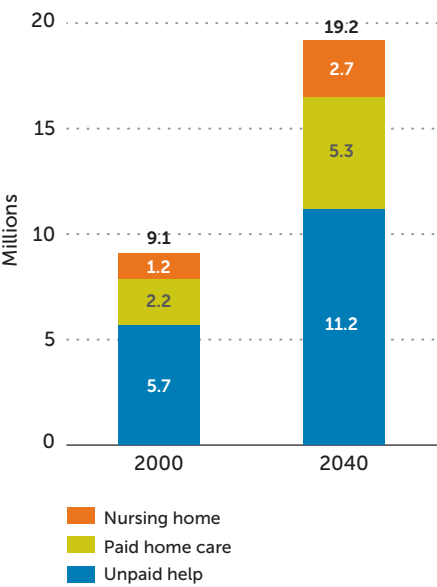
The options for paying for long-term care are limited. The vast majority of people have no insurance, either public or private, for long-term care. Private long-term care insurance can pay a set daily benefit to defray the cost of home or residential care, but with an average policy costing a healthy 60-year-old \$2,000 or more per year¹¹ (premiums increase with age), many people either can't afford the insurance or worry that limits on benefits might make it not worthwhile. To date, fewer than 10 percent of Americans are saving specifically for long-term care. The result is that family or friends often end up providing informal and unpaid care for older, frail adults for as long as they can. This trend will be magnified as the number of older people needing long-term care increases over time.⁹

Friends and family members, most often spouses and adult daughters, spend an estimated \$5,000 annually out-of-pocket on caregiving.¹² They also use up personal days, vacation, and family time and often cut back on their work hours to have time to provide this care. Because of this, unpaid caregivers are likely to suffer from stress and might also pay a financial penalty through reduced earnings and contributions to their own savings.¹³

Although the cost of long-term care is high, it varies greatly depending on whether it is accessed at home—from family or paid caregivers—or takes place in a nursing home or assisted living facility. In 2013, the median cost for a private room in a nursing home is about \$84,000 per year, while an assisted living facility costs \$42,000 annually. The average hourly rates for home health aides and homemaker or companion services are \$21 and \$19, respectively, while adult day-care centers average \$65 per day.¹⁴

When private insurance and Medicaid are not options, many people pay out-of-pocket for homecare workers, day programs, assisted living facilities, and nursing homes. In 2011, Americans spent \$45.5 billion out-of-pocket on long-term care services.¹² However, care is expensive relative to income. The average cost of nursing home care is 240 percent of the average annual household income of seniors, and even the cost of home health care services for a year averages 88 percent of household income for older adults. Put another way, two-thirds of people age 65 and older do not have sufficient financial assets to pay for even one year of nursing home services.

EXHIBIT 5
Long-Term Care Support for Older Adults



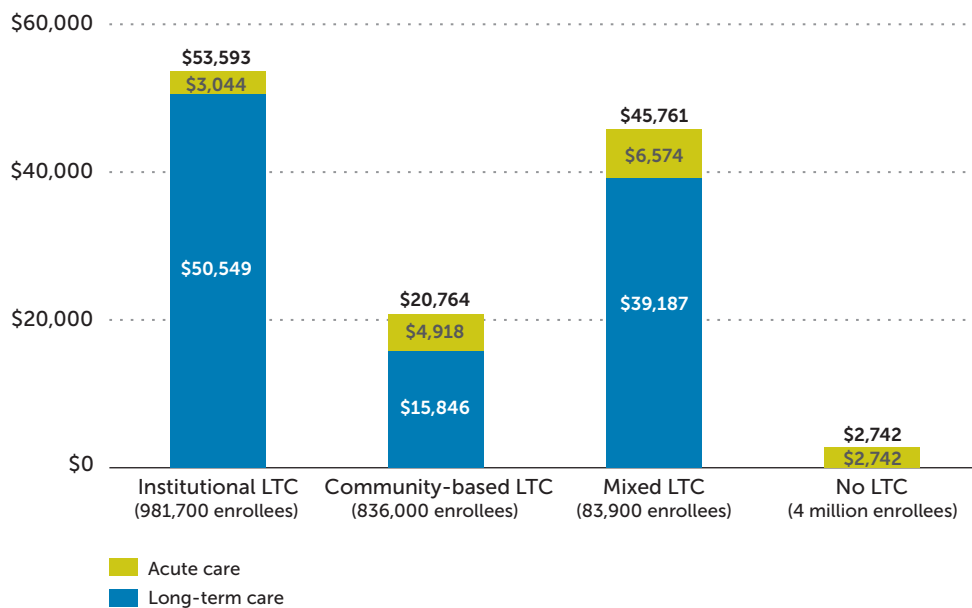
SOURCE Richard W. Johnson, Desmond Toohey, and Joshua M. Wiener, Meeting the Long-Term Care Needs of the Baby Boomers: How Changing Families Will Affect Paid Helpers and Institutions, Urban Institute, May 2007.

What Can Be Done?

State and federal officials have been searching for ways to shift care from nursing homes to home or community services in the hopes that this would reduce costs. The focus has been on expanding home and community-based long-term care services and supports and assisted living facilities, thereby reducing the number of older adults who reside in nursing homes. In 2007, more than half of 1.9 million elderly Medicaid beneficiaries who received long-term care services did so in institutions where the total spending averaged \$53,593 per enrollee. In contrast, 44 percent of the long-term care users relied mostly on community-based services, where their total spending averaged less than half that, or \$20,764.¹⁰

EXHIBIT 6

Medicaid Spending Per Elderly Enrollee, 2007



SOURCE Medicaid's Long-Term Care Users: Spending Patterns Across Institutional and Community-based Settings, Kaiser Family Foundation, October 2011.

As part of this effort, the Affordable Care Act makes \$4.3 billion available in grants for states to expand home- and community-based services for Medicaid enrollees.¹⁵ These include state grants for a "Money Follows the Person" demonstration program that provides funds for people living in nursing homes or other institutions to move back into the community and access the services and supports they need there. If it turns out that home- and community-based services can save money while improving the quality of life for older adults, it would be a positive development.

While Congress repealed the CLASS Act in January 2013, it also established a 15-member Commission on Long-Term Care to provide recommendations to lawmakers on how to establish, implement, and pay for long-term care, including assessments of workforce issues and the interaction between acute and long-term care.¹⁶ In September 2013, the panel of health care providers, Medicaid directors, and consumer advocates issued more than two dozen mostly general recommendations for improving the delivery of long-term care. These included encouraging the provision of services in homes and communities; strengthening the role of family caregivers; and eliminating Medicare's three-day hospital stay requirement for skilled nursing facility coverage. But the panel failed to reach agreement on how to finance expanded long-term care services.¹⁷ This prompted five of the commissioners to release an "alternative report." Among their recommendations: establish a public social insurance program; reduce barriers in Medicare for outpatient therapies and home health care; and support expanded Medicaid benefits for home- and community-based services.¹⁸

Clearly, much remains to be done to devise a national long-term care system that is both affordable and meets the growing needs of an ever-aging population. Upcoming RWJF Health Policy Snapshots will explore new models for financing long-term care and for developing the workforce needed to meet the growing demands for this care.

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Edited by Ted Agres (Agres is a health policy writer and editor in Maryland.)

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