Stacy Becker, Citizens League Consultant on Long-term Care

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

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Present: Verne C. Johnson, chair; David Broden, Janis Clay, Marianne Curry, Paul Gilje, Dwight Johnson, Sallie Kemper, and Dan Loritz

Summary: Minnesota lacks a workable strategy to address rapidly growing long-term care expenses for its low-income residents. These expenses, now more than $1.1 billion a year, are creating significant pressures on state taxes and squeezing the state's ability to finance other services. Calling the current approach "unsustainable", the Citizens League says individuals should take more responsibility for their own care. The League recommends new incentives to stimulate personal savings and greater use of long-term care insurance, including co-insurance with Medicaid. The League calls for new types of long-term care insurance and an intense effort to offer unbiased information to help individuals make intelligent decisions.

Welcome and Introductions —Verne and Paul welcomed and introduced **Stacy Becker**, Citizens League consultant on long-term care and chief architect of a recently-issued Citizens League report, "Moving Beyond Medicaid", http://bit.ly/fE2l3h . Prior to her independent consulting practice, Becker held positions of Public Works Director for St. Paul; Budget Director for St. Paul, and Budget Director for the City and County of San Francisco. She has degrees from Macalester College, the John F. Kennedy School of Government at Harvard University, and the London School of Economics.

Comments and discussion — During Becker's presentation and in discussion with the Civic Caucus the following points were raised:

The Dilemma

Investment in long-term care in Minnesota is very large —Using 2004 figures, the latest available in a comprehensive format, Becker reported that expenses in Minnesota for long-term care services in that year totaled $6.8 billion, of which over two-thirds, $4.6 billion was attributed to the value of informal, unpaid, long-term care provided by families and friends. Of the remainder, 13 percent was paid by Medicaid and other state sources; 11 percent by private individuals; 7 percent, by Medicare, and 1 percent by private insurance. To provide some perspective on those numbers, the $6.8 billion paid in 2004 for long-term care is equivalent to almost one-half of Minnesota's state general fund appropriations in that year.

The state and nation face an enormous problem of financing long-term care —Most people don't begin to appreciate the magnitude of the problem of financing long-term care, Becker said. Considering only that portion of Minnesota's long-term care financed by Medicaid (for persons in poverty) the 2010 figure was $1.1 billion, according to Becker. Unless massive increases in taxes occur that annual amount is projected to grow by 2035 to $5 billion , which the Citizens League report terms "unsustainable". Currently, health care expenses in the state budget are rising at a rate of 8.5 percent a year, while state revenue sources are rising at less than 4 percent a year. As originally contemplated in the mid-1960s, Medicaid was to be a safety net for those in poverty. But today, Medicaid pays 40 percent of all Minnesota's long-term care expenses. The state and federal government shares of those Medicaid payments are approximately 50-50.

It's difficult to maintain, let alone increase, current levels of informal, uncompensated, family care —It is not likely that informal care provided by family and friends can make up the loss if Medicaid isn't available. Informal, unpaid care provided by family and friends already makes up the biggest portion of all persons receiving long-term care (estimated at 90 percent in hours of care). The number of persons needing care but who are without family members nearby is rising, placing more pressure on the Medicaid system. Each 1 percent loss of informal care adds $30 million annually to Medicaid expenses.

Informal family care imposes significant financial burdens on families. The Citizens League report states that the average loss of wealth—in foregone earnings—for informal caregivers over their lifetimes (in 1999 dollars) is more than $650,000. In addition, informal caregivers spend an average of $19,500 for out-of-pocket expenses to help the care recipient.

Many people erroneously believe that long-term care financing is available for them, should they ever need such care— While fewer than 10 percent of Minnesotans have long-term care insurance, another 10 percent think they have such insurance, even though they don't. Another 29 percent mistakenly believe that Medicare will cover their long-term care needs, whatever they happen to be.

Others are well aware that they can be eligible for full long-term care under Medicaid, provided they are poor enough —Under Medicaid, persons become eligible by being sufficiently poor, as defined by Medicaid, or by first using up whatever personal assets they might have accumulated during their lifetimes. Such a provision has the objective of making sure taxpayer dollars for long-term care under Medicaid are given only to the truly needy and not wasted on people who can afford to use their own resources.

However noble the intent of requiring persons to use their own assets first, the provision has perverse effects. Many apparently feel there's no need to set aside personal savings, or invest in long-term care insurance. They expect Medicaid will be available for them if needed, so choose neither to save or buy insurance. Consequently, the numbers of persons on Medicaid, and the tax dollars to support Medicaid, are much higher than they would need to be if personal savings were available. To illustrate the savings deficiency, the League report noted that as of 2001, 56 percent of senior couples had insufficient assets, excluding their home equity, to cover even one year's long-term care.

"As currently structured, Medicaid is indifferent to whether or not someone has taken personal financial responsibility—indeed, in a sense it rewards those who have not," the report states.

Individuals seeking Medicaid coverage for long-term care must demonstrate that personal finances were exhausted at least five years prior to the application for assistance. Such a provision is designed to keep individuals from prematurely distributing assets to family members simply to make themselves eligible for Medicaid.

A sad, and perverse result also can occur. A person at today's meeting noted afterwards that a funeral was taking place in the Twin Cities metro area today for an individual who took his own life last Sunday. The individual, very ill and disabled, didn't want to live out his days in a nursing home with his estate paying for long-term care rather than going to his heirs.

More personal responsibility needed

The Citizens League report takes note of the fact that this year—2011—is the year that the first baby-boomers turn 65. They were born in 1946, the year after the end of World War II. The report highlights the coming growth in the senior population: from 2005 to 2035, the population of Minnesotans aged 65 and older will more than double, from 623,000 to 1.4 million. As a consequence, the elderly sector will grow from 12 percent to 22 percent of the population, meaning there will be fewer workers per elderly person to provide tax revenue.

More personal responsibility for long-term care is essential, the League said. The report outlines three major objectives:

* **Medicaid reform**, to remove disincentives for personal financial responsibility.

* **A mix of financial products,** to help people become better financially prepared.

* **A broad campaign of informing the public** , many of whom are unaware of the likelihood of needing care, the expenses required, and the limits of public funding.

Specific proposals for action

The Citizens League made the following recommendations:

*** Redesign Medicaid to provide a co-insurance option —**Under the League proposal Medicaid would supplement individual efforts to self-finance long-term care, without requiring an individual to be entirely impoverished. Middle-income people (in the 25 percent to 65 percent category of income distribution) would be targeted. The amount of Medicaid assistance could be determined by income and overall costs of care in relation to the amount self-financed. The League envisions that the Minnesota Department of Human Services would convene a redesign effort, with final recommendations in 2013. A federal waiver would be sought to allow a different approach in Minnesota.

* **Implement a "save to win" program for Minnesota to stimulate more personal savings** —The League recommends a new type of savings vehicle, started in 2009 by Michigan credit unions. See http://on.wsj.com/tdT1W . Under the nation's first demonstration program in Michigan,, every $25

savings deposit makes an individual eligible for drawing for prizes. In Michigan, small monthly prizes and an annual statewide prize of $100,000 are offered. In the first 11 months, more than 11,500 persons opened accounts totaling $8.5 million, the League said.

"Save to Win" gives individuals a chance to win prizes, but everyone participating will still get their investment plus interest, although interest will be slightly below market, Becker added. A bill to implement prize-linked savings is being introduced in the 2011 Minnesota Legislature, she said.

*** Make reverse mortgages more usable as a source of long-term care financing** —The League urges lawmakers, the insurance industry and employers develop a new reverse mortgage approach, with lower fees than currently available, with loan proceeds dedicated to financing long-term care.

* **Offer more options for long-term care insurance —** New forms of long-term care insurance, for example, partial coverage with very high deductibles, should be offered by insurers, the League recommended. Currently, the report said, long-term care policies emphasize mainly comprehensive coverage.

* **Allow employees to invest pre-tax dollars for long-term care insurance** —The League recommends that the federal government allow employees to invest pre-tax dollars for long-term care insurance just as it currently allows pre-tax dollars for regular medical insurance premiums.

*** Establish a hub of unbiased information on long-term care** —The League challenges the state of Minnesota, employers, and senior and civic organizations to create a consortium to offer "useful, unbiased information" to help people make sound decisions. To illustrate the need for such information, the League cited a survey showing 54 percent of Minnesotans find long-term care insurance hard to understand and that 95 percent of Minnesotans aged 42-60 said an unbiased website should be developed to learn about and compare financial products.

Discussion

* **Unknown impact expected from long-term care savings option in new federal health care law** —The CLASS Act (Community Living Assistance Services and Support Act) is a voluntary, federally administered, consumer-financed insurance plan. It became law when President Obama signed the Patient Protection and Affordable Care Act in 2010. The CLASS plan provides cash to help pay for needed assistance for those participating in the insurance plan. Becker said the program has several restrictions, including a monthly benefit less than one-half of typical long-term care expenses. Exact provisions have not yet been determined, so it's impossible to project what the level of participation might be. Under CLASS, employers must opt in; if employers do, then employees are automatically enrolled unless they opt out

* **High percentage of Minnesota women in the work force** —Regarding the assumption that family members might be available to provide care, a Civic Caucus member noted that 76 percent of women are in the work force in Minnesota, probably highest in the nation. Women are the predominant informal care givers, but it's difficult to see how more informal care can be expected given high numbers of women already employed.

* **Need for something like an IRA to save for long-term care** —A Civic Caucus member noted that just as IRAs were introduced to stimulate people to put away more money for retirement it would be good if something similar were devised to stimulate people to put away more money for long-term care.

* **Need to extend normal work years for individuals** —A Civic Caucus member suggested that people should not automatically expect to retire as early as age 65 or receive Social Security as early as 62. If they worked longer, they might stay healthier and certainly would earn more money that could be used for long-term care savings or insurance.

* **Effect of spousal refusal to provide informal care** —Becker said that higher burdens on the Medicaid system can occur if one spouse, having provided informal care, simply decides to stop providing care for the other spouse. This is a federal rule that has not been a problem in Minnesota, but it's use is on the upswing in some states such as New York. Becker questioned whether this outcome (spousal refusal of care) is really the sort of thing our public policy should be supporting.

* **Suitability of Department of Human Services' leading effort to obtain a federal waiver on Medicaid** —An individual or group that isn't tied strongly to the existing human services system would seem to offer a better opportunity to design innovative approaches to changing Medicaid, a Civic Caucus member suggested. Thus, the member wondered, whether it is desirable—as suggested by the Citizens League— to have the Minnesota Department of Human Services be in charge of developing proposed federal waivers on Medicaid.

*** Value of tax credits for long-term care expenses questioned** —Responding to a question, Becker said that tax credits on the surface are appealing, but they generally provide benefit to more affluent individuals, not to lower-to-mid-income persons, for whom better financing for long-term care is most needed. This conclusion is supported by several research studies, she said..

*** Perverse effect of promoting healthy living habits** —Keeping people healthy is certainly a way to hold down medical expenses, but don't expect that that effort to reduce long-term care expenses, Becker said. The studies say that overall health care costs are higher, Becker said. At age 85, disabilities start to set in, no matter what your income. Prior to age 85, disabilities and income are correlated; health and income are related, she said.

*** Mandatory insurance for long-term care —** Citing an experience in Hawaii, where mandatory insurance was tried, Becker said such a move isn't desirable.

*** Thanks—** On behalf of the Civic Caucus, Verne thanked Becker for meeting with us today to provide excellent background on this important issue.